

REGIONAL GOVERNMENT SERVICES AUTHORITY

Basic Financial Statements

Year ended June 30, 2012

REGIONAL GOVERNMENT SERVICES AUTHORITY

Basic Financial Statements

Year ended June 30, 2012

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Board of Directors  
Regional Government Services Authority  
Carmel Valley, California

## **INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying basic financial statements of the Regional Government Services Authority (the "Authority") as of and for the year ended June 30, 2012 as listed in the table of contents. These basic financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year partial comparative information has been derived from the Authority's financial statements for the year ended June 30, 2011 whose report, dated January 4, 2012 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2012 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that *management's discussion and analysis* beginning on page 2 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 6, 2013 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Mayer Hoffman McCann P.C.*

Irvine, California  
February 6, 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**REGIONAL GOVERNMENT SERVICES AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Fiscal Years ended June 30, 2012 and 2011**

The following discussion and analysis of the financial performance of Regional Government Services Authority ("Authority") provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

**FINANCIAL HIGHLIGHTS**

- Total net operating assets increased \$263,420 in FY2012 and increased \$181,613 in FY2011.
- Revenues from client reimbursements for services provided increased \$2,759,208 in FY2012 from fiscal year 2011 and \$2,423,792 in FY2011 from fiscal year 2010.
- Total operating expenditures increased \$2,677,401 in FY2012 from the 2011 fiscal year and increased \$2,469,814 in FY2011 from the 2010 fiscal year.
- Net assets at the end of the fiscal year are \$842,519 in FY2012 and were \$468,982 in FY2011, increasing over \$445,000 over the last two fiscal years.
- Net assets as of June 30, 2011 were restated by \$110,117 to reduce compensated absences for sick and admin leave not paid out upon termination of an employee.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

**Using the Accompanying Financial Statements**

The annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *notes to the basic financial statements*:

The basic financial statements include the following:

- The Statement of Net Assets provides both *long-term* and *short-term* information about the Authority's overall financial status.
- The Statement of Revenues, Expenses and Changes in Net Assets reports the revenues and expenses of the Authority for the fiscal year on an accrual basis of accounting and relates this to the increase in the net assets of the Authority.
- The Statement of Cash Flows reports the Authority's operating cash flow and reconciles operating income to the net cash provided by operating activities.

The notes to the financial statements provide additional information about the nature of the Authority's activities and operations and its significant accounting policies, as well as, more detailed explanations about some of the information contained in the basic financial statements.

The Authority operates as an enterprise, meaning that charges for services are expected to cover all expenses. Therefore, the Authority uses *proprietary fund* statements.

*Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the government operates in a manner similar to a private business.

**Government Fund Reporting:**

Figure A-1 summarizes the major features of government financial statements, including the portion of the government they cover and the types of information they contain. Because the Authority is an enterprise fund, the financial statements adhere to the Proprietary Funds format.

Figure A-1  
Major Features of Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Authority government (except fiduciary funds) and the Authority's component units	The activities of the Authority that are not proprietary or fiduciary	Activities the Authority operates similar to private businesses	Instances in which the Authority is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Modified accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term debt included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Authority's fiduciary funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid.

Reporting the Authority as a Whole

The accompanying **basic financial statements** include two statements that present financial data for the Authority as a whole. One of the most important questions asked about the Authority's finances is, "Is the Authority, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Authority as a whole and about its activities in a way

that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net assets and changes in them. You can think of the Authority's net assets – the difference between assets and liabilities –as one way to measure the Authority's financial health, or *financial position*. Over time, *increases and decreases* in the Authority's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other factors, however, such as changes in client needs/agreements for services and changes in the Authority's cost structure, to assess the *overall health* of the Authority.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, the Authority services are presented as Business-type activities:

- Business-type activities – The Authority charges a fee to customers to help it cover all of the cost of the services accounted for in the fund.

#### Reporting the Authority's Proprietary Fund

The **accompanying basic financial statements** provide detailed information on the Authority's only fund – and thus the Authority as a whole. The Authority Board may establish other funds to help it control and manage money for particular purposes or to show that it is meeting administrative responsibilities for using certain grants or other money. The Authority's one fund is a *proprietary fund*.

