

Regional Government Services Authority

*Basic Financial Statements and
Independent Auditors' Reports*

For the years ended June 30, 2020 and 2019

Regional Government Services Authority
Financial Statements
For the years ended June 30, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Regional Government Services Authority
Carmel Valley, California

We have audited the accompanying financial statements of the enterprise fund and the aggregate remaining fund information of the Regional Government Services Authority (Authority), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise fund and the aggregate remaining fund information of the Authority, as of June 30, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink that reads "Badawi & Associates". The signature is written in a cursive, flowing style.

Badawi & Associates,
Certified Public Accountants
Berkeley, California
November 12, 2020

MANAGEMENT’S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Regional Government Services Authority (the “Authority” or “RGS”) financial performance provides an overview of the Authority’s financial activities for the fiscal year (FY) ended June 30, 2020. Please read it in conjunction with the Authority’s financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- In the fiscal year ended June 30, 2020, the Authority’s net loss of \$83,380 is a \$374,074 improvement from the loss of \$457,454 in the prior fiscal year.
- The Authority’s largest client began with RGS in 2009 and grew significantly during the fiscal year in its use of RGS services thirteen. The growth accounts for a \$4,152,976 increase in client revenue for FY20 vs FY19. The increased revenue is largely offset by the corresponding increases in salary, benefits and professional services expenses.
- For the twelve months ending June 30, 2020 client billings were \$2,049,236 (24%) over budget
- Several expense variances resulted in the net loss of \$83,380. RGS budgeted a loss of \$12,800, the larger loss is primarily due to vacation accrual and unemployment premium costs associated with the additional CalSAWS employees.

OPERATIONAL HIGHLIGHTS

- The Authority now identifies its services by eleven Service Lines: Economic Development, Emergency Management Services, Finance, Human Resources, Outreach, Planning, Public Works, Risk Management, Workplace Safety, Public Safety and Training.
- RGS provides all accounting and human resources functions for a Groundwater Sustainability Agency (GSA); financial, IT and marketing functions for the STARS program (401a and 457b Plans); and financial and support functions for Municipal Shared Services (MSS), a non-profit, tax-exempt benefit corporation. The investments in JPA resources results in lower operating costs, improved reporting and controls, and increased capacity to take on addition client work and new client services.
- The Authority continues to review its remaining technology needs, including improving the cost model, enhancements to financial and time recording data gathering and reporting, and better utilization of social media platforms and customer relations management software.
- The Authority has administrative personnel, technical infrastructure, internal processes and outreach activities in place to control costs and grow RGS services revenue.

USE OF FINANCIAL STATEMENTS TO ANALYZE THE AUTHORITY’S CONDITION

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

THE STATEMENT OF NET POSITION

The Statement of Net Position details the Authority's assets, liabilities and the difference between them, known as net position, at the end of the fiscal years, June 30, 2020, June 30, 2019, and June 30, 2018. The level of net position is one way to measure the Authority's financial health. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating.

THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

THE STATEMENT OF CASH FLOWS

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

THE NOTES TO FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS

NET POSITION

The Authority's net position at June 30, 2020 totaled \$143,353 compared with \$226,733 at June 30, 2019 and \$684,187 at June 30, 2018. A summary of the Authority's asset, liability and net position balances at the end of the current and prior fiscal years appears on the following chart.

	2018	2019	2020	Change	Percent Change
Current Assets	\$1,896,065	\$2,968,347	\$3,224,023	\$255,676	9%
Current Liabilities	1,088,132	460,367	641,146	180,779	39%
Non-Current Liabilities	123,746	2,281,247	2,439,524	158,277	7%
Total Liabilities	1,211,878	2,741,614	3,080,670	339,056	12%
Net Position					
Unrestricted	684,187	226,733	143,353	-83,380	-37%

The June 30, 2020 cash and cash equivalents balance of \$1,584,632 was down \$53,616 from the balance at the end of the prior year. Accounts receivable grew \$297,462 (24%) which is less than the growth in revenue over the prior year and reflects typical billing and client payment cycle fluctuations. The Authority invests surplus cash in a Money Market account at the Community Bank of the Bay, the Local Agency Investment Fund, a governmental investment pool managed and directed by the California State Treasurer, and also in the Investment Trust of California (CalTRUST), a public joint powers authority formed to pool and invest the funds of public agencies.

