

**FINANCE COMMITTEE MEMBERS WILL RECEIVE A UNIQUE PANELIST LINK BY EMAIL.
PLEASE USE THIS LINK TO PARTICIPATE IN THIS MEETING.**



FINANCE COMMITTEE AGENDA

**MONDAY, FEBRUARY 27, 2023
1:00 p.m.**

Pursuant to Assembly Bill 361 and the findings made by CVAG, this meeting will only be conducted via video/teleconferencing.

INSTRUCTIONS FOR PUBLIC PARTICIPATION

Members of the public may use the following link:

<https://us02web.zoom.us/j/84534064859?pwd=ZE5xRnllbmE1RFVxU0Yyc0tsbHgwZD09>

Passcode: 785150

One Tap Mobile: +16699009128,,84534064859#

Dial In: +1 669 900 9128

Webinar ID: 845 3406 4859

Passcode: 785150

***This will provide listening access and ability to address the
Finance Committee when called upon.***

IF YOU ARE UNABLE TO CONNECT VIA DIAL IN OPTION, PLEASE CALL 760-346-1127.

Public Comment is encouraged to be emailed to the Finance Committee prior to the Meeting at cvag@cvag.org by 5:00 p.m. on the day prior to the committee meeting. Comments intended to be read aloud should be no more than 300 characters.

**THIS MEETING IS HANDICAPPED ACCESSIBLE.
ACTION MAY RESULT ON ANY ITEMS ON THIS AGENDA.**

**UNLESS OTHERWISE STATED, ALL ACTION ITEMS WILL BE PRESENTED TO THE
EXECUTIVE COMMITTEE FOR FINAL APPROVAL.**

1. CALL TO ORDER / ROLL CALL

- A. Roster** **P4**

2. PUBLIC COMMENTS ON AGENDA ITEMS

This is the time and place for members of the public to address the Finance Committee on agenda items. At the discretion of the Chair, comments may be taken at the time items are presented. Please limit comments to three (3) minutes.

3. CONSENT CALENDAR

- A. Approve Minutes of the May 5, 2021 Finance Committee Meeting** **P5**
- B. Approve Minutes of the May 31, 2022 Finance Committee Meeting** **P8**
- C. Approve CVAG's existing Investment Policy as CVAG Policy No. 23-01** **P12**

4. DISCUSSION /ACTION

- A. CalPERS Unfunded Accrued Liability – Palm Springs Councilmember Lisa Middleton and CalPERS actuary Kurt Schnieder** **P17**

Recommendation: Provide direction on the Fiscal Year 2023/2024 CalPERS Unfunded Accrued Liability paydown approach

- B. CVAG's Audit for Fiscal Year 2021/22 and Related Reports – Claude Kilgore** **P50**

Recommendation: Receive and file the Audited Financial Statements for the fiscal year ended June 30, 2022, Report on Internal Controls over Financial Reporting, and the Auditor's Communication with Those Charged with Governance

- C. Finance Committee Member Rotation and Officer Selection – Tom Kirk** **P136**

Recommendation: 1. Appoint an elected official and a city manager or designee to serve on the Finance Committee to fill an immediate vacancy as well as continue the member rotation; and
2. Confirm the officer rotation so Cathedral City Councilmember Raymond Gregory serves as Committee Chair and Agua Caliente Band of Cahuilla Indians Chair Reid Milanovich serves as Committee Vice Chair through Fiscal Year 2023/24

5. INFORMATION

- A. Selection of Enterprise Resource Planning (ERP) Software to upgrade CVAG's financial systems** **P138**

6. **PUBLIC COMMENTS ON NON-AGENDA ITEMS**

This is the time and place for members of the public to address the Finance Committee on items of general interest within the purview of this committee. Please limit comments to two (2) minutes.

7. **ANNOUNCEMENTS**

The next meeting of the **Executive Committee** will be held on Monday, February 27, 2023, at 4:30 p.m. via Zoom webinar.

8. **ADJOURNMENT**

ITEM 1A**FINANCE COMMITTEE
ROSTER**

Jurisdiction	Members	Term
City of Palm Springs	Nancy Pauley Director of Finance and Treasurer	FY 2022/2023
Vacant	<i>Pending appointment by the Executive Committee</i>	FY 2022/2023
City of Cathedral City	Raymond Gregory, Vice Chair Councilmember	FY 2023/2024
Torres Martinez Desert Cahuilla Indians	Shawn Isaac Tribal Administrator	FY 2023/2024
Agua Caliente Band of Cahuilla Indians	Reid Milanovich Tribal Chair	FY 2024/2025
City of La Quinta	Jon McMillen City Manager	FY 2024/2025

ITEM 3A

FINANCE COMMITTEE MINUTES OF MEETING MAY 25, 2021



1. CALL TO ORDER

The May 25, 2021 Finance Committee meeting was called to order at 12:00 p.m. by Vice Chair Richard Balocco, Councilmember of the City of Indian Wells, via Zoom videoconference, which was pursuant to Gov. Newsom's executive order governing how public meetings are held during the COVID-19 pandemic.

ROLL CALL

MEMBERS PRESENT

City Manager Luke Rainey
Councilmember Richard Balocco
Mayor Linda Evans
Councilmember Sabby Jonathan
City Manager Isaiah Hagerman
Finance Director/Treasurer Nancy Pauley

AGENCY

City of Desert Hot Springs
City of Indian Wells
City of La Quinta (*Arrived at Item 2*)
City of Palm Desert
City of Rancho Mirage
City of Palm Springs

STAFF PRESENT

Tom Kirk
Claude Kilgore
Joanna Stueckle

2. PUBLIC COMMENTS ON AGENDA ITEMS

None.

3. CONSENT CALENDAR

A. APPROVE MINUTES OF THE FEBRUARY 9, 2021 FINANCE COMMITTEE MEETING

IT WAS MOVED BY COUNCILMEMBER JONATHAN AND SECONDED BY MAYOR EVANS TO APPROVE THE FEBRUARY 9, 2021 FINANCE COMMITTEE MEETING.

THE MOTION CARRIED UNANIMOUSLY.

CITY MANAGER LUKE RAINEY	AYE
MAYOR RICHARD BALOCCO	AYE
MAYOR LINDA EVANS	AYE
COUNCILMEMBER SABBY JONATHAN	AYE
FINANCE DIRECTOR/TREASURER NANCY PAULEY	AYE
CITY MANAGER ISAIAH HAGERMAN	AYE

4. DISCUSSION /ACTION

A. CVAG 2021/2022 Fiscal Year Budget – Claude T. Kilgore

Claude Kilgore presented the preliminary budget for FY 2021/2022. Member discussion ensued.

IT WAS MOVED BY MAYOR BALOCCO AND SECONDED BY COUNCILMEMBER JONATHAN TO RECOMMEND A 2.2% COST OF LIVING SALARY INCREASE AND A 2.2% INCREASE TO THE MEMBERSHIP DUES.

THE MOTION CARRIED UNANIMOUSLY.

CITY MANAGER LUKE RAINEY	AYE
MAYOR RICHARD BALOCCO	AYE
MAYOR LINDA EVANS	AYE
COUNCILMEMBER SABBY JONATHAN	AYE
FINANCE DIRECTOR/TREASURER NANCY PAULEY	AYE
CITY MANAGER ISAIAH HAGERMAN	AYE

B. Selection of CVAG/CVCC/DCE Independent Auditor – Claude T. Kilgore

Mr. Kilgore presented the staff report and described the process of also using the auditor for the Coachella Valley Conservation Commission (CVCC) and Desert Community Energy. Member discussion ensued.

IT WAS MOVED BY COUNCILMEMBER JONATHAN AND SECONDED BY MAYOR BALOCCO TO AUTHORIZE THE EXECUTIVE DIRECTOR TO NEGOTIATE AND EXECUTE A CONTRACT TO HIRE DAVIS FARR LLP TO SERVE AS CVAG'S INDEPENDENT AUDITOR.

THE MOTION CARRIED UNANIMOUSLY.

CITY MANAGER LUKE RAINEY	AYE
MAYOR RICHARD BALOCCO	AYE
MAYOR LINDA EVANS	AYE
COUNCILMEMBER SABBY JONATHAN	AYE
FINANCE DIRECTOR/TREASURER NANCY PAULEY	AYE
CITY MANAGER ISAIAH HAGERMAN	AYE

C. Rotation of the Finance Committee members – Claude T. Kilgore

Mr. Kilgore presented the staff report. Members discussed which elected official to appoint to the Finance Committee. Executive Director Tom Kirk indicated that he would discuss the rotation issue at the upcoming roundtable meeting with city, county and Tribal managers to seek a volunteer. Members further discussed the rotation of the Chair and Vice Chair positions and concurred they should automatically go to the next elected officials in line, recommending Mayor Balocco as the next Chair and Councilmember Jonathan as Vice Chair for the term FY 2021/22.

IT WAS MOVED BY MAYOR BALOCCO AND SECONDED BY MAYOR EVANS TO APPOINT MAYOR RAYMOND GREGORY, CITY OF CATHEDRAL CITY, TO SERVE ON THE FINANCE COMMITTEE.

THE MOTION CARRIED UNANIMOUSLY.

CITY MANAGER LUKE RAINEY	AYE
MAYOR RICHARD BALOCCO	AYE
MAYOR LINDA EVANS	AYE
COUNCILMEMBER SABBY JONATHAN	AYE
FINANCE DIRECTOR/TREASURER NANCY PAULEY	AYE
CITY MANAGER ISAIAH HAGERMAN	AYE

5. **PUBLIC COMMENTS ON NON-AGENDA ITEMS**

None.

6. **ANNOUNCEMENTS**

Upcoming Zoom Meetings:

Executive Committee – Monday, June 7, 2021 at 4:00 p.m.

General Assembly – Monday, June 28, 2021 at 6:00 p.m.

7. **ADJOURNMENT**

There being no further business, the Finance Committee adjourned at 12:50 p.m.

Respectfully submitted,

Joanna Stueckle
Executive Assistant/Clerk

ITEM 3B

FINANCE COMMITTEE MINUTES OF MEETING MAY 31, 2022



1. CALL TO ORDER

The May 31, 2022 Finance Committee meeting was called to order at 12:01 p.m. by Chair Richard Balocco, Councilmember of the City of Indian Wells, via Zoom videoconference, which was pursuant Assembly Bill 361 and the findings made by CVAG.

ROLL CALL

MEMBERS PRESENT

Councilmember Richard Balocco
City Manager Isaiah Hagerman
Mayor Pro Tem Sabby Jonathan
Councilmember Raymond Gregory
Tribal Administrator Shawn Isaac

AGENCY

City of Indian Wells
City of Rancho Mirage (*Arrived during Item 4A*)
City of Palm Desert
City of Cathedral City
Torres Martinez Desert Cahuilla Indians

MEMBERS ABSENT

Finance Director/Treasurer Nancy Pauley

City of Palm Springs

STAFF PRESENT

Tom Kirk
Claude Kilgore
Erica Felci
Jennifer Nelson

2. PUBLIC COMMENTS ON AGENDA ITEMS

Brad Anderson, resident of Rancho Mirage, voiced his concerns regarding Items 4B and 5A.

3. CONSENT CALENDAR

A. APPROVE MINUTES OF THE MAY 5, 2021 FINANCE COMMITTEE MEETING

B. RECEIVE AND FILE THE ACTION TO BE TAKEN BY THE CVAG FINANCE DIRECTOR TO MODIFY THE FISCAL YEAR 2019/20 \$1,016,741 UAL PAYMENT AND DISTRIBUTE THE COSTS ACROSS RELEVANT PROGRAMS IN ORDER TO REDUCE THE IMPACT ON THE GENERAL FUND

IT WAS MOVED BY MAYOR PRO TEM JONATHAN AND SECONDED BY COUNCILMEMBER GREGORY TO APPROVE THE CONSENT CALENDAR ITEMS INCLUDING THE REVISED ADJOURNMENT TIME ON THE MINUTES.

THE MOTION FOR ITEM 5A FAILED WITH 2 AYES, 2 ABSTENTIONS AND 2 MEMBERS ABSENT, AND CARRIED FOR ITEM 5B WITH 4 AYES AND 2 MEMBERS ABSENT

MAYOR RICHARD BALOCCO	AYE
COUNCILMEMBER RAYMOND GREGORY	AYE (ABSTAINED FROM ITEM 5A)
MAYOR PRO TEM SABBY JONATHAN	AYE
FINANCE DIRECTOR/TREASURER NANCY PAULEY	ABSENT
CITY MANAGER ISAIAH HAGERMAN	ABSENT
TRIBAL ADMINISTRATOR SHAWN ISAAC	AYE (ABSTAINED FROM ITEM 5A)

4. DISCUSSION /ACTION

A. **CVAG'S Audit for Fiscal Year 2020/21 and Related Reports** – Claude Kilgore

Claude Kilgore introduced Shannon Ayala from Davis Farr, who presented the audit. Member discussion ensued.

IT WAS MOVED BY COUNCILMEMBER GREGORY AND SECONDED BY MAYOR PRO TEM JONATHAN TO RECEIVE AND FILE THE AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2021, AND THE AUDITOR'S COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

THE MOTION CARRIED WITH 5 AYES AND 1 MEMBER ABSENT

MAYOR RICHARD BALOCCO	AYE
COUNCILMEMBER RAYMOND GREGORY	AYE
MAYOR PRO TEM SABBY JONATHAN	AYE
FINANCE DIRECTOR/TREASURER NANCY PAULEY	ABSENT
CITY MANAGER ISAIAH HAGERMAN	AYE
TRIBAL ADMINISTRATOR SHAWN ISAAC	AYE

B. **Fiscal Year 2022/2023 Agency-Wide, Programs, and Individual Funds Budget** – Claude Kilgore

Mr. Kilgore presented the staff report and the preliminary budget for Fiscal year 2022/23. Member discussion ensued, and additional feedback was provided including figures related to Desert Community Energy.

IT WAS MOVED BY CITY MANAGER HAGERMAN AND SECONDED BY COUNCILMEMBER GREGORY TO RECOMMEND THE EXECUTIVE COMMITTEE APPROVE THE BUDGET FOR FISCAL YEAR 2022/23 WITH RECOMMENDED CHANGES INCLUDED

THE MOTION CARRIED WITH 5 AYES AND 1 MEMBER ABSENT

MAYOR RICHARD BALOCCO	AYE
COUNCILMEMBER RAYMOND GREGORY	AYE
MAYOR PRO TEM SABBY JONATHAN	AYE

FINANCE DIRECTOR/TREASURER NANCY PAULEY	ABSENT
CITY MANAGER ISAIAH HAGERMAN	AYE
TRIBAL ADMINISTRATOR SHAWN ISAAC	AYE

C. Rotation of the Finance Committee Members – Jennifer Nelson

Jennifer Nelson presented the staff report and a brief member discussion ensued that included the nomination of Tribal Chair Reid Milanovich. Executive Director Kirk indicated he would discuss the committee selection at the next roundtable meeting of city, county and tribal manager to get volunteers to fill the second vacancy.

IT WAS MOVED BY COUNCILMEMBER GREGORY AND SECONDED BY MAYOR PRO TEM JONATHAN TO NOMINATE TRIBAL CHAIR REID MILANOVICH, AGUA CALIENTE BAND OF CAHUILLA INDIANS, TO SERVE ON THE FINANCE COMMITTEE FOR THE TERM OF THREE YEARS STARTING JULY 1, 2022 AND CONFIRM ROTATION SO PALM DESERT MAYOR PRO TEM SABBY JONATHAN SERVES AS COMMITTEE CHAIR AND CATHEDRAL CITY COUNCILMEMBER RAYMOND GREGORY AS COMMITTEE VICE CHAIR FOR FISCAL YEAR 2022/23

THE MOTION CARRIED WITH 5 AYES AND 1 MEMBER ABSENT

MAYOR RICHARD BALOCCO	AYE
COUNCILMEMBER RAYMOND GREGORY	AYE
MAYOR PRO TEM SABBY JONATHAN	AYE
FINANCE DIRECTOR/TREASURER NANCY PAULEY	ABSENT
CITY MANAGER ISAIAH HAGERMAN	AYE
TRIBAL ADMINISTRATOR SHAWN ISAAC	AYE

5. INFORMATION

A. Rollout of CAL-Card Program and Procurement Cards

6. PUBLIC COMMENTS ON NON-AGENDA ITEMS

None.

7. ANNOUNCEMENTS

Upcoming Zoom Meetings:

Executive Committee – Monday, June 6, 2022 at 4:30 p.m.

General Assembly – Monday, June 27, 2022 at 6:00 p.m.

8. ADJOURNMENT

There being no further business, the Finance Committee adjourned at 1:02 p.m.

Respectfully submitted,

Jennifer Nelson
Executive Assistant/Clerk

ITEM 3C

**Coachella Valley Association of Governments
Finance Committee
February 27, 2023**



Staff Report

Subject: Annual Review of CVAG's Investment Policy

Contact: Claude T. Kilgore, Director of Finance/Administration (ckilgore@cvag.org)

Recommendation: Approve CVAG's existing Investment Policy as CVAG Policy No. 23-01

Background: Pursuant to California Government Code Section 53646(a)(2), local agencies (other than counties) "may annually render to his/her legislative body and any oversight committee an investment policy". While not explicitly required by statute, CVAG staff has long maintained that an investment policy should always be in place and provided to the Executive Committee for annual review.

This review is a continuation of CVAG's commitment to uphold the best interest of its member jurisdictions and to ensure shared fiduciary responsibility, increased authority and legitimacy of the investment policy, as well as transparency and disclosure to CVAG members.

CVAG staff has reviewed the existing investment policy and finds that it is sufficient. Staff recommends that the policy be approved as CVAG Policy No. 23-01.

Fiscal Analysis: There is no financial cost to passing the resolution.

Attachment: CVAG Policy No. 23-01

CVAG POLICY NUMBER: 23-01

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS (CVAG) INVESTMENT POLICY FOR CVAG FUNDS

It is the policy of Coachella Valley Association of Governments (CVAG) to invest public funds in accordance with the requirements of State law to achieve a market rate of return while minimizing the potential for losses, to meet daily cash flow needs of CVAG and to comply with all laws of the State of California regarding the investment of public funds. The ultimate goal is to enhance CVAG's financial condition while protecting its financial assets.

This investment policy is intended to provide guidelines for the prudent investment of CVAG's temporarily idle cash and to identify CVAG's policies regarding the investment process. Investments of public funds shall be made in accordance with the following policy.

1. Investment Objectives:
 - Safety - preservation of the public's funds so that necessary public projects and programs can be constructed and managed;
 - Liquidity - assurance of liquidity to meet daily cash flow needs; and
 - Yield - obtaining the maximum investment yield consistent with the above.
2. Investments shall be made with judgment and care – under circumstances then prevailing – which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for the herein defined individual security's credit risk or market price changes, provided deviations from expectations are reported in the herein defined timely fashion and appropriate action is taken to control adverse developments.

3. The Executive Director, and designee, the Director of Finance/Administration, are responsible for establishing and maintaining an internal control structure designed to ensure the safety of the assets of CVAG and that CVAG assets are protected from loss, theft or misuse. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance

recognizes that (a) the cost of a control should not exceed the benefits likely to be derived; and, (b) the valuation of costs and benefits requires estimates and judgments by management. Accordingly, the Executive Director, and designee, the Director of Finance/Administration, shall maintain an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

4. All security transactions entered into by the Coachella Valley Association of Governments shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Director of Finance/Administration and evidenced by safekeeping receipts. Funds invested with the Riverside County Pooled Investment Fund are exempt from this paragraph.
5. Pursuant to CVAG's policies and prior direction, the Executive Director and designee, the Director of Finance/Administration, are hereby delegated the authority to implement the investment policy set forth herein.
6. Except for those funds necessary to assure maintenance of ongoing CVAG operations, CVAG investment may include:
 - United States Treasury Bonds, Treasury Notes or Treasury Bills
 - Certificates of Deposit, placed with commercial banks and savings and loan companies (not to exceed the FDIC guarantee of \$250,000 per financial institution unless collateralized per Section 7)
 - State of California Local Agency Investment Fund (LAIF)
 - AAA-rated Money Market Funds investing in US Treasury investments
 - Riverside County Pooled Investment Fund

The County of Riverside (County) serves as CVAG's treasurer. The County's Pool is professionally managed and maintains liquidity and diversification so as to minimize risk to the public agencies whose funds are held by the Pool. CVAG Staff reviews the County Treasurer's Investment Portfolio monthly, as well as providing a quarterly investment report to CVAG's Executive Committee (see section 13).

7. Collateralization will be required on demand deposits, certificates of deposit and repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, a minimum collateralization level is required.

Surplus funds can only be deposited in state or federal commercial banks and savings associations, state or federal credit unions, State of California Local Agency Investment Fund (LAIF) or the Riverside County Pooled Investment Fund within the State of California. The deposits cannot exceed the amount of the bank's or savings and loan's paid-up capital and surplus. The bank or savings and loan must secure public funds deposits with eligible securities having a market value of 110% of the total amount of the deposits. State law also allows as an eligible security, first trust deeds having a value of 150% of the total amount of the deposits.

The Executive Director or Director of Finance/Administration may waive security for that

portion of a deposit which is insured pursuant to Federal law. Currently, the first \$250,000 of a deposit is federally insured. Deposits in excess of \$250,000 are required to be collateralized as previously indicated.

8. CVAG, to ensure the safety of its investment portfolio, will diversify its investments by security type and institution. No more than 55% of CVAG's total investment portfolio shall be placed with any single financial institution, with the exception of LAIF, whereby CVAG has the option of investing up to the maximum allowable by LAIF.
9. The Director of Finance/Administration shall develop and maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness, who maintain an office in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

No public deposit shall be made except in a qualified public depository as established by state laws. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Director of Finance/Administration with the following: audited financial statements, proof of National Association of Security Dealers' certification, and proof of State of California registration. A current (for the fiscal year most recently ended) audited financial statement is required to be on file for each financial institution and broker/dealer in which CVAG invests.

10. The list of permissible investments in Section 6 is intentionally more limited than those set forth in California Government Code Sections 53601 and 53635.
11. Unless further restricted by state law, all investments hereunder shall be limited to a maximum maturity date of three years from date of purchase. A minimum of fifty percent (50%) of CVAG's invested funds must be invested in securities with maturities of one year or less. A minimum of seventy five percent (75%) of CVAG's invested funds must be invested in securities with maturities of two years or less.
12. Excluded from this resolution are investments of employee deferred compensation, employee cafeteria plan and retirement plan funds.
13. This investment policy shall be reviewed at least annually by the Executive Committee and Executive Director in accordance with California Government Code Section 53646 requirements.
14. Under provisions of the California Government Code Section 53646, there shall be a report, at least quarterly, to the Executive Committee on the status of all CVAG investments. This quarterly report will include the following information: Amount on Deposit, Market Value, Source for Market Values, Yield (rate of interest), Type of Investment and Institution. In addition, quarterly report shall:

1. State compliance of the portfolio to CVAG's investment policy or manner in

which the portfolio is not in compliance; and

2. Include a statement denoting the ability of CVAG to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.
15. The Executive Director, designee, or an Executive Committee member, shall suggest such amendments to this policy as he or she, from time to time, deems necessary or prudent.