*Proprietary funds* – When an agency charges customers for the services it provides – whether to outside customers or to other units of the agency – these services are generally reported in proprietary funds. Required financial statements for proprietary funds include a Statement of Net Assets; a Statement of Revenues, Expenses and Changes in Net Assets; and a Statement of Cash Flows.

**REGIONAL GOVERNMENT SERVICES AUTHORITY**  
**Statement of Net Assets**  
**June 30, 2010, 2011 & 2012**

**Table 1**

	<b>Business - Type Activities</b>		
	2010	2011	2012
<b><u>ASSETS</u></b>			
Current Assets	\$ 749,015	1,606,151	2,428,085
Total assets	<u>\$ 749,015</u>	<u>1,606,151</u>	<u>2,428,085</u>
<b><u>LIABILITIES:</u></b>			
Liabilities	\$ 461,646	1,137,169	1,585,566
Total Liabilities	<u>\$ 461,646</u>	<u>1,137,169</u>	<u>1,585,566</u>
<b><u>NET ASSETS:</u></b>			
Unrestricted	\$ 287,369	468,982	842,519
Total Net Assets	<u>\$ 287,369</u>	<u>468,982</u>	<u>842,519</u>
Total net assets and liabilities	<u>\$ 749,015</u>	<u>1,606,151</u>	<u>2,428,085</u>

The increase in net assets is an indication that the overall operating financial position of the Authority improved during each of the last two years: by \$263,420 in FY2012 and by \$181,613 in FY2011, as indicated in the Changes in Net Assets Table 2 below. The remaining increase in net assets by \$110,117 is attributable to a prior period audit adjustment to accrue only unpaid vacation leave and not unpaid sick or administrative leave as sick and admin leave is not paid out upon termination of an employee. The net assets of the Authority's business-type activities increased from prior year restated net assets by 45 percent in 2012 and increased by 63 percent in 2011.

A summary of the statement of activities follows:

**Change in Net Assets – Year Ended  
June 30, 2010, 2011 & 2012  
Table 2**

	<b>Business - Type Activities</b>		
	2010	2011	2012
<b><u>Operating Revenues</u></b>			
Charges for services	\$ 3,522,763	5,946,555	8,705,763
Total revenues	<u>\$ 3,522,763</u>	<u>5,946,555</u>	<u>8,705,763</u>
<b><u>Operating Expenses</u></b>			
Salaries and benefits	\$ 2,749,905	5,028,321	7,388,026
Professional services	280,216	209,138	263,052
Administration	265,007	527,483	791,265
Total expenses	<u>\$ 3,295,128</u>	<u>5,764,942</u>	<u>8,442,343</u>
Change in net assets	\$ 227,635	181,613	263,420
Beginning net assets	<u>59,734</u>	<u>287,369</u>	<u>468,982</u>
Prior period adjustment			<u>110,117</u>
Ending net assets	<u>\$ 287,369</u>	<u>468,982</u>	<u>842,519</u>
Less Undesignated Reserve	143,684	179,491	421,260
Remaining Net Equity	143,685	289,491	421,259

### Business-Type Activities

Revenues of the Authority's operations (see Table 2) increased by 46.4 percent in FY2012 and by 68.8 percent in FY2011. Operating expenses increased by 46.4 percent in FY2012 from FY 2011, and increased by 75 percent in FY2011 from FY 2010.

### LONG-TERM DEBT

The Authority (JPA) has no long-term debt other than compensated absences and a cumulative retrospective deposit payable to the California Joint Powers Insurance Authority for RGS general liability coverage. Additional information on the Authority's long-term debt can be found in the notes to the accompanying basic financial statements.

## **BUDGET VERSUS ACTUAL PERFORMANCE**

In FY2012, the primary reason for the variances from budget was the growth in client services during the fiscal year, especially the increase in staffing provided to Gold Coast Health Plan, and a more appropriate level of reimbursement from Local Government Services Authority for administrative services provided by RGS. This growth is reflected in revenues and expenditures significantly above budgeted levels. The budget was adopted anticipating a \$61,700 addition to net earnings. Client growth and controlled administrative expenditures resulted in a 327% improvement in the budgeted addition to net earnings.