Non-Current liabilities grew \$158,277. The principal cause of the increase is the growth in the vacation accrual associated with the growth in new employees assigned to CalSAWS. There was also a small increase in estimated claims liabilities resulting from the current actuarial report. The agency has no long-term debt.

REVENUES, EXPENSES AND CHANGES IN NET POSITION

Operating revenue and expenses increased significantly from the prior fiscal. Operating expenses include all costs related to payroll and employee benefits, as well as general and administrative expenses. Professional services expenses also grew significantly which is attributed to the authority's largest client which makes use of 6 independent contractors, it is important to note that all these costs are passed on to the client with a small administrative fee. Administrative costs grew although at one-third the rate of revenue growth reflecting JPA operating leverage and cost controls.

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

	2018	2019	2020	Change	Percent Change
Operating Revenues:					
Charges for services	\$ 9,180,635	\$ 9,182,646	\$ 13,195,143	\$ 4,012,497	44%
Operating Expenses:					
Salaries and benefits	7,982,732	7,642,273	10,300,415	2,658,142	35%
Professional services	484,117	955,130	2,329,567	1,347,438	144%
Administration	714,364	587,160	674,817	87,675	15%
Total Operating Expenses	9,181,213	9,184,563	13,304,799	4,120,236	45%
Operating Income (Loss)	-578	-1,917	-109,656	-107,739	5620%
Non-Operating Revenues					
Investment income	7,861	48,742	26,276	-22,466	-46%
Special item		-504,279		504,279	-100%
Change in net position	7,283	-457,454	-83,380	374,074	-82%
Beginning Net Position	676,904	684,167	226,733	-457,454	-67%
Ending Net Position	\$ 684,187	\$ 226,733	\$ 143,353	\$ -83,380	-37%

CAPITAL ASSETS

At June 30, 2020, the Authority had no capital assets, no depreciation expenses and no immediate plans to acquire capital assets in the future.

ECONOMIC FACTORS AND BUDGET

The Authority is a unique government agency in that it is 100% fee-for-service driven AND that it provides general and administrative services to public agencies and their non-profit partners. How RGS can be of value to local governments varies from agency to agency, but in general there are five lines of business: on-going functional support services; project management; administrative consulting expertise; communications and outreach consulting; and administrative services (such as accounts payable, payroll, training, etc.). Agencies use the Authority's services when they determine it is in their best interest to do so. Because financial pressures on local governments are cyclical but ever increasing, the demand for RGS

services is expected to vary, but generally to increase over time as long as those services are relevant to the needs of and are cost effective for the clients.

The Authority's governing body – its Board of Directors and committees – guide and ensure that the Authority stays current with its mission to serve local agencies in a fiscally sustainable manner. The Authority's growth over the last 19 years, from formation to now over 130 clients over the course of the fiscal year and over 300 client agencies served since inception, is confirmation of the value of that mission and of the guidance received by the local government executives who serve on our Board. There have been and will be challenges along the way which require adjustments and investments in the Authority's capacity. Fiscal year 2020 was a year of continued growth in the number of partner agencies served, as well as the range of service offerings. RGS continued to invest in its capacity to improve existing and develop new services by hiring committed and professional staff. It has also continued to invest in RGS sponsorship of local agency trade groups and professionals, and its outreach to agencies so more cities, special districts and joint powers authorities know of RGS' services and value; increased its investment in technological tools to better track projects and resources; and increased training and professional development of RGS Advisors and core administrative staff.

The FY2021 budget reflects a stable base of large partner agencies, a dip in advisory and consulting services resulting from Covid19 financial impact to local governments, continued investments in conference and sponsorship activities, and the careful monitoring and adjustment of charges for services. Fiscal year 2021 financial performance is expected to show a net income of \$46,000 as the JPA continues to absorb legal and administrative costs associated with CalPERS increased involvement in local government operations.