ADOPTED this 27th day of February 2023.

Steven Hernandez, Chair
Coachella Valley Association of Governments

ATTEST:

Tom Kirk
Executive Director

ITEM 4A

Coachella Valley Association of Governments Finance Committee February 27, 2023



STAFF REPORT

Subject: CalPERS Unfunded Accrued Liability

Contact: Claude T. Kilgore, Director of Finance/Administration (ckilgore@cvag.org)

Recommendation: Provide direction on the Fiscal Year 2023/2024 CalPERS Unfunded Accrued Liability paydown approach

Background: In 2019, the Administrative/Personnel Committee and the Finance Committee (formerly known as the Audit Committee) requested that CVAG staff to look into the possibility of CVAG reigning in the escalating cost of the CalPERS Unfunded Accrued Liability (UAL). It is well known that the UAL for almost all agencies has been on the rise and continues to soar, placing an increasingly tight fiscal burden on agencies throughout California. In addition, the UAL calculation and pension valuation and accounting in general are an extremely complex concept that involve the use of numerous professionals and assumptions. The annual valuation report is typically on a two-year lag, and the UAL is subject to increase or decrease due to investment strategies and results and assumption changes, payroll projections among other items year-to-year.

Based on committees' direction, a paydown approach was developed beginning in Fiscal Year 2019/20 that included a one-time \$1,000,000 payment in the first year and then full Minimum UAL Payments each fiscal year with an annual Additional Discretionary Payment (ADP) to bring the total UAL payment to around \$200,000 annually. When this paydown was established, this formula would have allowed paying off CVAG's UAL over an approximate 10-year period. However, recent investment results at CalPERS and other factors have shifted UAL valuation input assumptions. CVAG staff is bringing this item back to the Finance Committee for review and is recommending the Committee re-evaluate the current UAL paydown approach in order to proactively manage changing external forces and prudently manage the UAL.

At the February 27 meeting, Palm Springs Councilmember Lisa Middleton of the City of Palm Springs will provide an overview of the CalPERS organization as well as provide other valuable insight and information about its operations. Councilmember Middleton currently sits on the 13-member CalPERS Board of Directors, a position she was appointed to by Governor Newsom in 2019. Councilmember Middleton also sits on numerous committees at CalPERS where she chairs both the Finance & Administration Committee as well as the Risk & Audit Committee.

She will be joined by CalPERS actuary, Kurt Schnieder. Mr. Schnieder has been an actuary in the defined benefit retirement field for more than 20 years. Actuaries like Mr. Schnieder partner with public agencies like CVAG to manage the costs and risks of public pensions in a way that allows agencies to continue to provide public services efficiently and cost effectively. Mr. Schnieder will overview how the CalPERS investment results from fiscal year 2022 are projected to affect CVAG's UAL now and in the future.

Following the presentation, CVAG staff will provide an overview of options regarding UAL paydown approach and ask Finance Committee members to provide direction for the FY2023/2024 budgeted CalPERS UAL paydown. The Finance Committee will meet again in the spring 2023 to revisit this topic as part of the draft budget for FY2023/2024, which will then go to the Executive Committee for review and approval.

Fiscal Analysis: CVAG's total annual required employer contribution set by CalPERS for FY2023/2024 is \$98,064. This is a discussion item related to fiscal analysis. Pending Finance Committee direction, the complete fiscal analysis of this item will be identified in future staff reports and budgetary items.

Attachment: Miscellaneous Plan of the Coachella Valley Association of Governments (CalPERS ID: 3910122713) Annual Valuation Report as of June 30, 2021 (most recent report)



California Public Employees' Retirement System

Actuarial Office

400 Q Street, Sacramento, CA 95811 | Phone: (916) 795-3000 | Fax: (916) 795-2744

888 CalPERS (or **888-225-7377**) | TTY: (877) 249-7442 | www.calpers.ca.gov

July 2022

PEPRA Miscellaneous Plan of the Coachella Valley Association of Governments (CalPERS ID: 3910122713)

Annual Valuation Report as of June 30, 2021

Dear Employer,

Attached to this letter, you will find the June 30, 2021 actuarial valuation report for the rate plan noted above. **Provided in this report is the determination of the minimum required employer contributions for fiscal year (FY) 2023-24.** In addition, the report contains important information regarding the current financial status of the plan as well as projections and risk measures to aid in planning for the future.

Because this plan is in a risk pool, the following valuation report has been separated into two sections:

- Section 1 contains specific information for the plan including the development of the current and projected employer contributions, and
- Section 2 contains the Risk Pool Actuarial Valuation appropriate to the plan as of June 30, 2021.

Section 2 can be found on the CalPERS website (www.calpers.ca.gov). From the home page, go to "Forms & Publications" and select "View All". In the search box, enter "Risk Pool" and from the results list download the Miscellaneous Risk Pool Actuarial Valuation Report for June 30, 2021.

Your June 30, 2021 actuarial valuation report contains important actuarial information about your pension plan at CalPERS. The plan actuary whose signature is in the Actuarial Certification is available to discuss.

Actuarial valuations are based on assumptions regarding future plan experience including investment return and payroll growth, eligibility for the types of benefits provided, and longevity among retirees. The CalPERS Board of Administration (board) adopts these assumptions after considering the advice of CalPERS actuarial and investment teams and other professionals. Each actuarial valuation reflects all prior differences between actual and assumed experience and adjusts the contribution requirements as needed. This valuation is based on an investment return assumption of 6.8%, which was adopted by the board in November 2021. Other assumptions used in this report are those recommended in the CalPERS Experience Study and Review of Actuarial Assumptions report from November 2021.

Required Contribution

The table below shows the minimum required employer contributions and the Employee PEPRA Rate for FY 2023-24 along with estimates of the required contributions for FY 2024-25. Employee contributions other than cost sharing (whether paid by the employer or the employee) are in addition to the results shown below. **The required employer contributions in this report do not reflect any cost sharing arrangement between the agency and the employees.**

Fiscal Year	Employer Normal Cost Rate	Employer Amortization of Unfunded Accrued Liability	PEPRA Member Rate
2023-24	8.00%	\$0	8.25%
<i>Projected Results</i>			
2024-25	8.0%	\$0	TBD

The actual investment return for FY 2021-22 was not known at the time this report was prepared. The projections above assume the investment return for that year would be 6.8%. ***To the extent the actual investment return for FY 2021-22 differs from 6.8%, the actual contribution requirements for FY 2024-25 will differ from those shown above.*** For additional details regarding the assumptions and methods used for these projections, please refer to the "Projected Employer Contributions" in the "Highlights and Executive Summary" section. This section also contains projected required contributions through FY 2028-29.

Changes from Previous Year's Valuation

On July 12, 2021, CalPERS reported a preliminary 21.3% net return on investments for FY 2020-21. Since the return exceeded the 7.00% discount rate sufficiently, the CalPERS Funding Risk Mitigation policy allows CalPERS to use a portion of the investment gain to offset the cost of reducing the expected volatility of future investment returns. Based on the thresholds specified in the policy, the excess return of 14.3% prescribes a reduction in investment volatility that corresponds to a reduction in the discount rate of 0.20%, from 7.00% to 6.80%.

On November 17, 2021, the board adopted new actuarial assumptions based on the recommendations in the November 2021 CalPERS Experience Study and Review of Actuarial Assumptions. This study reviewed the retirement rates, termination rates, mortality rates, rates of salary increases, and inflation assumption for public agencies. These new assumptions are incorporated in this actuarial valuation and will impact the required contribution for FY 2023-24. In addition, the board adopted a new strategic asset allocation as part of its Asset Liability Management process. The new asset allocation along with the new capital market assumptions and economic assumptions support a discount rate of 6.80%. This includes a reduction in the price inflation assumption from 2.50% to 2.30%.

Besides the above noted changes, there may also be changes specific to the plan such as contract amendments and funding changes.

Further descriptions of general changes are included in the "Highlights and Executive Summary" section and in Appendix A of the Section 2 report, "Actuarial Methods and Assumptions."

Questions

We understand that you might have questions about these results, and the plan actuary whose signature is on the valuation report is available to discuss. If you have other questions, you may call the Customer Contact Center at (888)-CalPERS or **(888-225-7377)**.

Sincerely,

SCOTT TERANDO, ASA, EA, MAAA, FCA, CFA
Chief Actuary



**Actuarial Valuation
as of June 30, 2021**

**for the
PEPRA Miscellaneous Plan
of the
Coachella Valley Association of
Governments
(CalPERS ID: 3910122713)**

**Required Contributions
for Fiscal Year
July 1, 2023 - June 30, 2024**

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Section 1 – Plan Specific Information

Section 2 – Risk Pool Actuarial Valuation Information

Section 1

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Plan Specific Information for the PEPRA Miscellaneous Plan of the Coachella Valley Association of Governments

**(CalPERS ID: 3910122713)
(Rate Plan ID: 26564)**

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Actuarial Certification

To the best of our knowledge, this report, comprising of Sections 1 and 2, is complete and accurate and contains sufficient information to disclose, fully and fairly, the funded condition of the PEPRA Miscellaneous Plan of the Coachella Valley Association of Governments and satisfies the actuarial valuation requirements of Government Code section 7504. This valuation is based on the member and financial data as of June 30, 2021 provided by the various CalPERS databases and the benefits under this plan with CalPERS as of the date this report was produced. Section 1 of this report is based on the member and financial data for Coachella Valley Association of Governments, while Section 2 is based on the corresponding information for all agencies participating in the Miscellaneous Risk Pool to which the plan belongs.

As set forth in Section 2 of this report, the pool actuaries have certified that, in their opinion, the valuation of the Miscellaneous Risk Pool has been performed in accordance with generally accepted actuarial principles consistent with standards of practice prescribed by the Actuarial Standards Board, and that the assumptions and methods are internally consistent and reasonable for the risk pool as of the date of this valuation and as prescribed by the CalPERS Board of Administration according to provisions set forth in the California Public Employees' Retirement Law.

Having relied upon the information set forth in Section 2 of this report and based on the census and benefit provision information for the rate plan, it is my opinion as the plan actuary that the Unfunded Accrued Liability amortization bases as of June 30, 2021 and employer contribution as of July 1, 2023 have been properly and accurately determined in accordance with the principles and standards stated above.

The undersigned is an actuary who satisfies the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States with regard to pensions.

KURT SCHNEIDER, MPA, ASA, EA, MAAA
Supervising Pension Actuary, CalPERS

Highlights and Executive Summary

- **Introduction**
- **Purpose of Section 1**
- **Required Contributions**
- **Additional Discretionary Employer Contributions**
- **Plan's Funded Status**
- **Projected Employer Contributions**
- **Other Pooled Miscellaneous Risk Pool Rate Plans**
- **Cost**
- **Changes Since the Prior Year's Valuation**
- **Subsequent Events**

Introduction

This report presents the results of the June 30, 2021 actuarial valuation of the PEPRA Miscellaneous Plan of the Coachella Valley Association of Governments of the California Public Employees' Retirement System (CalPERS). This actuarial valuation sets the required employer contributions for (FY) 2023-24.

Purpose of Section 1

This Section 1 report for the PEPRA Miscellaneous Plan of the Coachella Valley Association of Governments of CalPERS was prepared by the plan actuary in order to:

- Set forth the assets and accrued liabilities of this plan as of June 30, 2021;
- Determine the minimum required employer contribution for this plan for the FY July 1, 2023 through June 30, 2024; and
- Provide actuarial information as of June 30, 2021 to the CalPERS Board of Administration (board) and other interested parties.

The pension funding information presented in this report should not be used in financial reports subject to Governmental Accounting Standards Board (GASB) Statement No. 68 for a Cost Sharing Employer Defined Benefit Pension Plan. A separate accounting valuation report for such purposes is available on the CalPERS website (www.calpers.ca.gov).

The measurements shown in this actuarial valuation may not be applicable for other purposes. The agency should contact the plan actuary before disseminating any portion of this report for any reason that is not explicitly described above.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; changes in actuarial policies; changes in plan provisions or applicable law; and differences between the required contributions determined by the valuation and the actual contributions made by the agency.

Assessment and Disclosure of Risk

This report includes the following risk disclosures consistent with the recommendations of Actuarial Standards of Practice No. 51 and recommended by the California Actuarial Advisory Panel (CAAP) in the Model Disclosure Elements document:

- A "Scenario Test," projecting future results under different investment income returns.
- A "Sensitivity Analysis," showing the impact on current valuation results using alternative discount rates of 5.8% and 7.8%.
- A "Sensitivity Analysis," showing the impact on current valuation results assuming rates of mortality are 10% lower or 10% higher than our current post-retirement mortality assumptions adopted in 2021.
- Plan maturity measures indicating how sensitive a plan may be to the risks noted above.

Required Contributions

	Fiscal Year 2023-24
Required Employer Contributions	
Employer Normal Cost Rate	8.00%
<i>Plus</i>	
Required Payment on Amortization Bases ¹	\$0
<i>Paid either as</i>	
1) Monthly Payment	\$0.00
<i>Or</i>	
2) Annual Prepayment Option*	\$0
Required PEPRa Member Contribution Rate	8.25%
<i>The total minimum required employer contribution is the sum of the Plan's Employer Normal Cost Rate (expressed as a percentage of payroll and paid as payroll is reported) plus the Employer Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly (1) or prepaid annually (2) in dollars).</i>	
<i>* Only the UAL portion of the employer contribution can be prepaid (which must be received in full no later than July 31).</i>	
<i>For additional detail regarding the determination of the required PEPRa member contribution rate see section on PEPRa Member Contribution Rates.</i>	

	Fiscal Year 2022-23	Fiscal Year 2023-24
Development of Normal Cost as a Percentage of Payroll		
Base Total Normal Cost for Formula	14.22%	15.43%
Surcharge for Class 1 Benefits ²		
a) PRSA	0.79%	0.82%
Phase out of Normal Cost Difference ³	0.00%	0.00%
Plan's Total Normal Cost	15.01%	16.25%
Plan's Employee Contribution Rate	7.25%	8.25%
Employer Normal Cost Rate	7.76%	8.00%

¹ The required payment on amortization bases does not take into account any additional discretionary payment made after April 29, 2022.

² Section 2 of this report contains a list of Class 1 benefits and corresponding surcharges for each benefit.

³ The normal cost change is phased out over a five-year period in accordance with the CalPERS contribution allocation policy.

Additional Discretionary Employer Contributions

The minimum required employer contribution towards the Unfunded Accrued Liability (UAL) for this rate plan for the 2023-24 FY is \$0. CalPERS allows agencies to make additional discretionary payments (ADPs) at any time and in any amount. These optional payments serve to reduce the UAL and future required contributions and can result in significant long-term savings. Agencies can also use ADPs to stabilize annual contributions as a fixed dollar amount, percent of payroll or percent of revenue.

Provided below are select ADP options for consideration. Making such an ADP during FY 2023-24 does not require an ADP be made in any future year, nor does it change the remaining amortization period of any portion of unfunded liability. For information on permanent changes to amortization periods, see the "Amortization Schedule and Alternatives" section of the report.

Agencies considering making an ADP should contact CalPERS for additional information.

Minimum Required Employer Contribution for Fiscal Year 2023-24

Estimated Normal Cost	Minimum UAL Payment	ADP	Total UAL Contribution	Estimated Total Contribution
\$97,773	\$0	\$0	\$0	\$97,773

Alternative Fiscal Year 2023-24 Employer Contributions for Greater UAL Reduction

Funding Target	Estimated Normal Cost	Minimum UAL Payment	ADP ¹	Total UAL Contribution	Estimated Total Contribution
N/A	N/A	N/A	N/A	N/A	N/A

¹ The ADP amounts are assumed to be made in the middle of the fiscal year. A payment made earlier or later in the fiscal year would have to be less or more than the amount shown to have the same effect on the UAL amortization.

Note that the calculations above are based on the projected Unfunded Accrued Liability as of June 30, 2023 as determined in the June 30, 2021 actuarial valuation. New unfunded liabilities can emerge in future years due to assumption or method changes, changes in plan provisions, and actuarial experience different than assumed. Making an ADP illustrated above for the indicated number of years will not result in a plan that is exactly 100% funded in the indicated number of years. Valuation results will vary from one year to the next and can diverge significantly from projections over a period of several years.

Plan's Funded Status

	June 30, 2020	June 30, 2021
1. Present Value of Projected Benefits (PVB)	\$1,789,977	\$2,810,288
2. Entry Age Accrued Liability (AL)	637,269	844,675
3. Plan's Market Value of Assets (MVA)	592,387	928,207
4. Unfunded Accrued Liability (UAL) [(2) - (3)]	44,882	(83,532)
5. Funded Ratio [(3) / (2)]	93.0%	109.9%

The UAL and funded ratio are assessments of the need for future employer contributions based on the actuarial cost method used to fund the plan. The UAL is the present value of future employer contributions for service that has already been earned and is in addition to future normal cost contributions for active members. The funded ratio, on the other hand, is a relative measure of funded status that allows for comparison between plans of different sizes. For measures of funded status that are appropriate for assessing the sufficiency of plan assets to cover estimated termination liabilities, please see "Hypothetical Termination Liability" in the "Risk Analysis" section.

Projected Employer Contributions

The table below shows the required and projected employer contributions (before cost sharing) for the next six fiscal years. The projection assumes that all actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur during the projection period. In particular, the investment return beginning with FY 2021-22 is assumed to be 6.80% per year, net of investment and administrative expenses. Actual contribution rates during this projection period could be significantly higher or lower than the projection shown below. Future contribution requirements may differ significantly from those shown below. The actual long-term cost of the plan will depend on the actual benefits and expenses paid and the actual investment experience of the fund.

	Required Contribution	Projected Future Employer Contributions (Assumes 6.80% Return for Fiscal Year 2021-22 and Beyond)				
Fiscal Year	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
	Rate Plan 26564 Results					
Normal Cost %	8.00%	8.0%	8.0%	8.0%	8.0%	8.0%
UAL Payment	\$0	\$0	\$0	\$0	\$0	\$0

For some sources of UAL, the change in UAL is amortized using a 5-year ramp up. For more information, please see "Amortization of the Unfunded Actuarial Accrued Liability" under "Actuarial Methods" in Appendix A of the Section 2 Report. This method phases in the impact of the change in UAL over a 5-year period in order to reduce employer cost volatility from year to year. As a result of this methodology, dramatic changes in the required employer contributions in any one year are less likely. However, required contributions can change gradually and significantly over the next five years. In years when there is a large increase in UAL, the relatively small amortization payments during the ramp up period could result in a funded ratio that is projected to decrease initially while the contribution impact of the increase in the UAL is phased in.

For projected contributions under alternate investment return scenarios, please see the "Future Investment Return Scenarios" in the "Risk Analysis" section.

Our online pension plan projection tool, Pension Outlook, is available in the Employers section of the CalPERS website. Pension Outlook can help plan and budget pension costs under various scenarios.

Other Pooled Miscellaneous Risk Pool Rate Plans

All of the results presented in this Section 1 report, except those shown below, correspond to rate plan 26564. In many cases, employers have additional rate plans within the same risk pool. For cost analysis and budgeting it is useful to consider contributions for these rate plans as a whole rather than individually. The estimated contribution amounts and rates for all of the employer's rate plans in the Miscellaneous Risk Pool are shown below and assume that the payroll for each rate plan will grow according to the overall payroll growth assumption of 2.80% per year for three years.

	Fiscal Year 2022-23	Fiscal Year 2023-24
Estimated Combined Employer Contributions for all Pooled Miscellaneous Rate Plans		
Projected Payroll for the Contribution Year	\$1,971,532	\$1,817,733
Estimated Employer Normal Cost	\$197,926	\$176,746
Required Payment on Amortization Bases	\$111,582	\$101,343
Estimated Total Employer Contributions	\$309,508	\$278,089
Estimated Total Employer Contribution Rate (illustrative only)	15.70%	15.30%

Cost

Actuarial Determination of Plan Cost

Contributions to fund the plan are comprised of two components:

- Normal Cost, expressed as a percentage of total active payroll
- Amortization of the Unfunded Accrued Liability (UAL), expressed as a dollar amount

For fiscal years prior to 2016-17, the Amortization of UAL component was expressed as a percentage of total active payroll. Starting with FY 2016-17, the Amortization of UAL component was expressed as a dollar amount and invoiced on a monthly basis. There continues to be an option to prepay this amount during July of each fiscal year.

The Normal Cost component is expressed as a percentage of active payroll with employer and employee contributions payable as part of the regular payroll reporting process.

The determination of both components requires complex actuarial calculations. The calculations are based on a set of actuarial assumptions which can be divided into two categories:

- Demographic assumptions (e.g., mortality rates, retirement rates, employment termination rates, disability rates)
- Economic assumptions (e.g., future investment earnings, inflation, salary growth rates)

These assumptions reflect CalPERS' best estimate of future experience of the plan and are long term in nature. We recognize that all assumptions will not be realized in any given year. For example, the investment earnings at CalPERS have averaged 6.9% over the 20 years ending June 30, 2021, yet individual fiscal year returns have ranged from -23.6% to +21.3%. In addition, CalPERS reviews all actuarial assumptions by conducting in-depth experience studies every four years, with the most recent experience study completed in 2021.

Changes Since the Prior Year's Valuation

Benefits

The standard actuarial practice at CalPERS is to recognize mandated legislative benefit changes in the first annual valuation following the effective date of the legislation. Voluntary benefit changes by plan amendment are generally included in the first valuation that is prepared after the amendment becomes effective, even if the valuation date is prior to the effective date of the amendment.

This valuation generally reflects plan changes by amendments effective before the date of the report. Please refer to the "Plan's Major Benefit Options" and Appendix B of the Section 2 Report for a summary of the plan provisions used in this valuation.

Actuarial Methods and Assumptions

On November 17, 2021, the board adopted new actuarial assumptions based on the recommendations in the 2021 CalPERS Experience Study and Review of Actuarial Assumptions. This study reviewed the retirement rates, termination rates, mortality rates, rates of salary increases, and inflation assumption for Public Agencies. These new assumptions are incorporated in this actuarial valuation and will impact the required contribution for FY 2023-24. In addition, the board adopted a new asset portfolio as part of its Asset Liability Management process. The new asset mix supports a 6.80% discount rate, which reflects a change in the price inflation assumption to 2.30%.