	<b>FY12 Budget</b>	<b>FY12 Actual</b>	<b>Variance</b>
<b>OPERATING REVENUES</b>	\$ 7,112,200	\$ 8,705,763	\$ 1,593,563
Operating Expenditures			
Salaries & Benefits	6,491,500	7,388,026	896,526
Operating & Maintenance	559,000	1,054,317	495,317
<b>OPERATING EXPENSES</b>	<b>7,050,500</b>	<b>8,442,343</b>	<b>1,391,843</b>
<b>Addition/(Reduction) in Net Assets</b>	<b>\$ 61,700</b>	<b>\$ 263,420</b>	<b>\$ 201,720</b>

### Future Financial Performance

JPA services were discontinued to one existing major client in early fiscal year 2013. No other major client is anticipated to discontinue JPA services in the rest of fiscal year 2013. JPA support services remain structured so that changes in service demand can quickly adjust up or down to client needs. Therefore, we do not expect normal fluctuations in the number of clients or level of client services provided to significantly impact the JPA's financial position. Additional client growth has historically more than offset decreased revenue from projects completed during the year. But, it is anticipated to take another 12 to 18 months to return to the levels achieved prior to contract termination of the one major client contract in August 2012, due to the number (48) of assigned staff.

Since restructuring its administrative functions during fiscal year 2008, the JPA has experienced sustained, positive financial performance. In FY2013, Management is again restructuring administrative functions, bringing payroll and financial services in-house in order to improve efficiency and client services. Following complete implementation of the restructuring, operating costs are expected to be at or below the costs prior to implementation. The JPA has been successful in adding new clients to replace completed client assignments. Management is not aware of any other commitments or conditions that may have a significant impact on the financial condition or operating results of the Authority after the date of the financial statements presented.

### Contacting the Authority's Financial Management

This financial report is designed to provide our customers and members with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer, Regional Government Services Authority, PO Box 1350, Carmel Valley, CA 93924.

## BASIC FINANCIAL STATEMENTS

REGIONAL GOVERNMENT SERVICES AUTHORITY

Statement of Net Assets

June 30, 2012

(with comparative information for the prior year)

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Current assets:		
Cash and investments (note 2)	\$ 1,664,970	92,745
Accounts receivable	723,948	1,486,798
Prepaid expenses	36,490	22,328
Deposits	<u>2,677</u>	<u>4,280</u>
Total current assets	<u>2,428,085</u>	<u>1,606,151</u>
Total assets	<u>2,428,085</u>	<u>1,606,151</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	330,177	285,867
Due to other governments	-	305,875
Unearned revenue	387,000	81,400
Compensated absences - current portion (note 3)	<u>57,449</u>	<u>58,398</u>
Total current liabilities	<u>774,626</u>	<u>731,540</u>
Noncurrent liabilities:		
Compensated absences - long term (note 3)	172,346	175,195
Claims payable - long term (note 3 and 6)	445,590	120,434
OPEB liability - long term (note 3 and 7)	<u>193,004</u>	<u>110,000</u>
Total noncurrent liabilities	<u>810,940</u>	<u>405,629</u>
Total liabilities	<u>1,585,566</u>	<u>1,137,169</u>
<u>Net Assets</u>		
Net assets:		
Unrestricted (note 4)	<u>842,519</u>	<u>468,982</u>
Total net assets	<u>\$ 842,519</u>	<u>\$ 468,982</u>

See accompanying notes to the basic financial statements.

REGIONAL GOVERNMENT SERVICES AUTHORITY  
Statement of Revenues, Expenses and Changes in Net Assets  
Year ended June 30, 2012  
(with comparative information for the prior year)

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Charges for services	\$ <u>8,705,763</u>	\$ <u>5,946,555</u>
Total operating revenues	<u>8,705,763</u>	<u>5,946,555</u>
Operating expenses:		
Salaries & benefits	7,388,026	5,028,321
Professional services	263,052	209,138
Administration	<u>791,265</u>	<u>527,483</u>
Total operating expenses	<u>8,442,343</u>	<u>5,764,942</u>
Change in net assets	263,420	181,613
Net assets at beginning of year, as restated (note 8)	<u>579,099</u>	<u>287,369</u>
Net assets at end of year	<u>\$ 842,519</u>	<u>\$ 468,982</u>

See accompanying notes to the basic financial statements.