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

Regional Government Services is a public agency serving the consulting and administrative support needs of public agencies.

Regional Government Services Authority
Statement of Net Position
June 30, 2020 and 2019

	2020	2019
ASSETS		
Current assets:		
Cash and investments	\$ 1,584,632	\$ 1,638,248
Accounts receivables	1,547,974	1,250,512
Due from other agencies	23,240	24,999
Prepaid expenses	68,177	54,588
Total assets	3,224,023	2,968,347
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	207,613	111,328
Accrued salaries and wages	406,467	317,927
Unearned revenue	27,066	31,113
Total current liabilities	641,146	460,367
Noncurrent liabilities:		
Compensated absences	241,531	107,776
Claims payable	160,500	120,682
Retrospective contributions payable	2,037,493	2,052,789
Total noncurrent liabilities	2,439,524	2,281,247
Total liabilities	3,080,670	2,741,614
NET POSITION		
Unrestricted	143,353	226,733
Total net position	\$ 143,353	\$ 226,733

Regional Government Services Authority
Statement of Revenues, Expenses and Changes in Net Position
For the years ended June 30, 2020 and 2019

	2020	2019
OPERATING REVENUES:		
Charges for services:		
Service charges	\$ 13,195,143	\$ 9,182,646
Total operating revenues	13,195,143	9,182,646
OPERATING EXPENSES:		
Salaries and benefits	10,300,415	7,642,273
Professional services	2,329,567	955,130
Administration	674,817	587,160
Total operating expenses	13,304,799	9,184,563
OPERATING INCOME (LOSS):	(109,656)	(1,917)
NONOPERATING REVENUES (EXPENSES):		
Investment income	26,276	48,742
Total nonoperating revenues	26,276	48,742
SPECIAL ITEM:		
Transfer relating to dissolved related party entities (Note 9)	-	(504,279)
NET INCOME (LOSS)	(83,380)	(457,454)
NET POSITION:		
Beginning of year	226,733	684,187
End of year	\$ 143,353	\$ 226,733

See accompanying Notes to Basic Financial Statements.

Regional Government Services Authority
Statement of Cash Flows
For the years ended June 30, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for services	\$ 12,895,393	\$ 9,272,946
Cash paid to supplies for goods and services	(2,921,688)	(2,365,377)
Cash paid to employees for services	(10,053,598)	(7,658,243)
Net cash provided by (used in) operating activities	(79,893)	(750,674)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash transferred from dissolved related party entities	\$ -	\$ 1,815,038
Net cash provided by noncapital financing activities	-	1,815,038
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income received	26,277	48,742
Net cash provided by investing activities	26,277	48,742
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(53,616)	1,113,106
CASH AND CASH EQUIVALENTS:		
Beginning of year	1,638,248	525,142
End of year	<u>\$ 1,584,632</u>	<u>\$ 1,638,248</u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ (109,656)	\$ (1,917)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Changes in assets and liabilities:		
Accounts receivable	(295,703)	83,939
Prepaid expenses	(13,589)	32,654
Accounts payable	96,285	49,762
Accrued salaries and wages	88,540	6,361
Unearned revenue	(4,047)	6,361
Due to other government	-	(830,451)
Claims payable	39,818	(75,052)
Retrospective contributions payable	(15,296)	-
Compensated absences	133,755	(15,970)
Net cash provided by operating activities	\$ (79,893)	\$ (750,674)
NONCASH ITEMS:		
Prepaid items transferred	-	(75,769)
Due to Municipal Services Authority adjustment	-	146,563
Claims and retrospective contribution payable transferred	-	2,248,523

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

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Regional Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

Members of the Authority include the City of Larkspur, the Town of Yountville, the City of Dublin, and the City of Walnut Creek. A four member board consisting of one representative from each member controls the Authority. None of the member entities exercise specific control over budgeting and financing of the Authority's activities beyond their representation on the board.