Subsequent Events

The contribution requirements determined in this actuarial valuation report are based on demographic and financial information as of June 30, 2021. Changes subsequent to that date are not reflected. Investment returns below the assumed rate of return may increase future required contributions while investment returns above the assumed rate of return may decrease future required contributions.

The projected employer contributions on Page 6 are calculated under the assumption that the discount rate remains at 6.8% going forward and that the realized rate of return on assets for FY 2021-22 is 6.8%.

This actuarial valuation report reflects statutory changes, regulatory changes and board actions through January 2022. Any subsequent changes or actions are not reflected.

Assets and Liabilities

- **Breakdown of Entry Age Accrued Liability**
- **Allocation of Plan's Share of Pool's Experience/Assumption Change**
- **Development of Plan's Share of Pool's Market Value of Assets**
- **Schedule of Plan's Amortization Bases**
- **Amortization Schedule and Alternatives**
- **Employer Contribution History**
- **Funding History**

Breakdown of Entry Age Accrued Liability

Active Members	\$669,170
Transferred Members	85,400
Terminated Members	90,105
Members and Beneficiaries Receiving Payments	0
Total	\$844,675

Allocation of Plan's Share of Pool's Experience/Assumption Change

It is the policy of CalPERS to ensure equity within the risk pools by allocating the pool's experience gains/losses and assumption changes in a manner that treats each employer equitably and maintains benefit security for the members of the System while minimizing substantial variations in employer contributions. The Pool's experience gains/losses and impact of assumption/method changes is allocated to the plan as follows:

1. Plan's Accrued Liability	\$844,675
2. Projected UAL balance at 6/30/2021	16,824
3. Pool's Accrued Liability ¹	20,794,529,023
4. Sum of Pool's Individual Plan UAL Balances at 6/30/2021 ¹	4,597,734,264
5. Pool's 2020/21 Investment (Gain)/Loss ¹	(2,338,185,055)
6. Pool's 2020/21 Non-Investment (Gain)/Loss ¹	(84,077,623)
7. Plan's Share of Pool's Investment (Gain)/Loss: $[(1) - (2)] \div [(3) - (4)] \times (5)$	(119,509)
8. Plan's Share of Pool's Non-Investment (Gain)/Loss: $(1) \div (3) \times (6)$	(3,415)
9. Plan's New (Gain)/Loss as of 6/30/2021: $(7) + (8)$	(122,924)
10. Increase in Pool's Accrued Liability due to Change in Assumptions ¹	60,407,898
11. Plan's Share of Pool's Change in Assumptions: $(1) \div (3) \times (10)$	2,454
12. Increase in Pool's Accrued Liability due to Funding Risk Mitigation ¹	495,172,731
13. Plan's Share of Pool's Change due to Funding Risk Mitigation: $(1) \div (3) \times (12)$	20,114
14. Offset due to Funding Risk Mitigation	(36,593)
15. Plan's Net Investment (Gain): $(7) - (14)$	(82,916)

¹ Does not include plans that transferred to Pool on the valuation date.

Development of the Plan's Share of Pool's Market Value of Assets

16. Plan's UAL: $(2) + (9) + (11) + (13)$	(\$83,532)
17. Plan's Share of Pool's MVA: $(1) - (16)$	\$928,207

Schedule of Plan's Amortization Bases

Note that there is a two-year lag between the valuation date and the start of the contribution fiscal year.

- The assets, liabilities, and funded status of the plan are measured as of the valuation date: June 30, 2021.
- The required employer contributions determined by the valuation are for the fiscal year beginning two years after the valuation date: FY 2023-24.

This two-year lag is necessary due to the amount of time needed to extract and test the membership and financial data, and the need to provide public agencies with their required employer contribution well in advance of the start of the fiscal year.

The Unfunded Accrued Liability (UAL) is used to determine the employer contribution and therefore must be rolled forward two years from the valuation date to the first day of the fiscal year for which the contribution is being determined. The UAL is rolled forward each year by subtracting the expected payment on the UAL for the fiscal year and adjusting for interest. The expected payment for the first fiscal year is determined by the actuarial valuation two years ago and the contribution for the second year is from the actuarial valuation one year ago. Additional discretionary payments are reflected in the Expected Payments column in the fiscal year they were made by the agency.

Reason for Base	Date Est.	Ramp Level 2023-24	Ramp Shape	Escalation Rate	Amort. Period	Balance 6/30/21	Expected Payment 2021-22	Balance 6/30/22	Expected Payment 2022-23	Balance 6/30/23	Minimum Required Payment 2023-24
Fresh Start	6/30/21				N/A	(83,532)	(17,218)	(71,418)	(17,306)	(58,390)	0
Total						(83,532)	(17,218)	(71,418)	(17,306)	(58,390)	0

The (gain)/loss bases are the plan's allocated share of the risk pool's (gain)/loss for the fiscal year as disclosed in "Allocation of Plan's Share of Pool's Experience/Assumption Change" earlier in this section. These (gain)/loss bases will be amortized in accordance with the CalPERS amortization policy in effect at the time the base was established.

Amortization Schedule and Alternatives

The amortization schedule on the previous page(s) shows the minimum contributions required according to the CalPERS amortization policy. Many agencies have expressed a desire for a more stable pattern of payments or have indicated interest in paying off the unfunded accrued liabilities more quickly than required. As such, we have provided alternative amortization schedules to help analyze the current amortization schedule and illustrate the potential savings of accelerating unfunded liability payments.

Shown on the following page are future year amortization payments based on 1) the current amortization schedule reflecting the individual bases and remaining periods shown on the previous page, and 2) alternative "fresh start" amortization schedules using two sample periods that would both result in interest savings relative to the current amortization schedule. To initiate a Fresh Start, please contact the plan actuary.

The Current Amortization Schedule typically contains both positive and negative bases. Positive bases result from plan changes, assumption changes, method changes or plan experience that increase unfunded liability. Negative bases result from plan changes, assumption changes, method changes, or plan experience that decrease unfunded liability. The combination of positive and negative bases within an amortization schedule can result in unusual or problematic circumstances in future years, such as:

- When a negative payment would be required on a positive unfunded actuarial liability; or
- When the payment would completely amortize the total unfunded liability in a very short time period, and results in a large change in the employer contribution requirement.

In any year when one of the above scenarios occurs, the actuary will consider corrective action such as replacing the existing unfunded liability bases with a single "fresh start" base and amortizing it over an appropriate period.

The Current Amortization Schedule on the following page may appear to show that, based on the current amortization bases, one of the above scenarios will occur at some point in the future. It is impossible to know today whether such a scenario will in fact arise since there will be additional bases added to the amortization schedule in each future year. Should such a scenario arise in any future year, the actuary will take appropriate action based on guidelines in the CalPERS amortization policy.

Amortization Schedule and Alternatives (continued)

Date	<u>Current Amortization Schedule</u>		<u>Alternate Schedules</u>			
	Balance	Payment	N/A Year Amortization		N/A Year Amortization	
			Balance	Payment	Balance	Payment
6/30/2023	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2024						
6/30/2025						
6/30/2026						
6/30/2027						
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6/30/2051						
6/30/2052						
Total		N/A		N/A		N/A
Interest Paid		N/A		N/A		N/A
Estimated Savings				N/A		N/A

Employer Contribution History

The table below provides a recent history of the required employer contributions for the plan. The amounts are based on the actuarial valuation from two years prior and does not account for prepayments or benefit changes made during a fiscal year. Additional discretionary payments before July 1, 2019 or after June 30, 2021 are not included.

Fiscal Year	Employer Normal Cost	Unfunded Liability Payment (\$)	Additional Discretionary Payments
2016 - 17	6.930%	\$29	N/A
2017 - 18	6.908%	114	N/A
2018 - 19	7.266%	6,086	N/A
2019 - 20	7.072%	5,710	16,741
2020 - 21	7.874%	9,398	24,076
2021 - 22	7.73%	5,977	
2022 - 23	7.76%	394	
2023 - 24	8.00%	0	

Funding History

The table below shows the recent history of the actuarial accrued liability, share of the pool's market value of assets, unfunded accrued liability, funded ratio, and annual covered payroll.

Valuation Date	Accrued Liability (AL)	Share of Pool's Market Value of Assets (MVA)	Unfunded Accrued Liability (UAL)	Funded Ratio	Annual Covered Payroll
06/30/2014	\$13,945	\$14,565	(\$620)	104.5%	\$175,312
06/30/2015	68,628	65,086	3,542	94.8%	458,528
06/30/2016	170,628	153,552	17,076	90.0%	774,862
06/30/2017	298,630	281,889	16,741	94.4%	532,037
06/30/2018	386,504	350,062	36,442	90.6%	512,409
06/30/2019	539,996	494,580	45,416	91.6%	624,435
06/30/2020	637,269	592,387	44,882	93.0%	741,522
06/30/2021	844,675	928,207	(83,532)	109.9%	1,124,991

Risk Analysis

- **Future Investment Return Scenarios**
- **Discount Rate Sensitivity**
- **Mortality Rate Sensitivity**
- **Maturity Measures**
- **Maturity Measures History**
- **Hypothetical Termination Liability**

Future Investment Return Scenarios

Analysis using the investment return scenarios from the Asset Liability Management process completed in 2021 was performed to determine the effects of various future investment returns on required employer contributions. The projections below reflect the impact of the CalPERS Funding Risk Mitigation policy. The projections also assume that all other actuarial assumptions will be realized and that no further changes in assumptions, contributions, benefits, or funding will occur.

The first table shows projected contribution requirements if the fund were to earn either 3.0% or 10.8% annually. These alternate investment returns were chosen because 90% of long-term average returns are expected to fall between them over the 20-year period ending June 30, 2041.

Assumed Annual Return FY 2021-22 through 2040-41	Projected Employer Contributions				
	2024-25	2025-26	2026-27	2027-28	2028-29
3.0% (5th percentile)					
Normal Cost Rate	8.0%	8.0%	8.0%	8.0%	8.0%
UAL Contribution	\$0	\$390	\$1,700	\$3,900	\$7,100
10.8% (95th percentile)					
Normal Cost Rate	8.2%	8.4%	8.6%	8.8%	8.5%
UAL Contribution	\$0	\$0	\$0	\$0	\$0

Required contributions outside of this range are also possible. In particular, whereas it is unlikely that investment returns will average less than 3.0% or greater than 10.8% over a 20-year period, the likelihood of a single investment return less than 3.0% or greater than 10.8% in any given year is much greater. The following analysis illustrates the effect of an extreme, single year investment return.

The portfolio has an expected volatility (or standard deviation) of 12.0% per year. Accordingly, in any given year there is a 16% probability that the annual return will be -5.2% or less and a 2.5% probability that the annual return will be -17.2% or less. These returns represent one and two standard deviations below the expected return of 6.8%.

The following table shows the effect of a one or two standard deviation investment loss in FY 2021-22 on the FY 2024-25 contribution requirements. Note that a single-year investment gain or loss decreases or increases the required UAL contribution amount incrementally for each of the next five years, not just one, due to the 5-year ramp in the amortization policy. However, the contribution requirements beyond the first year are also impacted by investment returns beyond the first year. Historically, significant downturns in the market are often followed by higher than average returns. Such investment gains would offset the impact of these single year negative returns in years beyond FY 2024-25.

Assumed Annual Return for Fiscal Year 2021-22	Required Employer Contributions	Projected Employer Contributions
	2023-24	2024-25
(17.2)% (2 standard deviation loss)		
Normal Cost Rate	8.00%	8.0%
UAL Contribution	\$0	\$4,100
(5.2)% (1 standard deviation loss)		
Normal Cost Rate	8.00%	8.0%
UAL Contribution	\$0	\$1,400

- Without investment gains (returns higher than 6.8%) in year FY 2022-23 or later, projected contributions rates would continue to rise over the next four years due to the continued phase-in of the impact of the illustrated investment loss in FY 2021-22.
- The Pension Outlook Tool can be used to model projected contributions for these scenarios beyond FY 2024-25 as well as to model other investment return scenarios.

Discount Rate Sensitivity

The discount rate assumption is calculated as the sum of the assumed real rate of return and the assumed annual price inflation, currently 4.5% and 2.3%, respectively. Changing either the price inflation assumption or the real rate of return assumption will change the discount rate. The sensitivity of the valuation results to the discount rate assumption depends on which component of the discount rate is changed. Shown below are various valuation results as of June 30, 2021 assuming alternate discount rates by changing the two components independently. Results are shown using the current discount rate of 6.8% as well as alternate discount rates of 5.8% and 7.8%. The rates of 5.8% and 7.8% were selected since they illustrate the impact of a 1.0% increase or decrease to the 6.8% assumption.

Sensitivity to the Real Rate of Return Assumption

As of June 30, 2021	1% Lower Real Return Rate	Current Assumptions	1% Higher Real Return Rate
Discount Rate	5.8%	6.8%	7.8%
Inflation	2.3%	2.3%	2.3%
Real Rate of Return	3.5%	4.5%	5.5%
a) Total Normal Cost	20.35%	16.25%	13.13%
b) Accrued Liability	\$1,011,673	\$844,675	\$714,555
c) Market Value of Assets	\$928,207	\$928,207	\$928,207
d) Unfunded Liability/(Surplus) [(b) - (c)]	\$83,466	(\$83,532)	(\$213,652)
e) Funded Ratio	91.7%	109.9%	129.9%

Sensitivity to the Price Inflation Assumption

As of June 30, 2021	1% Lower Inflation Rate	Current Assumptions	1% Higher Inflation Rate
Discount Rate	5.8%	6.8%	7.8%
Inflation	1.3%	2.3%	3.3%
Real Rate of Return	4.5%	4.5%	4.5%
a) Total Normal Cost	17.13%	16.25%	14.77%
b) Accrued Liability	\$889,411	\$844,675	\$769,201
c) Market Value of Assets	\$928,207	\$928,207	\$928,207
d) Unfunded Liability/(Surplus) [(b) - (c)]	(\$38,796)	(\$83,532)	(\$159,006)
e) Funded Ratio	104.4%	109.9%	120.7%

Mortality Rate Sensitivity

The following table looks at the change in the June 30, 2021 plan costs and funded status under two different longevity scenarios, namely assuming post-retirement rates of mortality are 10% lower or 10% higher than our current mortality assumptions adopted in 2021. This type of analysis highlights the impact on the plan of improving or worsening mortality over the long-term.

As of June 30, 2021	10% Lower Mortality Rates	Current Assumptions	10% Higher Mortality Rates
a) Total Normal Cost	16.54%	16.25%	15.98%
b) Accrued Liability	\$859,913	\$844,675	\$830,904
c) Market Value of Assets	\$928,207	\$928,207	\$928,207
d) Unfunded Liability/(Surplus) [(b) - (c)]	(\$68,294)	(\$83,532)	(\$97,303)
e) Funded Ratio	107.9%	109.9%	111.7%

Maturity Measures

As pension plans mature they become more sensitive to risks. Understanding plan maturity and how it affects the ability of a pension plan sponsor to tolerate risk is important in understanding how the pension plan is impacted by investment return volatility, other economic variables and changes in longevity or other demographic assumptions. Since it is the employer that bears the risk, it is appropriate to perform this analysis on a pension plan level considering all rate plans. The following measures are for one rate plan only.

One way to look at the maturity level of CalPERS and its plans is to look at the ratio of a plan's retiree liability to its total liability. A pension plan in its infancy will have a very low ratio of retiree liability to total liability. As the plan matures, the ratio starts increasing. A mature plan will often have a ratio above 60%-65%.

Ratio of Retiree Accrued Liability to Total Accrued Liability	June 30, 2020	June 30, 2021
1. Retired Accrued Liability	\$0	\$0
2. Total Accrued Liability	637,269	844,675
3. Ratio of Retiree AL to Total AL [(1) / (2)]	0.00	0.00

Another measure of maturity level of CalPERS and its plans is to look at the ratio of actives to retirees, also called the support ratio. A pension plan in its infancy will have a very high ratio of active to retired members. As the plan matures and members retire, the ratio declines. A mature plan will often have a ratio near or below one.

To calculate the support ratio for the rate plan, retirees and beneficiaries receiving a continuance are each counted as one, even though they may have only worked a portion of their careers as an active member of this rate plan. For this reason, the support ratio, while intuitive, may be less informative than the ratio of retiree liability to total accrued liability above. For comparison, the support ratio for all CalPERS public agency plans is 0.82 and is calculated consistently with how it is for the individual rate plan. Note that to calculate the support ratio for all public agency plans, a retiree with service from more than one CalPERS agency is counted as a retiree more than once.

Support Ratio	June 30, 2020	June 30, 2021
1. Number of Actives	11	17
2. Number of Retirees	0	0
3. Support Ratio [(1) / (2)]	N/A	N/A

Maturity Measures (Continued)

The actuarial calculations supplied in this communication are based on various assumptions about long-term demographic and economic behavior. Unless these assumptions (e.g., terminations, deaths, disabilities, retirements, salary growth, investment return) are exactly realized each year, there will be differences on a year-to-year basis. The year-to-year differences between actual experience and the assumptions are called actuarial gains and losses and serve to lower or raise required employer contributions from one year to the next. Therefore, employer contributions will inevitably fluctuate, especially due to the ups and downs of investment returns.

Asset Volatility Ratio

Shown in the table below is the asset volatility ratio (AVR), which is the ratio of market value of assets to payroll. Plans that have higher AVR experience more volatile employer contributions (as a percentage of payroll) due to investment return. For example, a plan with an asset-to-payroll ratio of 8 may experience twice the contribution volatility due to investment return volatility than a plan with an asset-to-payroll ratio of 4. It should be noted that this ratio is a measure of the current situation. It increases over time but generally tends to stabilize as the plan matures.

Liability Volatility Ratio

Also shown in the table below is the liability volatility ratio (LVR), which is the ratio of accrued liability to payroll. Plans that have a higher LVR experience more volatile employer contributions (as a percentage of payroll) due to changes in liability. For example, a plan with LVR ratio of 8 is expected to have twice the contribution volatility of a plan with LVR of 4. It should be noted that this ratio indicates a longer-term potential for contribution volatility, since the AVR, described above, will tend to move closer to the LVR as the funded ratio approaches 100%.

Contribution Volatility	June 30, 2020	June 30, 2021
1. Market Value of Assets	\$592,387	\$928,207
2. Payroll	741,522	1,124,991
3. Asset Volatility Ratio (AVR) [(1) / (2)]	0.8	0.8
4. Accrued Liability	\$637,269	\$844,675
5. Liability Volatility Ratio (LVR) [(4) / (2)]	0.9	0.8

Maturity Measures History

Valuation Date	Ratio of Retiree Accrued Liability to Total Accrued Liability	Support Ratio	Asset Volatility Ratio	Liability Volatility Ratio
06/30/2017	0.00	N/A	0.5	0.6
06/30/2018	0.00	N/A	0.7	0.8
06/30/2019	0.00	N/A	0.8	0.9
06/30/2020	0.00	N/A	0.8	0.9
06/30/2021	0.00	N/A	0.8	0.8

Hypothetical Termination Liability

The hypothetical termination liability is an estimate of the financial position of the plan had the contract with CalPERS been terminated as of June 30, 2021. The plan liability on a termination basis is calculated differently compared to the plan's ongoing funding liability. For the hypothetical termination liability calculation, both compensation and service are frozen as of the valuation date and no future pay increases or service accruals are assumed. This measure of funded status is not appropriate for assessing the need for future employer contributions in the case of an ongoing plan, that is, for an employer that continues to provide CalPERS retirement benefits to active employees.

A more conservative investment policy and asset allocation strategy was adopted by the board for the Terminated Agency Pool. The Terminated Agency Pool has limited funding sources since no future employer contributions will be made. Therefore, expected benefit payments are secured by risk-free assets and benefit security for members is increased while limiting the funding risk. However, this asset allocation has a lower expected rate of return than the PERF and consequently, a lower discount rate is assumed. The lower discount rate for the Terminated Agency Pool results in higher liabilities for terminated plans.

The effective termination discount rate will depend on actual market rates of return for risk-free securities on the date of termination. As market discount rates are variable, the table below shows a range for the hypothetical termination liability based on the lowest and highest interest rates observed during an approximate 19-month period from 12 months before the valuation date to seven months after.

Market Value of Assets (MVA)	Hypothetical Termination Liability^{1,2} at 1.00%	Funded Ratio	Unfunded Termination Liability at 1.00%	Hypothetical Termination Liability^{1,2} at 2.25%	Funded Ratio	Unfunded Termination Liability at 2.25%
\$928,207	\$2,427,359	38.2%	\$1,499,152	\$1,822,202	50.9%	\$893,995

¹ The hypothetical liabilities calculated above include a 5% contingency load. The contingency load and other actuarial assumptions can be found in Appendix A.

² The discount rate used for termination valuations is a weighted average of the 10-year and 30-year U.S. Treasury yields where the weights are based on matching asset and liability durations as of the termination date. The discount rates used in the table are based on 20-year Treasury bonds, rounded to the nearest quarter percentage point, which is a good proxy for most plans. The 20-year Treasury yield was 2.00% on June 30, 2021, the valuation date.

In order to terminate the plan, first contact our Pension Contract Services unit to initiate a Resolution of Intent to Terminate. The completed Resolution will allow the plan actuary to provide a preliminary termination valuation with a more up-to-date estimate of the plan liabilities. Before beginning this process, please consult with the plan actuary.

Participant Data

The table below shows a summary of the plan's member data upon which this valuation is based:

	June 30, 2020	June 30, 2021
Active Members		
Counts	11	17
Average Attained Age	53.67	45.65
Average Entry Age to Rate Plan	50.93	43.10
Average Years of Credited Service	2.41	2.30
Average Annual Covered Pay	\$67,411	\$66,176
Annual Covered Payroll	\$741,522	\$1,124,991
Present Value of Future Payroll	\$6,375,649	\$11,514,676
Transferred Members	1	2
Separated Members	9	8
Retired Members and Beneficiaries		
Counts*	0	0
Average Annual Benefits*	\$0	\$0

Counts of members included in the valuation are counts of the records processed by the valuation. Multiple records may exist for those who have service in more than one valuation group. This does not result in double counting of liabilities.

* Values include community property settlements.

List of Class 1 Benefit Provisions

This plan has the additional Class 1 Benefit Provisions:

- Post-Retirement Survivor Allowance (PRSA)

Plan's Major Benefit Options

Shown below is a summary of the major optional benefits for which the agency has contracted. A description of principal standard and optional plan provisions is in Section 2.