REGIONAL GOVERNMENT SERVICES AUTHORITY

Statement of Cash Flows

Year ended June 30, 2012

(with comparative information for the prior year)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from customers	\$ 9,468,338	\$ 5,057,214
Cash paid to suppliers for goods and services	(697,410)	(433,896)
Cash paid to employees for services	<u>(7,198,703)</u>	<u>(4,837,646)</u>
Net cash provided by (used for) operating activities	<u>1,572,225</u>	<u>(214,328)</u>
Net increase (decrease) in cash and cash equivalents	1,572,225	(214,328)
Cash and cash equivalents at beginning of year	<u>92,745</u>	<u>307,073</u>
Cash and cash equivalents at end of year	<u>\$ 1,664,970</u>	<u>\$ 92,745</u>
Reconciliation of change in net assets to net cash provided by (used for) operating activities:		
Change in net assets	<u>\$ 263,420</u>	<u>\$ 181,613</u>
Adjustments to reconcile change in net asset to net cash provided by (used for) operating activities:		
(Increase) decrease in accounts receivable	762,850	(1,179,373)
(Increase) decrease in prepaid expenses	(14,162)	112,189
(Increase) decrease in deposits	1,603	(4,280)
Increase (decrease) in accounts payable	44,310	138,401
Increase (decrease) in due to other governments	(305,875)	305,875
Increase (decrease) in deferred revenue	305,600	4,157
Increase (decrease) in client deposits	-	(20,000)
Increase (decrease) in compensated absences	106,319	80,675
Increase (decrease) in claims payable	325,156	56,415
Increase (decrease) in OPEB liability	<u>83,004</u>	<u>110,000</u>
Total adjustments	<u>1,308,805</u>	<u>(395,941)</u>
Net cash provided by (used for) operating activities	<u>\$ 1,572,225</u>	<u>\$ (214,328)</u>

There were no significant noncash financing or investing activities for the years ended June 30, 2012 and 2011.

See accompanying notes to the basic financial statements.

# REGIONAL GOVERNMENT SERVICES AUTHORITY

## Notes to the Basic Financial Statements

Year ended June 30, 2012

### (1) Summary of Significant Accounting Policies

#### Nature of Business

The Regional Government Services Authority (the "Authority") was organized March 1, 2001 under the provisions of the Joint Exercise of Powers Act of the Government Code of the State of California. The purpose of the Authority is to provide services for public agencies and other non-profit entities at reduced net costs.

Members of the Authority currently include the City of San Rafael, City of Larkspur, the Association of Bay Area Governments (ABAG), the Town of Yountville, the City of Dublin and the City of Walnut Creek. A six-member board consisting of one representative from each member controls the Authority. None of the member entities exercise specific control over budgeting and financing of the Authority's activities beyond their representation on the board. Accounting and payroll services were provided by McGilloway, Ray, Brown & Kaufman. As of January 1, 2013, the Authority will provide accounting services with Authority staff.

The following is a summary of the significant accounting policies of the Authority:

#### Basis of Accounting

The Authority is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges. The Authority utilizes the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred.

The Authority applies all applicable GASB pronouncements in accounting and reporting for proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's) of the Committee on Accounting Procedure.

#### Investments

For financial reporting purposes, investments are adjusted to their fair value whenever the difference between fair market value and the carrying amount is material. 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.

# REGIONAL GOVERNMENT SERVICES AUTHORITY

## Notes to the Basic Financial Statements

(Continued)

### (1) Summary of Significant Accounting Policies, (Continued)

#### Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of 3 months or less.

#### Receivables

The Authority did not experience any significant bad debt losses; accordingly, no provision has been made for doubtful accounts, and accounts receivable is shown at full value.

#### Compensated Absences

The Authority has a PTO (paid time off) policy in effect. It is the Authority's policy to permit employees to accumulate earned but unused vacation leave. Vacation hours can accrue up to a maximum of two times the annual allowable amount, subject to the individual employment agreement. The Authority pays all earned vacation pay upon termination. All accumulated vacation pay is recorded as an expense and a liability at the time the benefit is earned.

#### Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Prior Year Information

Prior year data has been included where practical for comparison purposes only. The prior year data does not represent a complete presentation in accordance with generally accepted accounting principles.

REGIONAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments

Cash and investments held by the Authority at June 30, 2012 consist of the following:

Deposits with financial institutions	\$ 62,141
Investments	<u>1,602,829</u>
Total cash and investments	<u>\$1,664,970</u>

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

The table below identifies the investment types that are authorized for California local governments by the California Government code. The Authority's investment policy is more restrictive as to investment vehicles permitted for use by the Authority. The table also identifies certain provisions of the California Government Code (or the Authority's investment policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

<u>Investment Types Authorized by State Law</u>	<u>Authorized By Investment Policy</u>	<u>*Maximum Maturity</u>	<u>*Maximum Percentage Of Portfolio</u>	<u>*Maximum Investment In One Issuer</u>
Local Agency Bonds	Yes	1 year	75%	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	25%	None
Banker's Acceptances	No	180 days	40%	30%
Commercial Paper	No	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	25%	None
Repurchase Agreements	No	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	No	5 years	30%	None
Mutual Funds	No	N/A	20%	10%
Money Market Mutual Funds	No	N/A	20%	10%
Mortgage Pass-Through Securities	No	5 years	20%	None
CalTrust Investment Pool	Yes	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	40 million	None

\*Based on state law requirements or investment policy requirements, whichever is more restrictive.

REGIONAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

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 an agency can manage 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.

Information about the sensitivity of the fair values of the Authority's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity for year ended June 30, 2012:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturing (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
CalTRUST investment pool	\$1,554,719	1,554,719	-	-	-
State investment pool (LAIF)	<u>48,110</u>	<u>48,110</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$1,602,829</u>	<u>1,602,829</u>	<u>-</u>	<u>-</u>	<u>-</u>

REGIONAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Presented below is the minimum rating required by (where applicable) the California Government Code, the Authority's investment policy, or debt agreements, and the actual rating as of the year end June 30, 2012 for each investment type was as follows.

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>AA</u>	<u>Not Rated</u>
CalTRUST investment pool	\$1,554,719	N/A	-	-	478,647	1,076,072
State investment pool (LAIF)	48,110	N/A	-	-	-	48,110
Total	<u>\$1,602,829</u>	N/A	<u>-</u>	<u>-</u>	<u>478,647</u>	<u>1,124,182</u>

Concentration of Credit Risk

The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total Authority investments for fiscal years ended June 30, 2012.

# REGIONAL GOVERNMENT SERVICES AUTHORITY

## Notes to the Basic Financial Statements

(Continued)

### (2) Cash and Investments, (Continued)

#### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

#### Investment in State Investment Pool

The Authority 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 the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by 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.

#### Investment in CalTRUST Investment Pool

The Authority is a voluntary participant in the Investment Trust of California (CalTRUST), a public joint powers authority formed to pool and invest the funds of public agencies. CalTRUST invests in fixed income securities eligible for investment pursuant to California Government Code Sections 53601 and 53635. Investment guidelines adopted by the board of Trustees may further restrict the types of investments held by the Trust. Leveraging within the Trust's portfolios is prohibited. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by CalTRUST for the entire CalTRUST portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by CalTRUST, which are recorded on an amortized cost basis.

REGIONAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(3) Long-Term Debt

The following is a schedule of changes in long-term liabilities for the year ended June 30, 2012:

	Balance at July 1, 2011 <u>As Restated</u>	<u>Additions</u>	<u>Deletions</u>	Balance at June 30, 2012	Portion Due Within One Year
Compensated absences	\$123,476	271,359	165,040	229,795	57,449
Claims payable	120,434	386,650	61,494	445,590	-
OPEB liability	<u>110,000</u>	<u>83,004</u>	<u>-</u>	<u>193,004</u>	<u>-</u>
Total	<u>\$353,910</u>	<u>741,013</u>	<u>226,534</u>	<u>868,389</u>	<u>57,449</u>

Compensated absences as of July 1, 2011 has been restated by \$110,117. See prior period adjustment footnote 8 for further information.

(4) Net Assets

Net assets consisted of the following as of June 30, 2012:

Unrestricted net assets available for operations	\$ 421,259
Unrestricted, board designated net assets:	
Reserve for contingencies**	<u>421,260</u>
Total unrestricted net assets	<u>842,519</u>
Total restricted net assets	<u>-</u>
Total net assets	<u>\$ 842,519</u>

\*\*At the June 10, 2010 Board of Directors meeting, the Authority's Board of Directors authorized designation of general funds as reserves for insurance and normal operations.

REGIONAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(5) Defined Contribution Plans

The Authority has established a deferred compensation plan in accordance with Internal Revenue Code Section 457(b), whereby employees may elect to defer portions of their compensation in a self-directed investment plan for retirement. Plan assets are invested in each individual's name with a deferred compensation plan provider. Distributions are made upon the participant's termination, retirement, death or total disability, and in a manner in accordance with the election made by the participant. All employees are eligible for plan participation.

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

The Authority has also established a defined contribution plan in accordance with Internal Revenue Code Section 401(a), for the employer's qualified retirement plan. The employer contributes 10% of the employees' salary to the employee's self-directed investment plan for retirement. The employer may also match employee contributions up to 5% on behalf of the employee subject to individual employment agreement. Plan assets are invested in each individual's name with the defined contribution plan provider. Distributions are made upon the participant's termination, retirement, death or total disability, and in a manner in accordance with the election made by the participant.

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

# REGIONAL GOVERNMENT SERVICES AUTHORITY

## Notes to the Basic Financial Statements

(Continued)

### (6) Liability, Insured Programs and Workers' Compensation Protection

For the year ended June 30, 2012, the Authority was a member of the California Joint Powers Insurance Authority (Cal JPIA) through June 30, 2012. The JPIA Executive Committee used a "rolling" retro payment and refund schedule for members. One-fourth of the retro amount is paid or refunded each year. The effect is that payments and refunds will partially net out, thus reducing cash flow fluctuations from year to year. At June 30, 2012 the cumulative retrospective deposit payable for general liability is \$58,940 and the cumulative retrospective deposit refund for workers' compensation is \$2,677. These amounts are reflected as claims payable and deposits in the accompanying financial statements.

#### *Description of Self-Insurance Pool Pursuant to Joint Powers Agreement*

Cal JPIA is composed of 123 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of Cal JPIA 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 9-member Executive Committee.

Each member pays an annual contribution (formerly called the primary deposit) to cover estimated losses for the coverage period. This initial funding is paid at the beginning of the coverage period. After the close of the coverage period, outstanding claims are valued. A retrospective deposit computation is then conducted annually thereafter until all claims incurred during the coverage period are closed on a pool-wide basis. This subsequent cost re-allocation among members based on actual claim development can result in adjustments of either refunds or additional deposits required.

The total funding requirement for self-insurance programs is estimated using actuarial models and pre-funded through the annual contribution. Costs are allocated to individual agencies based on exposure (payroll) and experience (claims) relative to other members of the risk-sharing pool. Additional information regarding the cost allocation methodology is provided below.

#### *Self-Insurance Programs of the Authority*

General Liability In the liability program, claims are pooled separately between police and non-police 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

REGIONAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(6) Liability, Insured Programs and Workers' Compensation Protection. (Continued)

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 in excess of \$750,000 up to the reinsurance attachment point of \$5 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$5 million to \$10 million are paid under a reinsurance contract subject to a \$2.5 million annual aggregate deductible. Costs of covered claims from \$10 million to \$15 million are paid under two reinsurance contracts subject to a combined \$3 million annual aggregate deductible. On a cumulative basis for all 2011-12 reinsurance contracts the annual aggregate deductible is \$5.5 million. (6) Costs of covered claims from \$15 million up to \$50 million are covered through excess insurance policies.

The overall coverage limit for each member including all layers of coverage is \$50 million per occurrence.

Costs of covered claims for subsidence losses are paid by reinsurance and excess insurance with a pooled sub-limit of \$35 million per occurrence. This \$35 million subsidence sub-limit is composed of (a) \$5 million retained within the pool's SIR, (b) \$10 million in reinsurance and (c) \$20 million in excess insurance. The excess insurance layer has a \$20 million annual aggregate.

Workers' Compensation In the workers' compensation program, claims are pooled separately between public safety (police and fire) and non-public safety 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 \$50,000 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 \$50,000 to \$100,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$100,000 up to the reinsurance attachment point of \$2 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$2 million up to statutory limits are paid under a reinsurance policy. Protection is provided per statutory liability under California Workers' Compensation Law.

Employer's Liability losses are pooled among members to \$2 million. Coverage from \$2 million to \$5 million is purchased as part of a reinsurance policy, and Employer's Liability losses from \$5 million to \$10 million are pooled among members.