	Benefit Group	
Member Category	Misc	
Demographics		
Actives	Yes	
Transfers/Separated	Yes	
Receiving	No	
Benefit Provision		
Benefit Formula	2% @ 62	
Social Security Coverage	No	
Full/Modified	Full	
Employee Contribution Rate	7.25%	
Final Average Compensation Period	Three Year	
Sick Leave Credit	Yes	
Non-Industrial Disability	Standard	
Industrial Disability	No	
Pre-Retirement Death Benefits		
Optional Settlement 2	Yes	
1959 Survivor Benefit Level	Level 3	
Special	No	
Alternate (firefighters)	No	
Post-Retirement Death Benefits		
Lump Sum	\$500	
Survivor Allowance (PRSA)	Yes	
COLA	2%	

PEPRA Member Contribution Rates

The California Public Employees' Pension Reform Act of 2013 (PEPRA) established new benefit formulas, final compensation period, and contribution requirements for "new" employees (generally those first hired into a CalPERS-covered position on or after January 1, 2013). In accordance with Government Code Section 7522.30(b), "new members ... shall have an initial contribution rate of at least 50% of the normal cost rate." The normal cost rate is dependent on the plan of retirement benefits, actuarial assumptions, and demographics of the risk pool, particularly members' entry age. Should the total normal cost rate change by more than 1% from the base total normal cost rate, the new member rate shall be 50% of the new normal cost rate rounded to the nearest quarter percent.

The table below shows the determination of the PEPRA member contribution rates effective July 1, 2023, based on 50% of the total normal cost rate as of the June 30, 2021 valuation.

Rate Plan Identifier	Benefit Group Name	<u>Basis for Current Rate</u>		<u>Rates Effective July 1, 2023</u>			
		Total Normal Cost	Member Rate	Total Normal Cost	Change	Change Needed	Member Rate
26564	Miscellaneous PEPRA Level	14.322%	7.25%	16.25%	1.928%	Yes	8.25%

Section 2

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Risk Pool Actuarial Valuation Information

**Section 2 may be found on the CalPERS website
(www.calpers.ca.gov) in the Forms and
Publications section**

ITEM 4B

Coachella Valley Association of Governments Finance Committee February 27, 2023



STAFF REPORT

Subject: CVAG's Audit for Fiscal Year 2021/22 and Related Reports

Contact: Claude T. Kilgore, Director of Finance/Administration (ckilgore@cvag.org)

Recommendation: Receive and file the Audited Financial Statements for the fiscal year ended June 30, 2022, Report on Internal Controls over Financial Reporting, the Auditor's Communication with Those Charged with Governance, and the Single Audit on Federal Awards

Background: CVAG's Financial Statements Audit Procurement Policy, adopted on June 3, 2002, requires CVAG to obtain from qualified auditing firms, proposals to perform CVAG's annual financial audit every five years. In June 2021, CVAG hired the audit firm of Davis Farr LLP – a firm with an impressive history of professional work in the Coachella Valley – for engagement as CVAG's, as well as the Coachella Valley Conservation Commission's and Desert Community Energy's independent auditor for the five fiscal years starting with Fiscal Year 2020/21. This is the second audit provided by Davis Farr LLP, which will be conducting the audits of CVAG's financial statements under GAAP accounting through fiscal year 2024/25.

Davis Farr LLP performed the annual audit over CVAG's Basic Financial Statements as of June 30, 2022, and for the fiscal year then ended which include the Government-Wide Financial Statements including the Statement of Net Position and Statement of Activities as well as Fund Financial Statements which include Balance Sheet – Governmental Funds, Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position, Statement of Revenues, Expenditures and Changes in fund Balance – Governmental Funds, Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities, and Notes to the Basic Financial Statements. Davis Farr issued an Unmodified Opinion in February 2023, which means that CVAG's Basic Financial Statements present fairly, in all material respects, the respective financial position of CVAG as of June 30, 2022 for the year then ended in accordance with US GAAP (Generally Accepted Accounting Principles).

In accordance with Government Auditing Standards, Davis Farr also issued a report on their consideration of CVAG's internal control over financial reporting and their tests of CVAG's compliance with certain provisions of laws, regulations, contracts, and grant agreements as well as other matters; Davis Farr was not engaged to provide an opinion on internal control over financial reporting or on compliance. During its testing, Davis Farr did not identify any material weaknesses or significant deficiencies in internal controls. Finally, Davis Farr has provided a letter to the CVAG Board of Directors outlining Significant Audit Findings as promulgated by AU-C Section 260, "The Auditor's Communication with Those Charged With Governance."

In accordance with the OMB Compliance Supplement, Davis Farr also issued a Report on Compliance with Each Major Federal Program, Report on Internal Control Over Compliance, and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance. In Davis Farr's opinion, the schedule of expenditures of federal awards prepared by CVAG is fairly stated in all material respects in relation to the basic financial statements as a whole.

CVAG staff appreciated working with, and would like to thank, the Davis Farr team, which was led by Partner Shannon Ayala, for their diligence and hard work in issuing the reports and findings. A member of the Davis Farr team will be available at the CVAG Finance Committee meeting to address member's questions and comments.

Fiscal Analysis: The professional fees associated with the audit were previously budgeted and there is no additional financial impact.

Attachments:

1. Auditor's Communication with Those Charged with Governance
2. CVAG's Audited Financial Statements for the year ended June 30, 2022
3. Single Audit on Federal Awards, including the Report on Internal Controls over Financial Reporting

To the Executive Committee
Coachella Valley Association of Governments
Palm Desert, California

We have audited the financial statements of Coachella Valley Association of Governments (CVAG) as of and for the year ended June 30, 2022, and have issued our report thereon dated February 22, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated June 22, 2022, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

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

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

We have provided our findings regarding significant control deficiencies over financial reporting and material noncompliance, and other matters noted during our audit in a separate letter to you dated February 22, 2023.

Planned Scope and Timing of the Audit

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

Compliance with All Ethics Requirements Regarding Independence

We identified self-review threats to independence as a result of non-attest services provided. Those non-attest services included the preparation of the financial statements and recording journal entries detected during the audit process. To mitigate the risk, management has compared the draft financial statements and footnotes to the underlying accounting records to verify accuracy and has reviewed a disclosure checklist to ensure footnotes are complete and accurate.

Additionally, we utilize a quality control reviewer to perform a second review of journal entries and the financial statements. We believe these safeguards are sufficient to reduce the independence threats to an acceptable level.

Significant Risks Identified

During the planning of the audit, we identified the following as significant risks:

- Risk of errors in implementing GASB 87, the new Lease Standard. We evaluated the applicability of GASB 87 to the CVAG and if necessary, ensure all transactions are properly recorded and the footnote disclosures are properly reflected.
- Risk of errors in recording grant revenues and expenditures due to the significance of grant revenues and expenditures and reviewed the expenditures incurred and related revenues, to ensure proper recording and cutoff.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by CVAG is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2022. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

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

The most sensitive accounting estimates affecting the financial statements are the following:

- Management's estimate of the which capital projects represent ordinary maintenance activities necessary to keep an asset operational for its originally intended useful life versus significant improvement, replacement, and life extending projects that should be capitalized as additions to capital assets is based on management's knowledge of the assets and their useful lives. We evaluated the key factors and assumptions used to develop the amounts added to capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of revenue and expense accruals related federal grant programs. We evaluated the key factors and assumptions used to develop the amounts recorded as accruals and determined that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of transactions related to net pension liabilities based on actuarial information. We evaluated the key factors and assumptions used to develop the amounts by the actuary and determined that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting CVAG's financial statements relate to pension.

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

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. There were no significant unusual transactions identified as a result of our audit procedures.

Identified or Suspected Fraud

We have not identified or have obtained information that indicates fraud may have occurred.

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. We did not identify any uncorrected financial statement misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

- Correction of fair market value of LAIF investment account.
- Corrections to unavailable revenues and revenues.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to CVAG's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. There were none noted.

Representations Requested from Management

We have requested certain written representations from management, which are included in the letter dated February 22, 2023.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

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

This report is intended solely for the information and use of the Executive Committee, and management of CVAG and is not intended to be and should not be used by anyone other than these specified parties.

DavisFarrLLP

Irvine, California
February 22, 2023

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Financial Statements

Year ended June 30, 2022

(With Independent Auditor's Report Thereon)

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Financial Statements

Year ended June 30, 2022

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Independent Auditor's Report

To the Executive Committee
Coachella Valley Association of Governments
Palm Desert, California

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Coachella Valley Association of Governments (CVAG), as of and for the year June 30, 2022, and the related notes to the financial statements, which collectively comprise CVAG's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of CVAG, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CVAG and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

The financial statements for the year ended June 30, 2022 reflect certain prior period adjustments as described further in note 16 to the financial statements. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CVAG's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions.

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CVAG'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 CVAG'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*, *budgetary comparison information* and *pension schedules* be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Summarized Comparative Information

We have previously audited CVAG's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 24 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CVAG's basic financial statements. The *combining nonmajor fund financial statements* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *combining nonmajor fund financial statements* are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *combining nonmajor fund financial statements* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2023 on our consideration of CVAG's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CVAG's internal control over financial reporting and compliance.

DavisFarr LLP

Irvine, California
February 22, 2023

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2022

The following discussion and analysis of the financial performance of Coachella Valley Association of Governments ("CVAG") provides an overview of CVAG's financial activities for the fiscal year ended June 30, 2022. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The *Statement of Net Position* and the *Statement of Activities* provide information about the activities of CVAG as a whole and present a long-term view of CVAG's finances. Also included in the accompanying report are the *fund financial statements*. The fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report CVAG's operations in more detail than the government-wide statements by providing information about CVAG's most significant funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of four parts - *management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, and *supplementary information* that presents *combining statements* for nonmajor governmental funds. The *basic financial statements* include two kinds of statements that present different views of CVAG:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about CVAG's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Association government, reporting CVAG's operations in *more detail* than the government-wide statements.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that provides additional financial and budgetary information.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2022

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Reporting CVAG as a Whole

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

These two statements report CVAG's net position and changes in it. You can think of CVAG's net position - the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources - as one way to measure CVAG's financial health, or *financial position*. Over time, *increases and decreases* in CVAG's net assets are one indicator of whether its *financial health* is improving or deteriorating.

Reporting CVAG's Major Funds

The **fund financial statements** provide detailed information about CVAG's most significant funds - not CVAG as a whole. Some funds are required to be established by grant or legal requirements. However, the Executive Committee establishes other funds to help it control and manage money for particular purposes or to show that it is meeting administrative responsibilities for using certain resources.

Governmental funds - CVAG's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *current financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of CVAG's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance CVAG's programs.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2022

GOVERNMENT-WIDE FINANCIAL STATEMENTS

A summary of the government-wide *statement of net position* follows:

Statement of Net Position

	Fiscal Year 2022	Fiscal Year 2021	Dollar Change	Total Percentage Change
<u>Assets:</u>				
Cash and investments	\$ 55,900,242	\$ 57,483,992	\$ (1,583,750)	(2.76%)
Accounts receivable	49,340	917	48,423	5280.59%
Interest receivable	88,093	42,287	45,806	108.32%
Prepaid	44,144	-	44,144	100.00%
Due from other governments	18,537,606	12,503,824	6,033,782	48.26%
Loans receivable	177,162	187,623	(10,461)	(5.58%)
Restricted cash and investments	14,880,428	15,109,753	(229,325)	(1.52%)
Net pension assets	55,246	-	55,246	100.00%
Capital assets:				
Land and construction in progress	42,479,308	15,696,238	26,783,070	170.63%
Other capital assets, net	958,419	57,989	900,430	1552.76%
Total Assets	<u>133,169,988</u>	<u>101,082,623</u>	<u>32,087,365</u>	31.74%
<u>Deferred Outflows of Resources:</u>				
Deferred pension related items	980,425	1,407,746	(427,321)	(30.35%)
Total Deferred Outflows of Resources	<u>980,425</u>	<u>1,407,746</u>	<u>(427,321)</u>	(30.35%)
<u>Liabilities:</u>				
Current liabilities				
Accounts payable	3,676,821	2,687,998	988,823	36.79%
Due to other governments	3,708,775	8,501,528	(4,792,753)	(56.38%)
Accrued liabilities	70,170	39,236	30,934	100.00%
Deposits payable	14,880,428	15,109,753	(229,325)	(1.52%)

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2022

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

Statements of Net Position (continued)

	Fiscal Year 2022	Fiscal Year 2021	Dollar Change	Total Percentage Change
<u>Liabilities (continued):</u>				
Noncurrent liabilities:				
Due within one year:				
Revenue bonds payable	2,010,337	1,893,146	117,191	6.19%
Compensated absences	102,281	113,357	(11,076)	(9.77%)
Due in more than one year:				
Revenue bonds payable	15,469,942	17,480,279	(2,010,337)	(11.50%)
Compensated absences	34,093	37,785	(3,692)	(9.77%)
Net pension liability	-	1,631,820	(1,631,820)	(100.00%)
Total Liabilities	<u>39,952,847</u>	<u>47,494,902</u>	<u>(7,542,055)</u>	(15.88%)
<u>Deferred Inflows of Resources:</u>				
Deferred pension related items	<u>412,425</u>	<u>661,013</u>	<u>(248,588)</u>	(37.61%)
Total Deferred Inflows of Resources	<u>412,425</u>	<u>661,013</u>	<u>(248,588)</u>	(37.61%)
<u>Net Position:</u>				
Investment in capital assets	43,437,727	15,754,227	27,683,500	175.72%
Restricted:				
Transportation	47,981,901	36,185,599	11,796,302	32.60%
Environmental	787,146	501,135	286,011	57.07%
Homeless	2,566,746	1,786,498	780,248	43.67%
Unrestricted	<u>(988,379)</u>	<u>106,995</u>	<u>(1,095,374)</u>	(1023.76%)
Total Net Position	<u>\$ 93,785,141</u>	<u>\$ 54,334,454</u>	<u>\$ 39,450,687</u>	72.61%

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2022

A summary of the government-wide *statement of activities* follows:

Statements of Activities

	Fiscal Year 2022	Fiscal Year 2021	Dollar Change	Total Percentage Change
<u>Operating Expenses:</u>				
Administrative	\$ 867,735	\$ 1,734,634	\$ (866,899)	(49.98%)
Transportation	17,495,835	22,696,616	(5,200,781)	(22.91%)
Other	2,092,827	2,064,812	28,015	1.36%
Interest expense	1,119,087	1,229,338	(110,251)	(8.97%)
Total Expenses	<u>21,575,484</u>	<u>27,725,400</u>	<u>(6,149,916)</u>	(22.18%)
<u>Program Revenues:</u>				
Charges for services	1,440,293	1,330,421	109,872	8.26%
Operating contributions and grants	14,707,218	8,706,961	6,000,257	68.91%
Capital contributions and grants	41,204,924	23,075,935	18,128,989	78.56%
<u>General Revenues:</u>				
Interest income (loss)	(692,570)	73,454	(766,024)	(1042.86%)
Total Revenues	<u>56,659,865</u>	<u>33,186,771</u>	<u>23,473,094</u>	70.73%
Changes in Net Position	35,084,381	5,461,371	29,623,010	542.41%
Net Position – Beginning, as Restated	<u>58,700,760</u>	<u>48,873,083</u>	<u>9,827,677</u>	20.11%
Net Position - Ending	<u>\$ 93,785,141</u>	<u>\$ 54,334,454</u>	<u>\$ 39,450,687</u>	72.61%

The increase or decrease in net position can provide an indication as to whether the overall financial position of CVAG improved or deteriorated during the year. Net Position of CVAG's governmental activities increased by 72.61 percent (\$54.3 million compared to \$93.8 million) largely attributable to the investment of fixed assets related to the CV Link and CV Sync projects. Additionally, as is true for all funds, interest rates on investments at Riverside County Treasurer's Pooled Investment Fund hovered near historic lows during fiscal year 2021/22 resulting in minimal interest income. In addition, investment losses began in September 2021 as book yield percentages ticked up while the Federal Reserve (Fed) announced it would begin reducing its asset purchases. This culminated with the departure from 0% short-term interest rates in March 2022 when the Fed instituted the first rate hike since 2018. To slow inflation growth, the Fed again raised their overnight borrowing rate by a half percent in May. When interest rates increase investment losses typically follow as bonds prices and interest rates have an inverse relationship. Given the current economic outlook, investment losses may continue in the near term as yields and related interest income are expected to continue to increase.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2022

MAJOR FUNDS

General Fund - The General Fund accounts for all of the general revenues of CVAG not specifically levied or collected for some special purpose, and for the expenditures related to the rendering of general services by CVAG. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,914,933.

The reasons for significant changes in the revenues and expenditures of CVAG's General Fund from the prior year are as follows:

- An increase in the base membership dues led to an increase in revenue for the fund.
- A decrease in personnel costs led to a decrease in expenditures to the fund as personnel expenditures were allocated based on time charged which saw an increase in work performed for CVAG's various other programs.

Transportation Uniform Mitigation Fees (TUMF) Fund - The TUMF Fund accounts for the revenues generated by the Traffic Mitigation Fees and provides additional funds necessary to construct the transportation improvements generated by the development in the valley. At the end of the current fiscal year, the total fund balance was \$10,919,048.

The reasons for significant changes in the revenues and expenditures of CVAG's TUMF Fund from the prior year are as follows:

- An increase in Total Revenues by \$4,956,224 is mainly due to an increase in TUMF revenues collected in the current fiscal year as opposed to the prior fiscal year which saw a decline in revenue due to the global Covid-19 pandemic. In addition, the TUMF fee rate increased during the fiscal year.
- A decrease in Total Expenditures by \$485,054 is mainly due to a decrease in Project Cost reimbursements, which are dependent on work completed on various arterial projects as well as the timing of the jurisdictions submitting requests for reimbursements.

Measure A Fund - The Measure A Fund accounts for the revenues generated by the Measure A half-cent sales tax and is used mainly for the construction and/or improvement of the regional arterials in the Coachella Valley. At the end of the current fiscal year, the total fund balance was \$49,509,164.

The reasons for significant changes in the revenues and expenditures of CVAG's Measure A Fund from the prior year are as follows:

- An increase in Measure A revenues by \$14,155,152 is mainly due to a decrease in Measure A revenues recorded. This increase does not have a direct relationship to the actual amount of sales tax collected, but the amount of reimbursement that was requested by CVAG. Please see Note 14 for further clarification.
- An increase in Total Expenditures by \$292,690 is mainly due to a Project Cost reimbursements, which are dependent on work completed on various arterial projects. Project costs were relatively stable for the fiscal year.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2022

CV Link Fund - The CV Link Fund is used for the construction of the CV Link project in the Coachella Valley. At the end of the current fiscal year, the total fund balance was \$0.

The reasons for significant changes in the revenues and expenditures of CVAG's CV Link Fund from the prior year are as follows:

- An increase in Total Revenues by \$9,094,643 is mainly due to an increase in funds received from reimbursement related to project costs as the project is moving along in the construction phase.
- An increase in Total Expenditures by \$4,580,067 is mainly due to an increase in construction work on the CV Link as compared to the prior year.

CV Sync Fund - The CV Sync Fund is used for the construction and preparation of the CV Sync project in the Coachella Valley which provides traffic signal synchronization utilizing broadband fiber networks. At the end of the current fiscal year, the total fund balance was (\$3,568,998). The fund deficit is due to revenue on grant funds that was not received within the 120-day period of availability for fund level financial statements.

The reasons for significant changes in the revenues and expenditures of CVAG's CV Sync Fund from the prior year are as follows:

- An increase in Total Revenues by \$3,741,661 is mainly due to an increase in funds received from grants and Measure A related to project costs as the traffic signal synchronization project moves forward into construction and soon to be operations.
- An increase in Total Expenditures by \$12,869,378 is mainly due to an increase in construction work and project costs on the project as compared to the prior year.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2022

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

A summary of CVAG's *capital assets* follows:

Capital Assets
(net of depreciation)

	Balance June 30, 2022	Balance June 30, 2021	Increase (Decrease)
Land and construction in progress	\$ 42,479,308	\$ 15,696,238	\$ 26,783,070
Furniture and equipment	12,609	17,035	(4,426)
Easement	924,513	581,508	343,005
Vehicles	21,297	40,954	(19,657)
Total	<u>\$ 43,437,727</u>	<u>\$ 16,335,735</u>	<u>\$ 27,101,992</u>

The decrease to Furniture and Equipment and Vehicles is mainly due to depreciation. The increase to Land and construction in progress is due to project costs related to the CV Link and CV Sync projects.

Additional information on CVAG's capital assets is presented in Note 7 of the Notes to Basic Financial Statements.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2022

DEBT ADMINISTRATION

The activity affecting long term debt was related to revenue bonds and compensated absences.

Long-Term Debt

	Balance June 30, 2022	Balance June 30, 2021	Increase (Decrease)
Revenue bonds payable	\$ 17,480,279	\$ 19,373,425	\$ (1,893,146)
Compensated absences	136,374	151,142	(14,768)
Total	<u>\$ 17,616,653</u>	<u>\$ 19,524,567</u>	<u>\$ (1,907,914)</u>

Additional information on long-term debt is presented in Note 9 and 10 of the Notes to Basic Financial Statements.

GENERAL FUND BUDGET

Overall, the General Fund balance increased by \$264,613. Actual revenues were consistent with budgeted revenue amounts and actual expenditures were less than budgeted expenditures by \$188,371. There was an operating transfer in demonstrated for budgetary purposes not utilized for financial reporting purposes. Although salaries and benefits were slightly over budget, the salaries and benefits of the agency as a whole were under budget. Capital outlays budgeted for tenant improvements were not incurred as expected for the year-ended June 30, 2022. For additional details on budget versus actual variances, refer to the Required Supplementary Information starting on page 51.

CONTACTING THE ASSOCIATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, members, and resource providers with a general overview of CVAG's finances and to show CVAG's accountability for the money it receives. If you have questions about this report or need additional financial information, contact CVAG's Office, attention Director of Administrative Services Department, at 73710 Fred Waring Drive, Suite 200, Palm Desert, California 92260.

BASIC FINANCIAL STATEMENTS

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COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Statement of Net Position

June 30, 2022

(with comparative prior year information)

	Governmental Activities	
	2022	2021
Assets:		
Cash and investments (note 3)	\$ 55,900,242	57,483,992
Accounts receivable	49,340	917
Interest receivable	88,093	42,287
Prepaid items	44,144	-
Loans receivable (note 4)	177,162	187,623
Due from other governments	18,537,606	12,503,824
Restricted cash and investments (note 3)	14,880,428	15,109,753
Net pension asset (note 12)	55,246	-
Capital assets, not being depreciated (note 7)	42,479,308	15,696,238
Capital assets, net of depreciation (note 7)	958,419	57,989
Total Assets	<u>133,169,988</u>	<u>101,082,623</u>
Deferred Outflows of Resources:		
Deferred amounts from pension plans (note 12)	<u>980,425</u>	<u>1,407,746</u>
Total Deferred Outflows of Resources	<u>980,425</u>	<u>1,407,746</u>
Liabilities:		
Accounts payable	3,676,821	2,687,998
Accrued liabilities	70,170	39,236
Deposits payable	14,880,428	15,109,753
Due to other governments	3,708,775	8,501,528
Noncurrent Liabilities		
Due within one year		
Bonds payable (note 9)	2,010,337	1,893,146
Compensated absences (note 10)	102,281	113,357
Due in more than one year		
Bonds payable (note 9)	15,469,942	17,480,279
Compensated absences (note 10)	34,093	37,785
Net pension liability (note 13)	-	1,631,820
Total Liabilities	<u>39,952,847</u>	<u>47,494,902</u>
Deferred Inflows of Resources:		
Deferred amounts from pension plans (note 12)	<u>412,425</u>	<u>661,013</u>
Total Deferred Inflows of Resources	<u>412,425</u>	<u>661,013</u>
Net Position:		
Investment in capital assets	43,437,727	15,754,227
Restricted:		
Transportation	47,981,901	36,185,599
Environmental	787,146	501,135
Homeless	2,566,746	1,786,498
Unrestricted	(988,379)	106,995
Total Net Position	<u>\$ 93,785,141</u>	<u>54,334,454</u>

See accompanying notes to the basic financial statements.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Statement of Activities

Year ended June 30, 2022

(with comparative prior year information)

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Governmental Activities	
					2022	2021
Governmental Activities:						
Administrative	\$ 867,695	1,440,293	491,424	-	1,064,022	57,078
Transportation	17,495,875	-	11,148,940	41,204,964	34,858,029	5,898,397
Other	2,092,827	-	3,066,814	-	973,987	661,780
Interest expense	1,119,087	-	-	-	(1,119,087)	(1,229,338)
Total Governmental Activities	<u>\$ 21,575,484</u>	<u>1,440,293</u>	<u>14,707,178</u>	<u>41,204,964</u>	<u>35,776,951</u>	<u>5,387,917</u>
General Revenues:						
			Investment income (loss)		(692,570)	73,454
			Total General Revenues		(692,570)	73,454
Change in Net Position					35,084,381	5,461,371
Net Position - Beginning, as Restated (note 16)					58,700,760	48,873,083
Net Position - Ending					<u>\$ 93,785,141</u>	<u>54,334,454</u>

See accompanying notes to the basic financial statements.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Balance Sheet - Governmental Funds

June 30, 2022

(with comparative prior year information)

	<u>General</u>	<u>TUMF</u>	<u>Measure A</u>	<u>CV Link</u>
Assets:				
Cash and investments	\$ 1,210,580	10,168,998	41,912,277	380,407
Accounts receivable	1,200	-	-	-
Interest receivable	3,446	54,753	26,406	-
Prepaid items	25,984	-	-	-
Due from other governments	752	1,854,599	9,159,421	1,160,584
Due from other funds (note 5)	703,019	-	2,585,450	-
Restricted cash and investments	-	-	14,880,428	-
Total Assets	<u>\$ 1,944,981</u>	<u>12,078,350</u>	<u>68,563,982</u>	<u>1,540,991</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:				
Liabilities:				
Accounts payable	\$ 25,150	21,988	270,664	1,497,984
Accrued liabilities	4,598	5,186	8,164	3,425
Due to other governments	-	1,031,806	2,575,288	39,582
Due to other funds (note 5)	-	10,597	19,680	-
Deposits payable	-	-	14,880,428	-
Total Liabilities	<u>29,748</u>	<u>1,069,577</u>	<u>17,754,224</u>	<u>1,540,991</u>
Deferred Inflows of Resources:				
Unavailable revenues	<u>300</u>	<u>89,725</u>	<u>1,300,594</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>300</u>	<u>89,725</u>	<u>1,300,594</u>	<u>-</u>
Fund Balances (Deficits):				
Nonspendable	25,984	-	-	-
Restricted:				
Transportation	-	10,919,048	49,435,310	-
Environmental	-	-	-	-
Homeless	-	-	-	-
Unassigned	<u>1,914,933</u>	<u>-</u>	<u>73,854</u>	<u>-</u>
Total Fund Balances (Deficits)	<u>1,914,933</u>	<u>10,919,048</u>	<u>49,509,164</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficits)	<u>\$ 1,944,981</u>	<u>12,078,350</u>	<u>68,563,982</u>	<u>1,540,991</u>

See accompanying notes to the basic financial statements.

	CV Sync	Other Governmental Funds	Total Governmental Funds	
			2022	2021
Assets:				
Cash and investments	-	2,227,980	55,900,242	57,483,992
Accounts receivable	-	48,140	49,340	917
Interest receivable	-	3,488	88,093	42,287
Prepaid items	-	18,160	44,144	-
Due from other governments	3,568,999	2,793,251	18,537,606	12,503,824
Due from other funds (note 5)	-	30,277	3,318,746	5,974,779
Restricted cash and investments	-	-	14,880,428	15,109,753
Total Assets	<u>3,568,999</u>	<u>5,121,296</u>	<u>92,818,599</u>	<u>91,115,552</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:				
Liabilities:				
Accounts payable	1,772,333	88,702	3,676,821	2,687,998
Accrued liabilities	3,904	44,893	70,170	39,236
Due to other governments	-	62,099	3,708,775	8,501,528
Due to other funds (note 5)	1,792,761	1,495,708	3,318,746	5,974,779
Deposits payable	-	-	14,880,428	15,109,753
Total Liabilities	<u>3,568,998</u>	<u>1,691,402</u>	<u>25,654,940</u>	<u>32,313,294</u>
Deferred Inflows of Resources:				
Unavailable revenues	<u>3,568,999</u>	<u>124,098</u>	<u>5,083,716</u>	<u>6,429,265</u>
Total Deferred Inflows of Resources	<u>3,568,999</u>	<u>124,098</u>	<u>5,083,716</u>	<u>6,429,265</u>
Fund Balances (Deficits):				
Nonspendable	-	18,160	44,144	-
Restricted:				
Transportation	-	24,106	60,378,464	49,129,759
Environmental	-	713,409	713,409	501,135
Homeless	-	2,618,606	2,618,606	1,786,498
Unassigned	<u>(3,568,998)</u>	<u>(50,325)</u>	<u>(1,630,536)</u>	<u>955,601</u>
Total Fund Balances (Deficits)	<u>(3,568,998)</u>	<u>3,305,796</u>	<u>62,079,943</u>	<u>52,372,993</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficits)				
	<u>3,568,999</u>	<u>5,121,296</u>	<u>92,818,599</u>	<u>91,115,552</u>

See accompanying notes to the basic financial statements.

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COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

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

June 30, 2022

Fund Balances of Governmental Funds \$ 62,079,943

Amounts reported for governmental activities in the statement of net position
are different because:

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported in the funds.

Capital assets	44,215,979
Accumulated depreciation	(778,252)

Loans receivable that have not been included in the governmental fund activity that do not provide current financial resources and are recognized in the statement of activities.	177,162
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Net pension asset that have not been included in the governmental fund activity that do not provide current financial resources and are recognized in the statement of activities.	55,246
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Long-term liabilities are not due and payable in the current period and,
therefore, are not reported in the governmental funds.

Bonds payable	(17,480,279)
Compensated absences	(136,374)

Revenues reported as unavailable revenue in the governmental funds and recognized in the statement of activities. These are included in intergovernmental revenues in the governmental fund activity.	5,083,716
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Deferred outflows and inflows of resources related to pensions have not
been reported in the governmental funds.

Deferred outflows of resources related to pensions	980,425
--	---------

Deferred inflows of resources related to pensions	<u>(412,425)</u>
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Net Position of Governmental Activities	<u>\$ 93,785,141</u>
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See accompanying notes to the basic financial statements.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

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

Year ended June 30, 2022

(with comparative prior year information)

	<u>General</u>	<u>TUMF</u>	<u>Measure A</u>	<u>CV Link</u>
Revenues:				
Member dues	\$ 470,654	-	-	-
Mitigation fees	-	10,879,891	-	-
Measure A	-	-	21,810,214	-
Grants	-	-	-	15,363,242
Investment income (loss)	(14,937)	(110,287)	(547,569)	158
Loan repayments	-	-	10,461	-
Other governmental	-	913,610	2,271,161	1,670,000
Miscellaneous	<u>35,707</u>	<u>-</u>	<u>-</u>	<u>26,816</u>
Total Revenues	<u>491,424</u>	<u>11,683,214</u>	<u>23,544,267</u>	<u>17,060,216</u>
Expenditures:				
Current:				
Salaries	117,412	183,458	308,536	90,870
Benefits	48,018	74,147	125,112	47,580
Communications	2,252	3,509	5,874	2,630
Advertising	737	996	1,730	284
Insurance	4,678	7,468	13,686	5,309
Memberships and per diem	11,110	3,055	5,509	881
General and office expenses	5,673	11,115	17,863	6,989
Professional services	7,452	134,435	242,249	15,067
Consultants	14,043	95,513	903,916	722,046
Leases and maintenance	7,714	12,545	20,508	8,659
Staff training	793	1,663	2,795	935
Transportation and meetings	5,363	1,748	3,180	284
Utilities	1,566	1,181	1,905	806
Project costs	-	3,934,443	8,287,022	14,982,476
Capital outlay	-	-	-	-
Debt service:				
Principal retirement	-	-	1,893,146	-
Interest and fiscal charges	-	-	<u>1,119,087</u>	-
Total Expenditures	<u>226,811</u>	<u>4,465,276</u>	<u>12,952,118</u>	<u>15,884,816</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>264,613</u>	<u>7,217,938</u>	<u>10,592,149</u>	<u>1,175,400</u>
Other Financing Sources (Uses):				
Transfers in (note 6)	-	-	1,358,281	185,810
Transfers out (note 6)	-	-	<u>(6,135,079)</u>	<u>(1,356,755)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(4,776,798)</u>	<u>(1,170,945)</u>
Net Change in Fund Balances	264,613	7,217,938	5,815,351	4,455
Fund Balance (Deficit) - Beginning, as Restated (note 16)	<u>1,650,320</u>	<u>3,701,110</u>	<u>43,693,813</u>	<u>(4,455)</u>
Fund Balance (Deficit) - Ending	<u>\$ 1,914,933</u>	<u>10,919,048</u>	<u>49,509,164</u>	<u>-</u>

See accompanying notes to the basic financial statements.

		Other Governmental	Total Governmental Funds	
	CV Sync	Funds	2022	2021
Revenues:				
Member dues	-	-	470,654	450,834
Mitigation fees	-	-	10,879,891	6,490,521
Measure A	-	-	21,810,214	8,631,243
Grants	4,359,267	644,859	20,367,368	8,521,011
Investment income (loss)	560	(35,432)	(707,507)	73,089
Loan repayments	-	-	10,461	643,070
Other governmental	-	5,707,666	10,562,437	3,986,407
Miscellaneous	-	55,546	118,069	273,254
Total Revenues	<u>4,359,827</u>	<u>6,372,639</u>	<u>63,511,587</u>	<u>29,069,429</u>
Expenditures:				
Current:				
Salaries	35,065	1,380,712	2,116,053	1,899,680
Benefits	13,719	561,379	869,955	937,788
Communications	2,028	26,384	42,677	36,869
Advertising	245	13,181	17,173	21,224
Insurance	3,520	52,533	87,194	88,042
Memberships and per diem	653	13,001	34,209	30,536
General and office expenses	5,364	193,187	240,191	150,842
Professional services	5,631	96,813	501,647	1,128,300
Consultants	-	153,455	1,888,973	4,249,947
Leases and maintenance	6,619	326,913	382,958	335,734
Staff training	755	9,915	16,856	8,583
Transportation and meetings	218	28,319	39,112	19,625
Utilities	609	36,780	42,847	19,678
Project costs	14,566,571	1,031,133	42,801,645	22,575,713
Capital outlay	-	-	-	-
Debt service:				
Principal retirement	-	-	1,893,146	1,782,895
Interest and fiscal charges	-	-	1,119,087	1,229,338
Total Expenditures	<u>14,640,997</u>	<u>3,923,705</u>	<u>52,093,723</u>	<u>34,514,794</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(10,281,170)</u>	<u>2,448,934</u>	<u>11,417,864</u>	<u>(5,445,365)</u>
Other Financing Sources (Uses):				
Transfers in (note 6)	6,834,849	185,296	8,564,236	5,634,351
Transfers out (note 6)	<u>(1,526)</u>	<u>(1,070,876)</u>	<u>(8,564,236)</u>	<u>(5,634,351)</u>
Total Other Financing Sources (Uses)	<u>6,833,323</u>	<u>(885,580)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>(3,447,847)</u>	<u>1,563,354</u>	<u>11,417,864</u>	<u>(5,445,365)</u>
Fund Balance (Deficit) - Beginning, as Restated (note 16)	<u>(121,151)</u>	<u>1,742,442</u>	<u>50,662,079</u>	<u>57,818,358</u>
Fund Balance (Deficit) - Ending	<u>(3,568,998)</u>	<u>3,305,796</u>	<u>62,079,943</u>	<u>52,372,993</u>

See accompanying notes to the basic financial statements.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

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

Year ended June 30, 2022

Net Change in Fund Balances - Total Governmental Funds \$ 11,417,864

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

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the costs of these assets are allocated over their
estimated useful lives as depreciation expense.

Cost of assets capitalized	27,146,011
Depreciation expense	(44,019)

Repayment of bond principal is an expenditure in the governmental funds, but
the repayment reduces long-term liabilities in the statement of net position.

	1,893,146
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Repayment on loans receivable are recorded as a reduction of the loan
receivable balance for the statement of activities.

	(10,461)
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Revenues are reported as unavailable revenue in the governmental funds and
recognized in the statement of activities. These are included in the
intergovernmental revenues in the governmental fund activity.

	(6,841,261)
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Some expenses reported in the statements of activities do not require the use
of current financial resources and, therefore, are not reported as expenditures
in the governmental funds.

Change in compensated absences	14,768
Changes in net pension liability and related deferred inflows and outflows of resources	<u>1,508,333</u>

Change in Net Position of Governmental Activities	<u>\$ 35,084,381</u>
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See accompanying notes to the basic financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 1: Summary of Significant Accounting Policies

(a) Description of Reporting Entity

The Coachella Valley Association of Governments (CVAG) was formed under California's Joint Powers Law on January 22, 1974 for the purpose of improving and coordinating the common governmental responsibilities and services on an area-wide and regional basis under Section 6500 et. seq. of the Government Code.

During its early years, CVAG served as an environmental watch dog and as a forum for the exchange of ideas. In 1984, as a result of a major rethinking of CVAG's purpose, goals and objectives, CVAG's work was expanded to include providing direct services along with its prior work. The basic financial statements of CVAG include all activities for which CVAG is financially accountable.

In June 1989, CVAG's Joint Powers Agreement was amended to provide additional powers that could be used to operate programs created through implementing agreements. The first such agreement was to make CVAG the Transportation Authority for the Coachella Valley. As this Authority, CVAG has the responsibility to coordinate the building of \$890,000,000 worth of regional arterials and advise the Riverside County Transportation Commission (RCTC) on State highway projects on Highways 86 and 111. The philosophy behind the new agreements is that CVAG should serve as an umbrella, for programs that might otherwise become single purpose special districts that could operate without concern for how their operations affect each other and general-purpose local governments. The structure of CVAG assures that regional programs will be integrated with each other, so we get a better overall result.

In 1991, CVAG and the South Coast Air Quality Management District (SCAQMD) pioneered a new way to address air quality issues around the PM-10 mitigation issue. Instead of promulgating rules for the area, SCAQMD indicates the standards that must be met and works with local government to develop measures tailored to the sub-region that can help it meet the standards.

In early 1992, CVAG and County Waste Management began implementation of the AB 939 garbage reduction plan previously developed by CVAG and its members. The goal is implementation of coordinated valley-wide efforts to meet the State's mandated goals of 25% reduction in waste going into landfills by 1995 and 50% by 2000. CVAG coordinates with Riverside County Waste Management on the implementation of AB939 which mandates reduction of waste disposal to local landfills. AB939 established an integrated framework for program implementation, solid waste planning, and solid waste facility and landfill compliance. Since implementation, CVAG has coordinated annual events for both used oil and tire recycling and often hosts recycling roundtables with member agencies and other counterparts.

Major sources of revenue for CVAG consists of Measure A half-cent sales taxes and Transportation Uniform Mitigation Fees. CVAG has an agreement with RCTC to receive a share of the Measure A half-cent sales taxes.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 1: Summary of Significant Accounting Policies (Continued)

General Assembly

The General Assembly is a 65-member body composed of the five members of the Riverside County Board of Supervisors, Mayors, City Council members, and five Tribal members of each member Tribe.

Current members are: The County of Riverside, the Cities of Blythe, Cathedral City, Coachella, Desert Hot Springs, Indian Wells, Indio, La Quinta, Palm Desert, Palm Springs, Rancho Mirage, the Agua Caliente Band of Cahuilla Indians, the Cabazon Band of Mission Indians, and the Twenty-Nine Palms Band of Mission Indians. The General Assembly is the top policy making body of CVAG and is required to meet annually to elect officers and adopt work plans and budgets for the ensuing year.

Executive Committee

The Executive Committee is a 17-member body composed of the five members of the Riverside County Board of Supervisors, Mayors or Council Members of each City, and the Tribal Council Chairs, unless a member's jurisdictional body designates another member of CVAG General Assembly or Tribal Council to serve as the member. It is the top policy making body of CVAG between sessions of the General Assembly and acts for the General Assembly except when the General Assembly is in session. It employs and oversees the work of CVAG's Executive Director. In turn, the Executive Director employs and terminates the staff needed to carry out the overall work programs of CVAG.

Advisory Committees

A number of advisory committees have developed over the years to provide input to CVAG's Executive Committee's decision making.

(b) Basis of Accounting and Measurement Focus

The basic financial statements of CVAG are composed of the following:

- Government-Wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-Wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units), as well as its discretely presented component units. CVAG has no business-type activities or discretely presented component units. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, administrative expenses have not been allocated as indirect expenses to the various functions of CVAG.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 1: Summary of Significant Accounting Policies (Continued)

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources' measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the Statement of Activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

Fund Financial Statements

The underlying accounting system of CVAG is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually and other governmental funds in the aggregate.

Governmental Funds

In the fund financial statements, governmental funds are presented using the modified-accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. CVAG generally considers revenues available if they are collected within 120 days after the fiscal year-end. Significant revenues subject to accrual under the measurable and available criteria include grant revenues.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 1: Summary of Significant Accounting Policies (Continued)

Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. Imposed nonexchange transactions are recognized as revenues in the period for which they were imposed.

If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first.

Government-mandated and voluntary nonexchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

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

Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources", since they do not represent net current assets. Recognition of governmental fund type revenues represented by noncurrent receivables are deferred until they become current receivables. Noncurrent portions of other long-term receivables are offset by fund balance reserve accounts because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

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

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 1: Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has one item that qualifies under this type of reporting; deferred items related to pension obligations.

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

The government has two items that qualifies for reporting in this category. Unavailable revenues, which arises only under a modified accrual basis of accounting, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source for a grant. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The second item, reported in the government-wide statement of net position, relates to deferred items related to pension obligations.

Net Pension Liability

In government-wide financial statements, retirement plans (pensions) are required to be recognized and disclosed using the accrual basis of accounting (see Note 12 and the required supplementary information (RSI) section immediately following the Notes to Financial Statements), regardless of the amount recognized as pension expenditures on the governmental fund statements, which use the modified accrual basis of accounting.

In general, CVAG recognizes a net pension liability, which represents CVAG's proportionate share of the excess of the total pension liability over the fiduciary net position of the pension reflected in the actuarial report provided by the California Public Employees' Retirement System (CalPERS). The net pension liability is measured as of CVAG's prior fiscal year-end. Changes in the net pension liability are recorded, in the period incurred, as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) are amortized over the weighted average remaining service life of all participants in the respective pension plan and are recorded as a component of pension expense beginning with the period in which they are incurred.

For purposes of measuring the net pension liability and deferred outflows/inflows or resources relating to pensions and pension expense, information about the fiduciary net position of CVAG's pension plan with CalPERS and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 1: Summary of Significant Accounting Policies (Continued)

For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefits terms. Investments are reported at fair value.

Net Position

In governmental-wide financial statements, Net Position are categorized as follows:

Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When expenses are incurred for purposes for which both restricted and unrestricted Net Position are available, CVAG's policy is to apply restricted Net Position first, then unrestricted Net Position as they are needed.

Governmental Fund Balances

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

Nonspendable Fund Balance — this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).

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

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

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 1: Summary of Significant Accounting Policies (Continued)

Assigned Fund Balance — this includes amounts that are designated or expressed by the Executive Committee but does not require a formal action like a resolution or ordinance. The Executive Committee may delegate the ability of an employee or committee to assign uses of specific funds, for specific purposes.

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

It is CVAG's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the Executive Committee.

(c) Fund Classifications

CVAG reports the following major governmental funds:

General Fund - This fund is used to account for all of the general revenues of CVAG not specifically levied or collected for some special purpose, and for the expenditures related to the rendering of general services by CVAG.

Transportation Uniform Mitigation Fees Special Revenue Fund - This fund is used to account for the revenues generated by the Traffic Uniform Mitigation Fees and provides additional funds necessary to construct the transportation improvements generated by the development in the valley.

Measure A Special Revenue Fund - This fund is used to account for the revenues generated by the Measure A half-cent sales tax and is used mainly for the construction and/or improvement of the regional arterials in the Coachella Valley.

CV Link Special Revenue Fund - This fund is used to account for revenues and expenditures specifically generated for and by the CV Link project.

CV Sync Special Revenue Fund - This fund is used to account for revenues and expenditures specifically generated for and by the CV Sync project.

CVAG's fund structure also includes the following fund type:

Special Revenue Funds - These funds are used to account for proceeds of specific revenue sources that are legally restricted or otherwise designated for specific purposes.

(d) Reclassification and Eliminations

Interfund balances must generally be eliminated in the government-wide financial statements, except for net residual amounts due between governmental activities. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once - in the function in which they are allocated.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 1: Summary of Significant Accounting Policies (Continued)

(e) Cash and Investments

Investments are reported in the accompanying balance sheet at fair value, except for certain certificates of deposit that are reported at cost because they are not transferable, and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

CVAG pools cash and investments of all funds. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

(f) Employee Leave Benefits

Vacation time begins to accumulate as of the first day of employment to a maximum of two and a half times the employee's annual entitlement. Sick leave accumulates at the rate of 8.67 hours per month without limit. Employees are not entitled to compensation for accrued sick time upon separation from CVAG.

(g) Capital Assets

Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets, donated works of art and similar items, and capital assets received as part of a service concession arrangement are recorded at acquisition value at the date of acquisition. Generally, CVAG capitalizes capital assets purchases in excess of \$5,000 for capital assets. Capital outlay expenditures include payments to other governments for capital projects that are managed by other governments and ongoing maintenance of those assets lies with those other governments. As such those capital assets, have not been reflected in the statement of net position of CVAG.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation expense is charged as an expense against operations and accumulated depreciation is reported on the Statement of Net Position. The ranges of lives used for depreciation purposes for each capital asset class are as follows:

Furniture and equipment	7-25 years
Vehicles	7 years
Easements	50 years

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 1: Summary of Significant Accounting Policies (Continued)

(h) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

(i) Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived. In addition, certain minor reclassifications of the prior year data have been made to enhance their comparability to the current year.