## REGIONAL GOVERNMENT SERVICES AUTHORITY

### Notes to the Basic Financial Statements

(Continued)

#### (6) Liability, Insured Programs and Workers' Compensation Protection, (Continued)

##### *Purchased Insurance*

Crime Insurance The Authority purchases crime insurance coverage in the amount of \$1,000,000 with a \$25,000 deductible. The fidelity coverage is provided through the California JPIA. Premiums are paid annually and are not subject to retroactive adjustments.

##### *Adequacy of Protection*

During the past three fiscal years, none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. On July 1, 2012, the Authority withdrew from CalJPIA.

##### *Municipal Services Authority*

July 1, 2012, the Authority terminated its active membership with Cal JPIA and placed its programs of protection with another pooled program, Municipal Services Authority (MSA), a joint powers insurance authority. MSA has two member agencies: Regional Government Services Authority and Local Government Services Authority. Brokerage services are provided by Keenan and Associates. Any claims incurred prior to July 1, 2012, have or will be tendered to Cal JPIA. Those incurred after July 1, 2012, will accrue to MSA.

#### (7) Post Employment Benefit Plan

*Plan Description:* Certain employees who retire from the Authority with 10 years of service are eligible to receive health care benefits covering themselves and any qualified members. For those employees with employment agreements stipulating this benefit, the Authority pays 100% of the single rate premium charged to active employees under a health benefit plan administered by the Public Employees Retirement System (PERS) in which the individual is able to select, on an annual basis, an insurance carrier from a number of insurance carriers. All other retirees are eligible for the PERS mandated benefit coverage, under which the Authority currently would pay up to \$112 per month for any health coverage, subject to the PERS vesting schedule.

*Funding Policy:* The Authority's actuarially-based funding plan began in fiscal year 2010 with contributions being set aside in an Authority reserve, beginning in fiscal year 2011. The Authority has not elected to participate in the CalPERS OPEB Trust or form its own or participate in another OPEB Trust because it does not intend to remain in CalPERS Medical Plan indefinitely. The Authority is pursuing other pay-as-you-go retiree medical benefit plans that are more consistent with its business plan of servicing public and non-profit agencies.

REGIONAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(7) Post Employment Benefit Plan, (Continued)

CalPERS publishes separate financial statements conforming to GASB Statement No. 43 in separately issued financial statements for the CalPERS OPEB Trust. Copies of PERS' annual financial reports for its OPEB Trust may be obtained from its executive office at 400 "Q" Street, Sacramento, California 95811.

*Annual OPEB Cost and Net OPEB Obligation.* The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed fifteen years, with a sensitivity analysis of 10 years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation for these benefits:

Annual required contribution	\$ 87,000
Interest on annual required contribution	4,004
Amortization	<u>(8,000)</u>
Annual OPEB cost (expense)	83,004
Contributions made (including premiums paid)	<u>-</u>
Increase in net OPEB obligation	83,004
Net OPEB obligation—beginning of year	<u>110,000</u>
Net OPEB obligation—end of year	<u><u>\$193,004</u></u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years were as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>% of Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
6/30/2010	\$ 32,000	0.0%	\$ 32,000
6/30/2011	78,000	0.0%	110,000
6/30/2012	83,004	0.0%	193,004

REGIONAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(7) Post Employment Benefit Plan. (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress is designed to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Cost Method. The actuarial assumptions included a 7.75 percent investment rate of return, which is the assumed rate of the expected long-term investment returns (4 % discount rate) on plan assets calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements of .6% per year to an ultimate rate of 5 percent after the tenth year. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an closed basis over 30 years. It is assumed the Authority's payroll will increase 3.25% per year.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Actuarial UAAL as a Percentage of Covered Payroll (b-a/c)
6/30/2010	\$0	\$87,000	\$87,000	0%	\$1,206,000	7.21%

REGIONAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(8) Prior Period Adjustment

During the year ended June 30, 2012, the Authority restated the beginning net assets to reduce the compensated absences for sick and admin leave that would not be paid out upon termination in the amount of \$110,117.

Net assets, beginning, as previously reported	\$ 468,982
Adjustment to compensated absences	<u>110,117</u>
Net assets, beginning, as restated	<u>\$ 579,099</u>

(9) Contingencies

The Authority is a defendant in several legal actions by former Authority employees. While the final outcome cannot be determined at this time, management is of the opinion that the ultimate liability, if any, from the final resolution of these matters will not have a material effect on the Authority's financial statements.