Note 2: Stewardship, Compliance, and Accountability

- (a) The CV Sync and I-REN Funds reported a fund deficit at June 30, 2022 in the amounts of (\$3,568,998) and (\$68,485) respectively. This is due to unavailable revenue at June 30, 2022 becoming available after the period of availability.

Note 3: Cash and Investments

Cash and investments of CVAG consisted of the following at June 30, 2022:

Cash and investments	\$ 55,900,242
Restricted cash and investments	<u>14,880,428</u>
Total cash and investments	<u>\$ 70,780,670</u>
Cash on hand	\$ 300
Deposits with financial institutions	<u>421,264</u>
Total cash and deposits	<u>421,564</u>
Investments:	
Local Agency Investment Fund	\$ 30,179,277
Riverside County Pooled Investment Fund	25,299,401
California Asset Management Program	<u>14,880,428</u>
Total investments	<u>70,359,106</u>
Total cash and investments	<u>\$ 70,780,670</u>

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 3: Cash and Investments (Continued)

Deposits

CVAG's deposits with financial institutions were insured or collateralized as required by State Law.

Investments Authorized by the California Government Code and CVAG's Investment Policy

The table below identifies the investment types that are authorized for CVAG by the California Government Code (or CVAG's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or CVAG's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
United States Treasury Obligations	3 years	None	None
Money Market Mutual Funds investing in United States Treasury Investments	N/A	20%	10%
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

One of the ways that CVAG 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.

CVAG's investments in the Local Agency Investment Fund of \$30,179,277, Riverside County Pooled Investment Fund of \$25,299,401, and the California Asset Management Program of \$14,880,428 are available on demand.

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. Presented below is the minimum rating required by (where applicable) the California Government Code, CVAG's investment policy, or debt agreements, and the actual rating as of year-end for each investment type:

Investment Type	Actual/Minimum Rating	Amount
Local Agency Investment Fund	N/A	\$ 30,179,277
Riverside County Pooled Investment Fund	AAA/AAA	25,299,401
California Asset Management Program	AAA/AAA	14,880,428
Total		<u>\$ 70,359,106</u>

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 3: Cash and Investments (Continued)

Investment in State Investment Pool (LAIF)

CVAG is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of CVAG's investment in this pool is reported in the accompanying financial statements at amounts based on the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not registered with the Securities and Exchange Commission and is not rated. Deposits and withdrawals in LAIF are made on the basis of \$1 and not fair value. Accordingly, CVAG's investment in this pool is measured on uncategorized inputs not defined as Level 1, 2, or 3.

Investment in Riverside County Investment Pool

CVAG is a voluntary participant in the County of Riverside Treasury Pool. The fair value of CVAG's investment in this pool is reported in the accompanying financial statements at amounts based upon CVAG's pro-rata share of the fair value provided by the County for the entire County portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County.

Investment in California Asset Management Program

CVAG is a voluntary participant in the California Asset Management Program (CAMP). The funds are invested in a short-term money market portfolio rated AAA and as such, the fair market value is equivalent to the amount invested. The balance available for withdrawal is based on the accounting records maintained by CAMP.

Fair Value Hierarchy

CVAG categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All CVAG investments are not subject to fair value rating.

Note 4: Loans Receivable

CVAG made a loan to the following entity for the construction of mesquite Avenue from Gene Autry Trail to Dinah Shore Drive:

City of Palm Springs, payable through 2039 \$ 177,162

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 5: Interfund Receivables and Payables

Interfund receivables and payables represent short-term borrowings to manage cash flows.

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
Other Governmental Funds	General Fund	<u>\$ 703,019</u>
Other Governmental Funds	Measure A	792,689
CV Sync	Measure A	<u>1,792,761</u>
		<u>2,585,450</u>
TUMF	Other Governmental Funds	10,597
Measure A	Other Governmental Funds	<u>19,680</u>
		<u>30,277</u>
		<u>\$ 3,318,746</u>

Note 6: Interfund Transfers

Transfers in and out between funds for the year ended June 30, 2022 were as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Measure A	CV Sync	\$ 1,526
Measure A	CV Link	<u>1,356,755</u>
		<u>1,358,281</u>
CV Sync	Measure A	5,949,269
CV Sync	Other Governmental Funds	<u>885,580</u>
		<u>6,834,849</u>
CV Link	Measure A	<u>185,810</u>
Other Governmental Funds	Other Governmental Funds	<u>185,296</u>
	Total	<u>\$ 8,564,236</u>

The largest transfer above were from the Measure A Funds to the CV Sync Fund for expenditures incurred in the amount of \$5,949,269 for the Traffic Signal Synchronization Project which utilizes Measure A as a funding source. The other transfer was from the CV Link Fund to the Measure A Fund for \$1,356,755 to return previously transferred funds for the CV Link Project to Measure A.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 7: Capital Assets

A summary of capital asset activity for the year ended June 30, 2022, is as follows:

	Balance at July 1, 2021	Additions	Deletions	Balance at June 30, 2022
Capital assets, not depreciated:				
Land	\$ 10,682,344	-	-	10,682,344
Construction in progress	5,013,894	26,783,070	-	31,796,964
Total capital assets, not depreciated	15,696,238	26,783,070	-	42,479,308
Capital asset, being depreciated:				
Furniture and equipment	105,149	-	-	105,149
Easement*	581,508	362,941	-	944,449
Vehicles	687,073	-	-	687,073
Total capital assets, being depreciated	1,373,730	362,941	-	1,736,671
Less accumulated depreciation:				
Furniture and equipment	(88,114)	(4,426)	-	(92,540)
Easement	-	(19,936)	-	(19,936)
Vehicles	(646,119)	(19,657)	-	(665,776)
Total accumulated depreciation	(734,233)	(44,019)	-	(778,252)
Total capital assets, being depreciated, net	639,497	318,922	-	958,419
Total capital assets, net	\$ 16,335,735	27,101,992	-	43,437,727

*The beginning balance has been restated to reflect a prior period adjustment. See note 16 for additional details.

Depreciation expense was charged to the following function in the Statement of Activities:

Transportation	<u>\$44,019</u>
----------------	-----------------

Note 8: Transportation Uniform Mitigation Fee Program

As required under Measure A, Measure A monies cannot be allocated to individual cities in the Coachella Valley unless they participate in the Traffic Uniform Mitigation Fee (TUMF) program necessary for implementation of the planned Regional Arterial System. The participating cities collected the following amounts of TUMF since inception, which have been remitted to CVAG:

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 8: Transportation Uniform Mitigation Fee Program (Continued)

<u>Fiscal Period</u>		<u>Fiscal Year Ending</u>	
<u>From</u>	<u>To</u>		
1990	1994		\$ 13,585,887
1995	1999		13,642,573
2000	2004		26,394,448
2005	2009		40,898,960
2010	2014		11,556,909
2015	2019		19,017,989
		2020	4,990,263
		2021	5,897,592
		2022	10,795,963
			<u>\$ 146,780,584</u>

In addition, CVAG received \$24,383,399 relating to Measure A in lieu of TUMF for the Cities of Coachella, Desert Hot Springs, and La Quinta who were deferred participants in the TUMF program. All amounts owed to CVAG from these agencies were repaid in full by June 30, 2020.

Note 9: Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2022, is as follows:

	<u>Balance at July 1, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2022</u>	<u>Due within One Year</u>
Public offering:					
Revenue bonds payable	<u>\$ 19,373,425</u>	<u>-</u>	<u>(1,893,146)</u>	<u>17,480,279</u>	<u>2,010,337</u>

Revenue Bonds Payable

On October 1, 2009, Riverside County Transportation Commission (RCTC) issued \$185,000,000 of 2009 Sales Tax Revenue Bonds Series A, B and C (Bonds). CVAG's participation in the Bonds was \$25,349,990. CVAG's portion of the Bond proceeds is for reimbursement of CVAG's highway and regional arterial program expenditures.

Principal and interest on the Bonds are payable monthly through September 1, 2029. The rate of interest is 4.972% and 5.662% per annum.

On November 17, 2010, RCTC issued \$150,000,000 of 2010 Sales Tax Revenue Bonds, Series A and B. CVAG's participation in the Bonds was \$8,584,820. CVAG's portion of the Bond proceeds was for reimbursement of CVAG's highway and regional arterial program expenditures that were previously reflected in long-term liabilities as Advancement of Measure A funds. Principal and interest on the Bonds are payable monthly through September 1, 2029. The rate of interest is 7.307% per annum.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 9: Long-Term Liabilities (Continued)

As of June 30, 2022, annual debt service requirement of the revenue bonds payable is as follows:

Fiscal Year Ending	Principal	Interest	Total
2023	\$ 2,010,337	1,001,895	3,012,234
2024	2,134,917	877,317	3,012,234
2025	2,267,354	744,880	3,012,234
2026	2,408,158	604,074	3,012,234
2027	2,557,867	454,366	3,012,233
2028-2031	6,101,646	424,860	6,526,506
	<u>\$ 17,480,279</u>	<u>4,107,392</u>	<u>21,587,675</u>

There are no assets pledged as collateral for the debt, no required reserve, and no unused lines of credit. There are no finance-related consequences related to significant events of default or termination, and there are no acceleration clauses.

Note 10: Compensated Absences

CVAG's policies relating to compensated absences are described in Note 1. This liability amounting to \$136,374 at June 30, 2022 is expected to be paid in future years from future resources and is typically liquidated from the General Fund.

	Balance at July 1, 2021	Additions	Deletions	Balance at June 30, 2022	Due within One Year
Compensated absences	<u>\$ 151,142</u>	<u>113,119</u>	<u>(127,887)</u>	<u>136,374</u>	<u>102,281</u>
Totals	<u>\$ 151,142</u>	<u>113,119</u>	<u>(127,887)</u>	<u>136,374</u>	<u>102,281</u>

Note 11: Liability, Property and Workers' Compensation Protection

Description of Self-Insurance Pool Pursuant to Joint Powers Agreement

The Coachella Valley Association of Governments is a member of the California Joint Powers Insurance Authority (Authority). The Authority is composed of 116 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other lines of coverage. The California JPIA began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 11: Liability, Property and Workers' Compensation Protection (Continued)

Primary Self-Insurance Programs of the Authority

Each member pays an annual contribution at the beginning of the coverage period. The total funding requirement for primary self-insurance programs is based on an actuarial analysis. Costs are allocated to individual agencies based on payroll and claims history, relative to other members of the risk-sharing pool.

Primary Liability Program

Claims are pooled separately between police and general government exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$30,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$30,000 to \$750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs from \$750,000 to \$50 million, are distributed based on the outcome of cost allocation within the first and second loss layers.

The overall coverage limit for each member, including all layers of coverage, is \$50 million per occurrence. Subsidence losses have a sub-limit of \$40 million per occurrence. The coverage structure includes retained risk that is pooled among members, reinsurance, and excess insurance. More detailed information about the various layers of coverage is available on the following website: <https://cjpia.org/protection/coverage-programs>.

Purchased Insurance

Property Insurance

The Coachella Valley Association of Governments participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. Coachella Valley Association of Governments property is currently insured according to a schedule of covered property submitted by the Coachella Valley Association of Governments to the Authority.

Coachella Valley Association of Governments property currently has all-risk property insurance protection in the amount of "Non-participant." There is a \$10,000 deductible per occurrence except for non-emergency vehicle insurance which has a \$2,500 deductible.

Crime Insurance

The Coachella Valley Association of Governments purchases crime insurance coverage in the amount of "Non-Participant" with a "Non-Participant" deductible. The fidelity coverage is provided through the Authority.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 11: Liability, Property and Workers' Compensation Protection (Continued)

Adequacy of Protection

During the past three fiscal years, none of the above programs of protection experienced settlements or judgments that exceeded pooled or insured coverage. There were also no significant reductions in pooled or insured liability coverage in 2021-22.

The aforementioned information is not included in the accompanying financial statements. Complete financial statements for the Insurance Authority may be obtained at their administrative office located at 8081 Moody Street, La Palma, California 90623.

Note 12: Pension Plan

Plan Description

CVAG contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer public employee defined benefit pension plan. All qualified permanent and probationary employees are eligible to participate in the CVAG's Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by CalPERS. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and CVAG Executive Committee resolution. Copies of CalPERS' annual financial report may be obtained from their executive office located at 400 P Street, Sacramento, California 95814.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: The Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost-of-living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Public Employees' Pension Reform Act of 2013 (PEPRA) mandated new benefit formulas and new member contributions for new members (as defined by PEPRA) hired after January 1, 2013.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 12: Pension Plan (Continued)

The provisions and benefits of the plan in effect at June 30, 2022, are summarized as follows:

	Tier 1	PEPRA
	Prior to January 1, 2013	On or after January 1, 2013
Hire Date		
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years' service	5 years' service
Benefit payments	monthly for life	monthly for life
Retirement age	50 and up	52 and up
Monthly benefits, as a % of eligible compensation	1.43% - 2.42%	1.00% - 2.50%
Required employee contribution rates	6.906%	7.3%
Required employer contribution rates	23.282%	8.058%

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

For the year ended June 30, 2022, the contributions recognized as part of pension expense was \$552,524.

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

The following table shows the Plan's proportionate share of the net pension liability over the measurement period.

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (c) = (a) - (b)
Measurement Date:			
Balance at: 6/30/21	\$ 11,263,336	9,631,516	1,631,820
Balance at: 6/30/22	11,785,073	11,840,319	(55,246)
Net Changes During 2021-22	<u>\$ 521,737</u>	<u>2,208,803</u>	<u>(1,687,066)</u>

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 12: Pension Plan (Continued)

CVAG's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2021, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021 using standard update procedures. CVAG's proportion of the net pension liability was based on a projection of the CVAG's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The CVAG's proportionate share of the net pension liability for each Plan as of June 30, 2020 and 2021, was as follows:

Proportion - June 30, 2020	0.03869%
Proportion - June 30, 2021	-0.00291%
Change - Increase (Decrease)	<u>-0.04160%</u>

For the year ended June 30, 2022, CVAG recognized a total pension credit of \$1,110,425. At June 30, 2022, the CVAG reported deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	\$ 397,881	-
Differences between expected and actual experience	-	6,192
Adjustment due to difference in contributions	494,934	8,576
Adjustment due to difference in proportions	39,406	397,657
Net difference between projected and actual earnings on pension plan investments	48,204	-
	<u>\$ 980,425</u>	<u>412,425</u>

The \$397,881 reported as deferred outflows of resources related to contributions subsequent to the measurement date and contributions made in excess of CVAG's proportionate share of contributions; will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2023. Other amounts reported as deferred outflows or deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30,	Amount
2023	\$ 67,581
2024	56,281
2025	32,936
2026	13,321
2027	-
	<u>\$ 170,119</u>

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 12: Pension Plan (Continued)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ended June 30, 2021 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2020 total pension liability. The June 30, 2021 total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Actuarial Assumptions	
Discount Rate	7.15%
Inflation	2.50%
Salary Increase	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds ⁽¹⁾
Post Retirement Benefit Increase	The lesser of contract COLA up to 2.5% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

⁽¹⁾ The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability for PERF C was 7.15 percent. The projection of cash flows used to determine the discount rate assumed contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 12: Pension Plan (Continued)

The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

Asset Class ¹	Assumed Asset Allocation	Real Return Years 1-10 ²	Real Return Years 11+ ³
Global equity	50%	4.80%	5.98%
Fixed income	28%	1.00	2.62
Inflation assets	0%	0.77	1.81
Private equity	8%	6.30	7.23
Real assets	13%	3.75	4.93
Liquidity	1%	-	(0.92)
Total	100%		

¹ In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-Term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

² An expected inflation of 2.00% used for this period.

³ An expected inflation of 2.92% used for this period.

Subsequent Events

On July 12, 2021, CalPERS reported a preliminary 21.3% net return on investments for fiscal year 2020-21. Based on the thresholds specified in CalPERS Funding Risk Mitigation policy, the excess return of 14.3% prescribes a reduction in investment volatility that corresponds to a reduction in the discount rate used for funding purposes of 0.20%, from 7.00% to 6.80%. Since CalPERS was in the final stages of the four-year Asset Liability Management (ALM) cycle, the board elected to defer any changes to the asset allocation until the ALM process concluded, and the board could make its final decision on the asset allocation in November 2021.

On November 17, 2021, the board adopted a new strategic asset allocation. The new asset allocation along with the new capital market assumptions, economic assumptions and administrative expense assumption support a discount rate of 6.90% (net of investment expense but without a reduction for administrative expense) for financial reporting purposes. This includes a reduction in the price inflation assumption from 2.50% to 2.30% as recommended in the November 2021 CalPERS Experience Study and Review of Actuarial Assumptions. This study also recommended modification to retirement rates, termination rates, mortality rates and rates of salary increases that were adopted by the board. These new assumptions will be reflected in the GASB 68 accounting valuation reports for the June 30, 2022, measurement date.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 12: Pension Plan (Continued)

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

The following presents the CVAG's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.15% for each Plan, as well as what the CVAG's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower (6.15%) or 1% point higher (8.15%) than the current rate:

	1% Decrease (6.15%)	Discount Rate (7.15%)	1% Increase (8.15%)
Net pension liability (asset)	\$ 1,500,777	\$ (55,246)	\$ (1,341,541)

Pension Plan Fiduciary Net Position

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

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 13: Capital Projects and Programs

The following represents the unexpended project budgets as of June 30, 2022. Unexpended project budgets may be reprogrammed to other projects upon finalization of all pending items (final bills, disposition of change orders, etc.)

Jefferson Street and Varner Road (North of I-10)	\$ 2,888,246
Jefferson / I-10 Interchange	13,953,233
Indian Avenue (Garnet to and including Railroad Crossing Bridge)	5,413,864
Frank Sinatra Bridge over WWR	4,277,942
Madison Street (Avenue 52 to Indio Boulevard)	2,904,652
Portola Avenue (North of Gerald Ford Drive)	534,935
Hwy 111 (bet. Rubidoux St. & 760' W. of Madison St.)	21,568
Interchange Preparation Fund	17,533,407
Cathedral Canyon Bridge	264,168
Date Palm Drive Bridge	331,762
Monterey Ave. Widening (Dinah Shore to Gerald Ford)	770,034
Portola Avenue (NW of Fred Waring Dr.)	80,000
Varner Road (Intersection Impr. at Ramon Rd.)	1,164,000
Airport Blvd. (Harrison Street to Hwy 111)	7,898,603
Frank Sinatra Dr. Intersection at Hwy. 111	670,712
Avenue 56 Grade Separation	1,509,535
Avenue 66 Grade Separation	1,254,008
Ramon Road Bridge Widening	6,293,135
Vista Chino Drive Bridge	7,807,619
Date Palm Drive Improvement (I-10 and Varner Rd.)	1,872,866
Avenue 50 Bridge	4,141,640
Dune Palms Road Bridge	1,230,258
East Palm Canyon Dr. Bridge (over Palm Canyon Wash)	841,617
S. Palm Canyon Dr. Bridge (over Tahquitz Creek Channel)	724,808
Portola / I-10 Interchange	9,269,238
CV Link	3,571,230
Avenue 50 (bet. Calhoun St. & Cesar Chaves (formerly Harrison St.))	6,384,255
Avenue 44 Bridge	2,690,305
North Indian Canyon Drive Widening	26,223
Avenue 48 (between Van Buren and Dillon Road)	433,431
Avenue 50 (between SR86 and I-10)	345,575
Bicycle and Pedestrian Safety Program	5,608,167
Regional Traffic Signal Synchronization	410,642
Washington St. & Fred Waring Dr. Intersection Improvements	97,377
Avenue 50 and Jackson St. Intersection Improvements	829,173
Indian Canyon Dr. (between Camino Parocela to Aleo Road)	1,500,000
Grapefruit Blvd bn Leoco Lane and 9th Street	1,453,821
Changeable Message Signs Palm Drive and N Indian Canyon	650,681
Monterey/I-10 Ramp Improvements	1,159,367
Total unexpended project budgets	118,812,095
Less: amounts to be provided in future years	(52,928,652)
Restricted fund balance associated with specific capital projects and programs	<u>\$ 65,883,443</u>

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 14: Measure A Fund Program

Measure A is a half-cent local retail transaction and use tax that was initially approved by the voters in November 1988 for 20 years and extended in November 2009 for an additional 30 years, through June 2039, to fund key transportation improvements in Riverside County. RCTC has the responsibility of receiving and managing the Measure A funds, including the allocation of the Measure A funds to the three geographic areas of the County and the programs within each area. CVAG does not have direct control over the Coachella Valley highways and regional arterial program funds that are allocated by RCTC in accordance with the extended Measure A ordinance. Revenues are recognized when a Measure A highway or regional arterial program project expenditures, including debt service payments on advances (see Note 9), have been incurred. Measure A funds controlled by RCTC related to the Coachella Valley highway and regional arterial program that have not been expended by CVAG are held by RCTC in a separate restricted special revenue fund. CVAG's allocation of the Measure A funds for the past five years is as follows:

Fiscal Year Ended June 30,	
2018	\$ 19,256,161
2019	21,619,378
2020	20,916,167
2021	26,018,189
2022	27,299,763

Note 15: Commitments and Contingencies

CVAG approved a contribution of \$30 million for the Coachella Valley Multiple Species Habitat Conservation Plan (CVMSHCP), which would mitigate all of the regional transportation projects listed in the current Transportation Project Prioritization Study (TPPS).

Under the CVMSHCP, the \$30 million of transportation funds would contribute to both land acquisition and the establishment of an Endowment Fund, which would ensure monitoring and management of the acquired lands. The CVMSHCP area includes 1.1 million acres, encompassing the entire Coachella Valley and the surrounding mountains. The MSHCP will benefit the local jurisdictions by providing Take Authorization for all development, including public infrastructure projects, undertaken by the Permittees (signatories to the MSHCP) outside the Conservation Areas. By providing Take Authorization for public and private development projects, the MSHCP eliminates the need for projects to conduct biological surveys and negotiate individual project mitigation with the US Fish and Wildlife Service and the California Department of Fish and Game. At June 30, 2022, the remaining commitment to the MSHCP is \$6,675,000. The liability has not been recorded in the accompanying financial statements because the contributions are contingent upon the receipt of future transportation revenues that are uncertain as to the timing and amount of collection.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Notes to the Basic Financial Statements

Year ended June 30, 2022

Note 16: Prior Period Adjustments

During the year ended June 30, 2022, CVAG determined there were expenditures and revenue recorded in the current year that related to prior year. As a result, the beginning net position/fund balance was adjusted as noted below.

Statement of Activities:

	Governmental Activities
Net Position at July 1, 2021	\$ 54,334,454
Adjustment to recognize unavailable revenues	5,495,712
Adjustment to record easements	581,508
Adjustment to correct prior year expenditures	(1,710,914)
Net Position at July 1, 2021, as restated	<u>\$ 58,700,760</u>

Statement of Revenues, Expenditures and Changes in Fund Balances:

	Transportation Uniform Mitigation Fees	Measure A
Fund Balance at July 1, 2021	\$ 4,299,513	44,806,324
Adjustment to correct prior year expenditures	(598,403)	(1,112,511)
Fund Balance at July 1, 2021, as restated	<u>\$ 3,701,110</u>	<u>\$ 43,693,813</u>

Note 17: Subsequent Events

The funds held in trust at the California Asset Management Program (CAMP) by CVAG for the Portola/1-10 interchange were returned to the City of Palm Desert in August 2022 reducing the balance to \$0. The total amount returned to the City, including interest, was \$14,903,772.

REQUIRED SUPPLEMENTARY INFORMATION

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

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

Year ended June 30, 2022

	Budget Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final	Amounts	
Revenues:				
Member dues	\$ 465,867	465,867	470,654	4,787
Investment income (loss)	6,019	6,019	(14,937)	(20,956)
Miscellaneous	18,667	18,667	35,707	17,040
Total Revenues	490,553	490,553	491,424	871
Expenditures:				
Salaries	102,300	102,300	117,412	(15,112)
Benefits	46,462	46,462	48,018	(1,556)
Communications	1,613	1,613	2,252	(639)
Advertising	43	43	737	(694)
Insurance	3,808	3,808	4,678	(870)
Memberships and per diem	21,803	21,803	11,110	10,693
General and office expenses	6,851	6,851	5,673	1,178
Professional services	9,498	9,498	7,452	2,046
Consultants	-	-	14,043	(14,043)
Leases and maintenance	5,247	5,247	7,714	(2,467)
Staff training	1,423	1,423	793	630
Transportation and meetings	21,493	21,493	5,363	16,130
Utilities	512	512	1,566	(1,054)
Capital outlay	195,000	195,000	-	195,000
Total Expenditures	416,053	416,053	226,811	189,242
Excess of Revenues over Expenditures	74,500	74,500	264,613	190,113
Other Financing Sources (Uses):				
Transfers in	-	548,274	-	548,274
Transfers out	(2,408)	(2,408)	-	2,408
Total Other Financing Sources (Uses)	(2,408)	545,866	-	550,682
Net Change in Fund Balance	72,092	620,366	264,613	(355,753)
Fund Balance - Beginning	1,650,320	1,650,320	1,650,320	-
Fund Balance - Ending	\$ 1,722,412	2,270,686	1,914,933	(355,753)

See accompanying notes to required supplementary information.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

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

Year ended June 30, 2022

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Mitigation fees	\$ 5,000,000	5,000,000	10,879,891	5,879,891
Investment income	6,684	6,684	(110,287)	(116,971)
Other governmental	-	-	913,610	913,610
Total Revenues	<u>5,006,684</u>	<u>5,006,684</u>	<u>11,683,214</u>	<u>6,676,530</u>
Expenditures:				
Salaries	233,263	233,263	183,458	49,805
Benefits	101,310	101,310	74,147	27,163
Communications	3,614	3,614	3,509	105
Advertising	1,496	1,496	996	500
Insurance	8,533	8,533	7,468	1,065
Memberships and per diem	12,029	12,029	3,055	8,974
General and office expenses	14,531	14,531	11,115	3,416
Professional services	48,793	48,793	134,435	(85,642)
Consultants	250,000	250,000	95,513	154,487
Leases and maintenance	11,759	11,759	12,545	(786)
Staff training	3,188	3,188	1,663	1,525
Transportation and meetings	1,705	1,705	1,748	(43)
Utilities	1,147	1,147	1,181	(34)
Project costs	<u>3,500,000</u>	<u>3,500,000</u>	<u>3,934,443</u>	<u>(434,443)</u>
Total Expenditures	<u>4,191,368</u>	<u>4,191,368</u>	<u>4,465,276</u>	<u>(273,908)</u>
Net Change in Fund Balance	815,316	815,316	7,217,938	6,402,622
Fund Balance - Beginning, as restated	<u>3,701,110</u>	<u>3,701,110</u>	<u>3,701,110</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 4,516,426</u>	<u>4,516,426</u>	<u>10,919,048</u>	<u>6,402,622</u>

See accompanying notes to required supplementary information.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

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

Year ended June 30, 2022

	Budget Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final	Amounts	
Revenues:				
Measure A	\$ 21,121,120	21,121,120	21,810,214	689,094
Investment income	554,873	554,873	(547,569)	(1,102,442)
Loan repayments	10,421	10,421	10,461	40
Other governmental	<u>12,611,159</u>	<u>12,611,159</u>	<u>2,271,161</u>	<u>(10,339,998)</u>
Total Revenues	<u>34,297,573</u>	<u>34,297,573</u>	<u>23,544,267</u>	<u>(10,753,306)</u>
Expenditures:				
Salaries	414,674	384,143	308,536	75,607
Benefits	180,096	185,362	125,112	60,250
Communications	6,424	4,893	5,874	(981)
Advertising	2,770	2,787	1,730	1,057
Insurance	15,165	15,861	13,686	2,175
Memberships and per diem	11,044	13,642	5,509	8,133
General and office expenses	25,867	15,368	17,863	(2,495)
Professional services	94,093	36,338	242,249	(205,911)
Consultants	150,000	162,500	903,916	(741,416)
Leases and maintenance	20,899	26,684	20,508	6,176
Staff training	5,667	5,514	2,795	2,719
Transportation and meetings	3,114	4,765	3,180	1,585
Utilities	2,039	2,799	1,905	894
Project costs	33,617,577	108,223,532	8,287,022	99,936,510
Debt service:				
Principal	1,893,146	1,893,146	1,893,146	-
Interest	<u>1,119,087</u>	<u>1,119,087</u>	<u>1,119,087</u>	<u>-</u>
Total Expenditures	<u>37,561,662</u>	<u>112,096,421</u>	<u>12,952,118</u>	<u>99,144,303</u>
Excess of Revenues over Expenditures	<u>(3,264,089)</u>	<u>(77,798,848)</u>	<u>10,592,149</u>	<u>88,390,997</u>
Other Financing Sources (Uses):				
Transfers out	<u>(7,870,348)</u>	<u>(7,870,348)</u>	<u>(6,135,079)</u>	<u>1,735,269</u>
Total Other Financing Sources (Uses)	<u>(7,870,348)</u>	<u>(7,870,348)</u>	<u>(6,135,079)</u>	<u>1,735,269</u>
Net Change in Fund Balance	(11,134,437)	(85,669,196)	4,457,070	90,126,266
Fund Balance - Beginning, as restated	<u>43,693,813</u>	<u>43,693,813</u>	<u>43,693,813</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 32,559,376</u>	<u>(41,975,383)</u>	<u>48,150,883</u>	<u>90,126,266</u>

See accompanying notes to required supplementary information.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

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

Year ended June 30, 2022

	Budget Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final	Amounts	
Revenues:				
Grants	\$ 17,503,346	17,503,346	15,363,242	(2,140,104)
Investment income	-	-	158	158
Other governmental	50,000	50,000	1,670,000	1,620,000
Miscellaneous	<u>15,537,765</u>	<u>15,537,765</u>	<u>26,816</u>	<u>(15,510,949)</u>
Total Revenues	<u>33,091,111</u>	<u>33,091,111</u>	<u>17,060,216</u>	<u>(16,030,895)</u>
Expenditures:				
Salaries	280,753	280,753	90,870	189,883
Benefits	99,625	99,625	47,580	52,045
Communications	4,086	4,086	2,630	1,456
Advertising	3,108	3,108	284	2,824
Insurance	9,647	9,647	5,309	4,338
Memberships and per diem	2,152	2,152	881	1,271
General and office expenses	15,834	15,834	6,989	8,845
Professional services	864,125	864,125	15,067	849,058
Consultants	3,200,000	3,200,000	722,046	2,477,954
Leases and maintenance	13,294	13,294	8,659	4,635
Staff training	3,065	3,065	935	2,130
Transportation and meetings	1,740	1,740	284	1,456
Utilities	1,297	1,297	806	491
Project costs	<u>29,003,345</u>	<u>29,003,345</u>	<u>14,982,476</u>	<u>14,020,869</u>
Total Expenditures	<u>33,502,071</u>	<u>33,502,071</u>	<u>15,884,816</u>	<u>17,617,255</u>
Excess of Revenues over Expenditures	<u>(410,960)</u>	<u>(410,960)</u>	<u>1,175,400</u>	<u>1,586,360</u>
Other Financing Sources (Uses):				
Transfers in	411,500	411,500	185,810	(225,690)
Transfers out	<u>-</u>	<u>-</u>	<u>(1,356,755)</u>	<u>(1,356,755)</u>
Total Other Financing Sources (Uses)	<u>411,500</u>	<u>411,500</u>	<u>(1,170,945)</u>	<u>(1,582,445)</u>
Net Change in Fund Balance	540	540	4,455	3,915
Fund Balance (Deficit) - Beginning	<u>(4,455)</u>	<u>(4,455)</u>	<u>(4,455)</u>	<u>-</u>
Fund Balance (Deficit) - Ending	<u>\$ (3,915)</u>	<u>(3,915)</u>	<u>-</u>	<u>3,915</u>

See accompanying notes to required supplementary information.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

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

Year ended June 30, 2022

	Budget Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final	Amounts	
Revenues:				
Grants	\$ 19,549,003	19,549,003	4,359,267	(15,189,736)
Investment income	-	-	560	560
Total Revenues	<u>19,549,003</u>	<u>19,549,003</u>	<u>4,359,827</u>	<u>(15,189,176)</u>
Expenditures:				
Salaries	106,328	106,328	35,065	71,263
Benefits	48,039	48,039	13,719	34,320
Communications	1,658	1,658	2,028	(370)
Advertising	44	44	245	(201)
Insurance	3,914	3,914	3,520	394
Memberships and per diem	873	873	653	220
General and office expenses	6,425	6,425	5,364	1,061
Professional services	75,947	75,947	5,631	70,316
Consultants	3,513,092	3,513,092	-	3,513,092
Leases and maintenance	5,395	5,395	6,619	(1,224)
Staff training	1,463	1,463	755	708
Transportation and meetings	300	300	218	82
Utilities	526	526	609	(83)
Project costs	<u>23,655,347</u>	<u>23,655,347</u>	<u>14,566,571</u>	<u>9,088,776</u>
Total Expenditures	<u>27,419,351</u>	<u>27,419,351</u>	<u>14,640,997</u>	<u>12,778,354</u>
Excess of Revenues over Expenditures	<u>(7,870,348)</u>	<u>(7,870,348)</u>	<u>(10,281,170)</u>	<u>(2,410,822)</u>
Other Financing Sources (Uses):				
Transfers in	7,870,348	7,870,348	6,834,849	(1,035,499)
Transfers out	-	-	(1,526)	(1,526)
Total Other Financing Sources (Uses)	<u>7,870,348</u>	<u>7,870,348</u>	<u>6,833,323</u>	<u>(1,037,025)</u>
Net Change in Fund Balance	-	-	(3,447,847)	(3,447,847)
Fund Balance (Deficit) - Beginning	<u>(121,151)</u>	<u>(121,151)</u>	<u>(121,151)</u>	-
Fund Balance (Deficit) - Ending	<u>\$ (121,151)</u>	<u>(121,151)</u>	<u>(3,568,998)</u>	<u>(3,447,847)</u>

See accompanying notes to required supplementary information.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Schedule of Proportionate Share of the Net Pension Liability (Asset) - Miscellaneous Plan

Last Ten Years*

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Measurement Date	06/30/21	06/30/20	06/30/19	06/30/18
Proportion of the net pension liability (asset)	-0.00100%	0.01500%	0.02398%	0.02306%
Proportionate share of the net pension liability (asset)	\$ (55,246)	\$ 1,631,820	2,457,681	2,222,478
Covered payroll	\$ 1,800,316	\$ 1,787,612	1,757,237	1,399,410
Proportionate Share of the net pension liability as a percentage of covered payroll	-3.07%	91.28%	139.86%	158.82%
Plan fiduciary net position as a percentage of the total pension liability	90.49%	77.71%	75.26%	73.39%

* - Fiscal year 2015 was the first year of implementation, therefore, only eight years are shown.

Summary of Changes of Benefits or Assumptions:

Benefit Changes: There were no changes to benefit terms that applied to all members of the Public Agency Pool. However, individual employers in the Plan may have provided a benefit improvement to their employees by granting Two Years Additional Service Credit to members retiring during a specified time period (a.k.a Golden Handshakes). Employers that have done so may need to report this information as a separate liability in their financial statements as CalPERS considers such amounts to be separate financed employer-specific liabilities.

Changes in Assumptions: In 2018, demographic assumptions and inflation rate were changed in accordance to CalPERS Experience Study and Review of Actuarial Assumptions December 2017. In 2017, the accounting discount rate was reduced from 7.65 percent to 7.15 percent.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Schedule of Proportionate Share of the Net Pension Liability (Asset) - Miscellaneous Plan (Continued)

Last Ten Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Measurement Date	06/30/17	06/30/16	06/30/15	06/30/14
Proportion of the net pension liability (asset)	0.02283%	0.02221%	0.02071%	0.02196%
Proportionate share of the net pension liability (asset)	\$ 2,264,005	1,921,675	1,421,670	1,366,589
Covered payroll	\$ 1,595,046	1,555,017	1,364,384	1,367,374
Proportionate Share of the net pension liability as a percentage of covered payroll	141.94%	123.58%	104.20%	99.94%
Plan fiduciary net position as a percentage of the total pension liability	73.31%	75.87%	79.89%	81.15%

* - Fiscal year 2015 was the first year of implementation, therefore, only eight years are shown.

Summary of Changes of Benefits or Assumptions:

Benefit Changes: There were no changes to benefit terms that applied to all members of the Public Agency Pool. However, individual employers in the Plan may have provided a benefit improvement to their employees by granting Two Years Additional Service Credit to members retiring during a specified time period (a.k.a Golden Handshakes). Employers that have done so may need to report this information as a separate liability in their financial statements as CalPERS considers such amounts to be separate financed employer-specific liabilities.

Changes in Assumptions: In 2018, demographic assumptions and inflation rate were changed in accordance to CalPERS Experience Study and Review of Actuarial Assumptions December 2017. In 2017, the accounting discount rate was reduced from 7.65 percent to 7.15 percent.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Schedule of Pension Contributions - Miscellaneous Plan

Last Ten Years*

	2022	2021	2020	2019
Actuarially determined contributions - Miscellaneous	\$ 397,881	\$ 397,881	1,341,435	294,482
Contributions in relation to the actuarially determined contribution	(397,881)	(397,881)	(1,341,435)	(294,482)
Contribution deficiency (excess)	\$ -	\$ -	-	-
Covered payroll	\$ 2,151,212	\$ 1,800,316	1,787,612	1,757,237
Contributions as a percentage of covered payroll	18.50%	22.10%	75.04%	16.76%

* - Fiscal year 2015 was the first year of implementation, therefore, eight years are shown.

Methods and assumptions used to determine contribution rates:

Actuarial Valuation Date	June 30, 2019
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Discount Rate	7.15%
Projected Salary	Varies by entry age and service
Inflation	2.50%
Payroll Growth	2.75%

Changes in Assumptions: At its December 2016 meeting, the CalPERS Board of Administration lowered the discount rate from 7.50 percent to 7.00 percent using a three-year phase-in beginning with the June 30, 2016 actuarial valuations. The minimum employer contributions for Fiscal Year 2019-20 determined in this valuation were calculated using a discount rate of 7.25 percent.

On December 19, 2017, the CalPERS Board of Administration adopted new actuarial assumptions based on the recommendations in the December 2017 CalPERS Experience Study and Review of Actuarial Assumptions. This study reviewed the retirement rates, termination rates, mortality rates, rates of salary increases and inflation assumption for Public Agencies. In addition, the Board adopted a new asset portfolio as part of its Asset Liability Management. The new asset mix supports a 7.00 percent discount rate. The reduction of the inflation assumption will be implemented in two steps in conjunction with the decreases in the discount rate. For the June 30, 2017 valuation an inflation rate of 2.625 percent will be used and a rate of 2.50 percent in the following valuation.

The CalPERS Board of Administration has adopted a new amortization policy effective with the June 30, 2019 actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed using a level dollar amount. In addition, the new policy removes the 5-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non investment gains/losses. The new policy removes the 5-year ramp-down on investment gains/losses. These changes will apply only to new UAL bases established on or after June 30, 2019.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Schedule of Pension Contributions - Miscellaneous Plan (Continued)

Last Ten Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contributions - Miscellaneous	\$ 242,382	221,669	217,333	214,845
Contributions in relation to the actuarially determined contribution	<u>(242,382)</u>	<u>(221,669)</u>	<u>(217,333)</u>	<u>(214,845)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered payroll	\$ 1,399,410	1,595,046	1,555,017	1,364,384
Contributions as a percentage of covered payroll	17.32%	13.90%	13.98%	15.75%

* - Fiscal year 2015 was the first year of implementation, therefore, eight years are shown.

Methods and assumptions used to determine contribution rates:

Actuarial Valuation Date	June 30, 2019
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Discount Rate	7.15%
Projected Salary	Varies by entry age and service
Inflation	2.50%
Payroll Growth	2.75%

Changes in Assumptions: At its December 2016 meeting, the CalPERS Board of Administration lowered the discount rate from 7.50 percent to 7.00 percent using a three-year phase-in beginning with the June 30, 2016 actuarial valuations. The minimum employer contributions for Fiscal Year 2019-20 determined in this valuation were calculated using a discount rate of 7.25 percent.

On December 19, 2017, the CalPERS Board of Administration adopted new actuarial assumptions based on the recommendations in the December 2017 CalPERS Experience Study and Review of Actuarial Assumptions. This study reviewed the retirement rates, termination rates, mortality rates, rates of salary increases and inflation assumption for Public Agencies. In addition, the Board adopted a new asset portfolio as part of its Asset Liability Management. The new asset mix supports a 7.00 percent discount rate. The reduction of the inflation assumption will be implemented in two steps in conjunction with the decreases in the discount rate. For the June 30, 2017 valuation an inflation rate of 2.625 percent will be used and a rate of 2.50 percent in the following valuation.

The CalPERS Board of Administration has adopted a new amortization policy effective with the June 30, 2019 actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed using a level dollar amount. In addition, the new policy removes the 5-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non investment gains/losses. The new policy removes the 5-year ramp-down on investment gains/losses. These changes will apply only to new UAL bases established on or after June 30, 2019.

Coachella Valley Association of Governments

Notes to Required Supplementary Information

Year ended June 30, 2022

Note 1: Budgets and Budgetary Accounting

CVAG adopts an annual budget prepared on the modified accrual basis of accounting for its governmental funds. The Executive Director or designee is authorized to transfer budgeted amounts between the accounts of any department. Revisions that alter the total appropriations of any department or fund are approved by the Executive Committee. Prior year appropriations lapse unless they are approved for carryover into the following fiscal year. Expenditures may not legally exceed appropriations at the fund level.

Note 2: Expenditures in Excess of Appropriations

The Traffic Uniform Mitigation Fee fund had expenditures in excess of appropriations of \$273,908.

SUPPLEMENTARY INFORMATION

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COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

**Combining Balance Sheet
Nonmajor Governmental Funds**

June 30, 2022

	Special Revenue Funds						
	Other Transportation	Special Projects	Multi-Species Habitat Conservation	AB2766 Grant	Oil Grant	AB939 Grant	Air Quality Enhancement
Assets:							
Cash and investments	\$ -	42,676	1	295,997	66,862	4,713	598
Accounts receivable	-	-	-	-	-	-	-
Interest receivable	1	-	-	-	196	206	-
Due from other governments	746,987	9,000	428,370	214,979	31,582	7,913	-
Due from other funds	30,277	-	-	-	-	-	-
Prepaid items	-	-	-	-	-	-	-
Total Assets	<u>\$ 777,265</u>	<u>51,676</u>	<u>428,371</u>	<u>510,976</u>	<u>98,640</u>	<u>12,832</u>	<u>598</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficits):							
Liabilities:							
Accounts payable	\$ 48,940	-	382	-	14,440	-	-
Accrued liabilities	582	-	15,335	121	61	13	8
Due to other governments	-	-	3,177	-	657	-	-
Due to other funds	<u>727,558</u>	<u>-</u>	<u>373,563</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>777,080</u>	<u>-</u>	<u>392,457</u>	<u>121</u>	<u>15,158</u>	<u>13</u>	<u>8</u>
Deferred Inflows of Resources							
Unavailable revenues	-	-	<u>2,682</u>	<u>2,569</u>	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>2,682</u>	<u>2,569</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances (Deficits):							
Nonspendable	-	-	-	-	-	-	-
Restricted:							
Transportation	185	23,921	-	-	-	-	-
Environmental	-	-	33,232	508,286	83,482	12,819	590
Homeless	-	27,755	-	-	-	-	-
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances (Deficits)	<u>185</u>	<u>51,676</u>	<u>33,232</u>	<u>508,286</u>	<u>83,482</u>	<u>12,819</u>	<u>590</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficits)	<u>\$ 777,265</u>	<u>51,676</u>	<u>428,371</u>	<u>510,976</u>	<u>98,640</u>	<u>12,832</u>	<u>598</u>

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

**Combining Balance Sheet
Nonmajor Governmental Funds**

June 30, 2022

	Special Revenue Funds (Continued)						
	Street Sweeping	Homeless	Tire Amnesty	Tipping Fees	I-REN	Desert Community Energy	Total Governmental Funds
Assets:							
Cash and investments	12,297	1,760,158	66	44,612	-	-	2,227,980
Accounts receivable	-	48,140	-	-	-	-	48,140
Interest receivable	1,154	1,931	-	-	-	-	3,488
Due from other governments	71,417	863,575	-	-	78,486	340,942	2,793,251
Due from other funds	-	-	-	-	-	-	30,277
Prepaid	-	18,160	-	-	-	-	18,160
Total Assets	<u>84,868</u>	<u>2,691,964</u>	<u>66</u>	<u>44,612</u>	<u>78,486</u>	<u>340,942</u>	<u>5,121,296</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficits):							
Liabilities:							
Accounts payable	9,280	14,589	-	-	285	786	88,702
Accrued liabilities	588	12,724	66	-	2,912	12,483	44,893
Due to other governments	-	7,500	-	44,612	6,153	-	62,099
Due to other funds	-	-	-	-	69,135	325,452	1,495,708
Total Liabilities	<u>9,868</u>	<u>34,813</u>	<u>66</u>	<u>44,612</u>	<u>78,485</u>	<u>338,721</u>	<u>1,691,402</u>
Deferred Inflows of Resources							
Unavailable revenues	-	48,140	-	-	68,486	2,221	124,098
Total Deferred Inflows of Resources	<u>-</u>	<u>48,140</u>	<u>-</u>	<u>-</u>	<u>68,486</u>	<u>2,221</u>	<u>124,098</u>
Fund Balances (Deficits):							
Nonspendable	-	18,160	-	-	-	-	18,160
Restricted:							
Transportation	-	-	-	-	-	-	24,106
Environmental	75,000	-	-	-	-	-	713,409
Homeless	-	2,590,851	-	-	-	-	2,618,606
Unassigned	-	-	-	-	(68,485)	-	(68,485)
Total Fund Balances (Deficits)	<u>75,000</u>	<u>2,609,011</u>	<u>-</u>	<u>-</u>	<u>(68,485)</u>	<u>-</u>	<u>3,305,796</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficits)	<u>84,868</u>	<u>2,691,964</u>	<u>66</u>	<u>44,612</u>	<u>78,486</u>	<u>340,942</u>	<u>5,121,296</u>

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended June 30, 2022

	Special Revenue Funds						
	Other Transportation	Special Projects	Multi-Species Habitat Conservation	AB2766 Grant	Oil Grant	AB939 Grant	Air Quality Enhancement
Revenues:							
Grants	\$ 337,939	-	-	-	86,920	-	-
Investment income (loss)	967	-	-	(5,391)	(1,060)	(83)	(10)
Other governmental	891,872	-	786,604	367,854	-	7,913	-
Miscellaneous	-	27,000	-	-	-	-	-
Total Revenues	1,230,778	27,000	786,604	362,463	85,860	7,830	(10)
Expenditures:							
Current:							
Salaries	16,359	-	453,813	9,900	5,849	6,469	825
Benefits	6,204	-	186,704	3,969	2,339	2,871	225
Communications	307	-	8,642	188	111	124	16
Advertising	33	-	2,086	13	4,621	6	1
Insurance	634	-	17,487	549	357	419	41
Memberships and per diem	103	-	2,897	2,146	43	2,125	6
General and office expenses	759	-	27,150	353	309	198	33
Professional services	1,262	-	37,648	543	306	336	47
Consultants	-	-	-	500	28,657	-	-
Leases and maintenance	1,040	-	32,649	615	377	400	59
Staff training	107	-	3,072	57	31	34	5
Transportation and meetings	283	-	1,270	21	12	13	2
Utilities	96	-	3,139	55	34	35	6
Project costs	318,456	28,318	-	-	3,340	-	-
Total Expenditures	345,643	28,318	776,557	18,909	46,386	13,030	1,266
Excess (Deficiency) of Revenues Over (Under) Expenditures	885,135	(1,318)	10,047	343,554	39,474	(5,200)	(1,276)
Other Financing Sources (Uses):							
Transfers in	-	-	-	-	-	-	1,281
Transfers out	(885,580)	-	-	(160,108)	-	(25,188)	-
Total Other Financing Sources (Uses)	(885,580)	-	-	(160,108)	-	(25,188)	1,281
Net Change in Fund Balances	(445)	(1,318)	10,047	183,446	39,474	(30,388)	5
Fund Balance (Deficit) - Beginning	630	52,994	23,185	324,840	44,008	43,207	585
Fund Balance (Deficit) - Ending	\$ 185	51,676	33,232	508,286	83,482	12,819	590

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
Year ended June 30, 2022

	Special Revenue Funds (Continued)						Total Governmental Funds
	Street Sweeping	Homeless	Tire Amnesty	Tipping Fees	I-REN	Desert Community Energy	
Revenues:							
Grants	220,000	-	-	-	-	-	644,859
Investment income (loss)	160	(30,015)	-	-	-	-	(35,432)
Other governmental	300,000	2,143,585	-	-	-	1,209,838	5,707,666
Miscellaneous	28,438	108	-	-	-	-	55,546
Total Revenues	548,598	2,113,678	-	-	-	1,209,838	6,372,639
Expenditures:							
Current:							
Salaries	30,702	431,657	751	-	35,118	389,269	1,380,712
Benefits	10,941	213,370	285	-	13,817	120,654	561,379
Communications	575	8,353	15	-	686	7,367	26,384
Advertising	50	2,581	1	-	722	3,067	13,181
Insurance	1,436	16,026	42	-	117	15,425	52,533
Memberships and per diem	206	2,711	6	-	165	2,593	13,001
General and office expenses	1,247	139,171	32	-	2,798	21,137	193,187
Professional services	1,756	4,784	44	-	3,092	46,995	96,813
Consultants	11,785	103,477	-	-	9,036	-	153,455
Leases and maintenance	1,916	259,816	55	-	2,334	27,652	326,913
Staff training	188	3,526	4	-	303	2,588	9,915
Transportation and meetings	63	25,790	1	-	67	797	28,319
Utilities	174	30,357	5	-	230	2,649	36,780
Project costs	636,696	20,474	23,849	-	-	-	1,031,133
Total Expenditures	697,735	1,262,093	25,090	-	68,485	640,193	3,923,705
Excess (Deficiency) of Revenues Over (Under) Expenditures	(149,137)	851,585	(25,090)	-	(68,485)	569,645	2,448,934
Other Financing Sources (Uses):							
Transfers in	158,827	-	25,188	-	-	-	185,296
Transfers out	-	-	-	-	-	-	(1,070,876)
Total Other Financing Sources (Uses)	158,827	-	25,188	-	-	-	(885,580)
Net Change in Fund Balances	9,690	851,585	98	-	(68,485)	569,645	1,563,354
Fund Balance (Deficit) - Beginning	65,310	1,757,426	(98)	-	-	(569,645)	1,742,442
Fund Balance (Deficit) - Ending	75,000	2,609,011	-	-	(68,485)	-	3,305,796

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Single Audit Report on Federal Awards

Year Ended June 30, 2022

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Single Audit Report on Federal Awards

Year Ended June 30, 2022

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

Independent Auditor's Report

Executive Committee
Coachella Valley Association of Governments
Palm Desert, CA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the of the Coachella Valley Association of Governments (CVAG), as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively comprise the CVAG's basic financial statements, and have issued our report thereon dated February 22, 2023

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the CVAG's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CVAG's internal control. Accordingly, we do not express an opinion on the effectiveness of the CVAG's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the CVAG's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency. The reference number of the related finding is 2022-001.

Executive Committee
Coachella Valley Association of Governments
Palm Desert, California

Compliance and Other Matters

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

CVAG's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the CVAG's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. CVAG's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

DavisFarrLLP

Irvine, California
February 22, 2023

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditors' Report

Executive Committee
Coachella Valley Association of Governments
Palm Desert, CA

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Coachella Valley Association of Government's (CVAG) compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of CVAG's major federal programs for the year ended June 30, 2022. The CVAG's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the CVAG complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the CVAG and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the CVAG's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance

with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the CVAG's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the CVAG's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the CVAG's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 CVAG's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the CVAG's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the CVAG's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements CVAG as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the CVAG's basic financial statements. We issued our report thereon, dated February 22, 2023, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

DavisFarr LLP

Irvine, California
February 22, 2023

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Amount Provided to Subrecipients
<u>U.S. Department of Transportation</u>				
Passed through the California Department of Transportation:				
Highway Planning and Construction Cluster:				
Active Transportation Program (ATP)	20.205	08-6164R	\$ 5,907,607	\$ -
Congestion Mitigation and Air Quality (CMAQ)	20.205	08-6164F15	7,393,551	-
Total Highway Planning and Construction Cluster			<u>13,301,158</u>	<u>-</u>
Total Expenditure of Federal Awards			<u>\$ 13,301,158</u>	<u>\$ -</u>

See Note to Schedule of Expenditures of Federal Awards.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Note to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2022

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

Scope of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the activity of all federal financial assistance programs of the Coachella Valley Association of Governments under programs of the federal government for the year ended June 30, 2022. All financial assistance received directly from federal agencies is included in the accompanying Schedule. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). CVAG did not use the 10% de minimis indirect cost rate as covered in section 200.414 of the Uniform Guidance.

Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Schedule of Findings and Questioned Costs

Year Ended June 30, 2022

Section I - Summary of Auditor's Results

Financial Statements

- | | |
|---|------------|
| 1. Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified? | Yes |
| 3. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | |
|--|---------------|
| 1. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified? | None Reported |
| 2. Type of auditor's report issued on compliance for major programs: | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)? | No |

4. Identification of major programs:

CFDA Number
20.205

Name of Federal Program or Cluster
United States Department
of Transportation
Highway Planning and
Construction Cluster

- | | |
|---|-----------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$750,000 |
| 6. Auditee qualified as a low-risk auditee? | No |

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Schedule of Findings and Questioned Costs

Year Ended June 30, 2022

Section II - Financial Statement Findings

2022-001 Journal Entries Detected During the Audit

Auditing standards require the auditors to include an internal control recommendation when there are prior period adjustments and material audit adjustments.

CVAG recorded prior period adjustments in the Transportation Uniform Mitigation Fee (TUMF) and Measure A Funds as a result of receiving invoices for expenditures incurred during the prior year. In addition, there were three prior period adjustment recorded to the government wide financial statements. The entries were to recognize revenue received during the year that was not received in the prior year availability period, record a capital asset for the cost of easements acquired in the prior year, and record expenditures previously noted for the TUMF and Measure A funds.

As a result of audit procedures, there were two material audit adjustments. The adjustments were to correct the fair market value of the LAIF investment account and corrections to unavailable revenues and revenues.

Lastly, there were a significant number of year-end journal entries posted to the trial balance by CVAG after it was provided for the audit.

Recommendation

We recommend CVAG establish procedures to, whenever possible, identify adjustments in the reporting period in which the related transactions occurred. It is recognized this is not always possible and on occasion CVAG accounting procedures will properly identify adjustment in subsequent periods. In addition, we recommend CVAG record all year-end adjusting entries prior to providing the trial balance for the audit.

Management Response

Management recognizes that it is not always possible to identify adjustments in the reporting period in which the related transactions occurred and that on occasion CVAG accounting procedures will properly identify adjustment in subsequent periods. Management also recognizes that the lack of timely billing of member agencies and related organizations to CVAG may cause for material audit adjustments unknown to CVAG at the time of financial statement closing process. Management further recognizes that while it does not control how other agencies perform their billing, there are other steps that CVAG can take to ensure expenditures and revenues are recorded in the proper period. Management has already begun to implement such procedures related to accounts payable and other processes by notifying member agencies and vendors to provide invoices in a timely manner for closing of accounts payable and making accounting estimates when appropriate. In addition, Management has updated internal processes to ensure that revenues are tracked and matched to expenditures and accrued accordingly. Management is currently evaluating procurement of a new Enterprise Resource Planning system that will help address these items in the future.

COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS

Schedule of Findings and Questioned Costs

Year Ended June 30, 2022

Section III - Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs for the year ended June 30, 2022.

Section IV – Summary of Prior Audit Findings and Current Status

There was a significant deficiency reported in the prior year Government Auditing Standards Independent Auditor's Report. The status of that finding is as follows:

2021-001 Journal Entries Detected During the Audit

Auditing standards require the auditors to include an internal control recommendation when there are prior period adjustments and material audit adjustments. During our audit, there were two material journal entries detected as a result of audit procedures. There was one prior period adjustment recorded by CVAG.

The journal entries detected as a result of audit procedures were to record accounts payable and the related expenses in the TUMF Fund for \$260,000 and the Signal Sync Fund for \$119,000 and to record Due from Other Governments and Unavailable Revenue for \$119,000 in the Signal Sync Fund.

Status

During the fiscal year ending June 30, 2022, there were prior period adjustments and material audit adjustments noted, and as such, this finding is not considered resolved. The finding will be repeated as Finding 2022-001.

ITEM 4C

Coachella Valley Association of Governments Finance Committee February 27, 2022



STAFF REPORT

Subject: Finance Committee Member Rotation and Officer Selection

Contact: Tom Kirk, Executive Director (tkirk@cvaq.org)

Recommendation: 1. Appoint an elected official and a city manager or designee to serve on the Finance Committee to fill an immediate vacancy as well as continue the member rotation; and

2. Confirm the officer rotation so Cathedral City Councilmember Raymond Gregory serves as Committee Chair and Agua Caliente Band of Cahuilla Indians Chair Reid Milanovich serves as Committee Vice Chair through Fiscal Year 2023/24

Background: The CVAG Executive Committee established an Audit Committee on April 30, 2018 that is made up of three city managers (or designees) and three Executive Committee members. The Audit Committee historically met prior to the start of audit fieldwork to suggest any particular review areas for the engagement as well as to review, receive, and file the independent auditor's report over the combined annual financial report. After CVAG transitioned its Technical Advisory Committee into an informal working group, the Audit Committee began to take on more financial oversight. In order to reflect these additional responsibilities, the CVAG Executive Committee in September 2019 renamed it the Finance Committee and formally expanded the committee's responsibilities.

At the Finance Committee meeting on February 20, 2020, CVAG staff sought direction from the Finance Committee on how to select members moving forward each fiscal year. The Committee recommended that the two longest serving members – one elected official and one city manager – should be rotated off on a yearly basis, which means that each member will serve for three years. This allows the Committee to retain working knowledge and work cohesively while gaining new input.

At the Finance Committee meeting on May 27, 2020, the Finance Committee discussed the rotation and decided on the following schedule based on the Committee's membership at that time: (FY listed is last year on Committee):

- FY 2019/20 – Indio Councilmember Lupe Ramos-Amith and Coachella City Manager Bill Pattison
- FY 2020/21 – La Quinta Mayor Linda Evans and Desert Hot Springs City Manager Chuck Maynard
- FY 2021/22 – Indian Wells Mayor Richard Balocco and Rancho Mirage City Manager Isaiah Hagerman

Over the years, the positions have rotated and, until the most recent City Council elections, the Committee makeup was as follows:

- FY 2022/23 – Palm Desert Mayor Pro Tem Sabby Jonathan and Palm Springs Finance Director Nancy Pauley
- FY 2023/24 – Cathedral City Councilmember Raymond Gregory and Torres Martinez Tribal Administrator Shawn Isaac
- FY 2024/25 – Agua Caliente Band of Cahuilla Indians Chair Reid Milanovich and La Quinta City manager Jon McMillen.

The rotation traditionally is reviewed in May of each year and the appointments are made by the Executive Committee. However, the recent council elections created a vacancy as Mayor Pro Tem Jonathan, who was also serving as the Finance Committee Chair, did not seek re-election.

In advance of the Executive Committee's consideration, staff is now recommending the Finance Committee review its membership and provide nominations of an elected official – who would fill the vacancy immediately upon Executive Committee's approval – as well as a city manager or designee – who would replace Director Pauley upon the end of her term. Both members would serve through June 30, 2026. In order to ensure regional representation and give all jurisdictions an opportunity to serve on the Finance Committee, staff is recommending that the two vacant positions be filled from the following jurisdictions:

- | | |
|----------------------|---|
| ▪ Blythe | ▪ Rancho Mirage |
| ▪ Coachella | ▪ County of Riverside |
| ▪ Desert Hot Springs | ▪ Cabazon Band of Mission Indians |
| ▪ Indian Wells | ▪ Twenty-Nine Palms Band of Mission Indians |
| ▪ Indio | |

Of those, CVAG staff would note that the cities of Coachella, Indian Wells, Indio, and Desert Hot Springs have previously held positions on the Finance Committee, although they are not current members. The nominees from the Finance Committee will be presented to the Executive Committee for approval when it meets in April 2023, allowing the vacancy to be filled prior to the review of the budget.

With this item, CVAG staff is also recommending that the Finance Committee confirm the officer rotation starting now and continuing through the upcoming fiscal year. The rotation was put in place to ensure the longest serving elected official serves as Chair, and the second-longest serves as Vice Chair. Based on that rotation, staff recommends the committee appoint Councilmember Gregory to serve as Chair through FY 2023/24 and Tribal Chair Milanovich to as Vice Chair through FY 2023/24.

Fiscal Analysis: There is no fiscal impact.

ITEM 5A

Coachella Valley Association of Governments Finance Committee February 27, 2023



STAFF REPORT

Subject: Selection of Enterprise Resource Planning (ERP) Software to upgrade CVAG's financial systems

Contact: Claude T. Kilgore, Director of Finance/Administration (ckilgore@cvag.org)

Recommendation: Information

Background: In May 2022, CVAG staff presented Fiscal Year 2022/23 budgetary highlights to the Finance Committee members, who then provided direction on several budgetary items that had also been presented to the Administrative/Personnel Committee earlier. One of the major budgetary items that the Finance Committee provided direction on at its May 2022 meeting was to establish a new Enterprise Resource Planning (ERP) system. This item was ultimately included in the budget that was adopted by CVAG's General Assembly in June 2022.

An ERP system is an agency-wide system that helps automate and manage business processes across finance, human resources and general operations. The main financial system currently used by CVAG is Tyler Technologies' Eden system, which has been the primary system since approximately 2001. CVAG is aware that the Eden system will no longer be supported as of March 2027. The current financial system relies heavily on the use of manual processes within the Finance/Administration Department, resulting in inefficiencies and lapses in services that can lead to frustrations within other CVAG departments. Since joining CVAG, the new Director of Finance/Administration has initiated several workarounds to attempt to address the operational issues caused by the antiquated financial system through the increased use of software such as QuickBooks, Excel spreadsheets, and various Microsoft products, such as Microsoft Task Planner. This has been a good first step and have been appreciated by the departments, but it is only a band aid in addressing what is probably the single largest factor limiting the efficient operations of the Finance/Administration Department.

Aside from the impending Eden system sunset date in 2027, the life cycle of most ERP systems as indicated by the Government Finance Officers' Association (GFOA) is 10 to 15 years. CVAG has been utilizing the Eden system for well over 20 years and, while basic financial processes have been operating effectively, many aspects of the current system would benefit from an enhancement in functionality to keep up with CVAG's current operations. The biggest challenge is usually not a technical obstacle to overcome, but issues related to organizational change, leadership/governance, training, project management, and planning. To help minimize the challenges, CVAG will be utilizing the GFOA 10-step ERP project preparation checklist to help develop a structured procurement and implementation plan.

CVAG staff has started to explore the steps needed to procure and implement an ERP system. This includes conversations with internal and external stakeholders and seeking input from several member agencies such as the City of Palm Springs and the City of Indio as well as other

special districts like Riverside County Transportation Commission regarding their own recent ERP selections and implementations. While each agency has unique circumstances and operations that may affect their ERP selection decisions differently, undoubtedly, selecting the right ERP system for CVAG is one of the first steps to a successful ERP implementation.

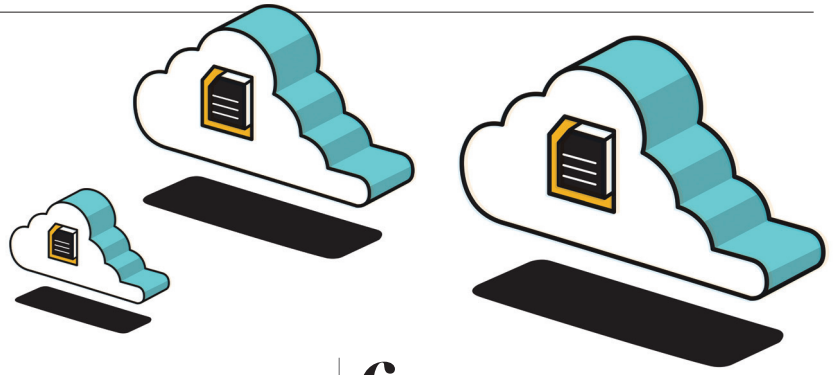
After review of the GFOA 10-step ERP project preparation checklist and considering the importance of selecting the right ERP system to ensure CVAG's financial integrity and operating effectiveness for the next 10-to-15-year life cycle of a new ERP system, CVAG staff anticipates the need for additional expertise in the form of an ERP selection services consultant. This external consultant would help guide ERP selection and a contract could include the option for implementation services as an add-on. This is similar to the approach other agencies embarking on the selection and implementation of a new ERP system. The ERP selection consultant will assist CVAG in shaping the vision and timeline of the ERP procurement implementation as well as to assist in project management and chart of accounts revamp, needs assessment and gap analysis, , vendor evaluation and selection through contract negotiations.

CVAG staff intends to release a Request for Proposals for ERP Selection Consulting Services around the end of February. Once the ERP selection services consultant has been identified, CVAG staff intends to present results and recommended vendor selection to the Executive Committee at its April 2023 meeting.

Fiscal Analysis: The fiscal year 2022/23 budget included allocation of funds for a new ERP system at \$150,000. Based on initial conversations and rough estimates, a selection services consultant is estimated to cost between \$50,000 and \$75,000, with the budget being determined by the negotiated contract. This will be the first expenditure related to ERP system with funds remaining this fiscal year likely being rolled into next fiscal year's ERP implementation estimate.

Attachment:

1. GFOA 10-step ERP project preparation checklist



10 Steps to Preparing for Your Next ERP Project

All technology becomes obsolete at some point, and GFOA experience shows that governments undertake a major ERP implementation approximately once every 10 to 15 years. Recent advances in cloud technologies, coupled with the need to adopt more streamlined and modern practices, provide a solid business case for investing in a new system—but these projects are difficult, and the biggest challenge is usually not a technical obstacle to overcome but issues related to organizational change, leadership/governance, training, project management, and planning. Use this checklist as you approach your next ERP project to help ensure you are best prepared for success.

For more information or additional guidance, GFOA's research and consulting center has additional information available at gfoa.org/rcc.

1

Establish and communicate a vision for the project by setting clear goals.

2

Identify leaders at both the organizational level and business process level, and define clear project governance roles for each.

3

Create a staffing plan and ensure that resources are not overburdened.

4

Build a system inventory for current systems. Make sure to capture all primary systems plus all Excel spreadsheets, manual files, or other tools that you would want to either replace or connect to your new ERP system.

5

Review existing business processes for improvement opportunities. Meetings to discuss process change should involve staff from operating departments to consider needs and ideas from different perspectives.

6

Issue an RFP and evaluate all vendors based on major risk factors. In today's market, most projects that fail do so because of a bad implementation, not faulty software.

7

Develop clear, outcome-focused requirements to set expectations about scope that can be used to hold your vendor accountable.

8

Prepare a full project plan that dedicates sufficient time for critical tasks before the system goes live, such as testing and training.

9

Insist on a fixed-fee contract based on completion of milestones for all implementation-related professional services.

10

Communicate. Communicate. Communicate. Help create a culture that is inclusive, open to discussing new ideas, and welcomes participation from across the organization.