B. Basis of Accounting

The Authority is accounted for as an enterprise fund and its financial statements are prepared using the economic measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows.

Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenue of the Authority are fee for services. Operating expenses of the Authority include the cost of personnel providing the services, administrative expenses, and other professional services. All revenues and expenses not meeting this definition are reporting as non-operating revenue and expense.

Fiduciary Fund

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Authority uses an agency fund for cash held on behalf of other government entities. These funds are reported in a separate statement of fiduciary net position. The agency funds are custodial in nature and do not involve measurement of results of operations. Accordingly, the Authority presents only a statement of fiduciary net position and does not present a statement of changes in fiduciary net position. Fiduciary funds are not reflected in the enterprise fund financial statements because the resources of those funds are not available to support the Authority's own programs. Fiduciary funds are presented on an economic resources measurement focus and the accrual basis of accounting, similar to the enterprise fund financial statements.

C. Cash and Cash Equivalents

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

Regional Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Accounts Receivable

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

E. Investments

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

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

The Authority records its investments in the CalTRUST investment pool at fair value. Changes in fair value are reported as revenue in the Statement of Revenues, Expenses, and Changes in Net Position. The effect of recording investments at fair value is reflected as an increase or decrease in the fair value of investments on the Statement of Revenues, Expenses, and Changes in Net Position. The Authority's investments in the CalTRUST investment pool have been valued based on the relative fair value of the entire external pool to the external pool's respective amortized cost.

F. Unearned Revenue

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

G. Use of Estimates

The preparation of the Financial Statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

Regional Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Net Position

Financial Statements

In the Financial Statements, net position is classified in the following categories:

Net Investment in Capital Assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted - This amount is all net position that do not meet the definition of "net investment in capital assets" or "restricted net position" as defined above.

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the Authority's policy is to apply restricted net position first.

I. New Pronouncements

In 2020, the Authority adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 95 - *Postponement of the Effective Dates of Certain Authoritative Guidance* - The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The Authority has elected to implement the provisions of all GASB Statements based on the new effective dates.

Regional Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2020 and 2019

2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2020 and 2019 consisted of the following:

	2020	2019
Cash on hand and in the banks	\$ 105,575	\$ 65,863
Money Market Account	984,877	399,352
CalTrust Funds	467,929	1,171,811
Local Agency Investment Fund	26,251	1,222
Total Cash and Investments	\$ 1,584,632	\$ 1,638,248
Enterprise Fund	\$ 1,584,632	\$ 1,638,248
Total Cash and Investments	\$ 1,584,632	\$ 1,638,248

A. Cash in Bank

The carrying amount of the Authority's cash is covered by federal depository insurance up to \$250,000. Should deposits exceed the insured limits, the balance is covered by collateral held by the bank in accordance with California law requiring the depository bank to hold collateral equal to 110% of the excess government funds on deposit. California law also allows institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the Authority's total cash deposits.

B. Local Agency Investment Fund

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by Code Section 16429 under the oversight of the Treasurer of the State of California. The Authority's investments with LAIF at June 30, 2020 and 2019, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

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

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

Regional Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2020 and 2019

2. CASH AND INVESTMENTS, Continued

B. Local Agency Investment Fund, Continued

As of June 30, 2020, the Authority had \$26,251 invested in LAIF, which had invested 2.21% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 1.77% in the previous year. The LAIF fair value factor of 1.004912795 was used to calculate the fair value of the investments in LAIF.

As of June 30, 2019, the Authority had \$1,195 invested in LAIF, which had invested 1.77% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 2.67% in the previous year. The LAIF fair value factor of 1.001711790 was used to calculate the fair value of the investments in LAIF.

C. CalTRUST Investment Pool

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

D. Fair Value Measurements

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: 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. None of the Authority's investments were subject to levelling disclosure.

E. Risk Disclosures

Interest Rate Risk

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

Regional Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2020 and 2019

2. CASH AND INVESTMENTS, Continued

E. Risk Disclosures, Continued

2020

Investment Type	Fair Value	Investment Maturities (in years)				
		1 year or Less	2 years	3 years	4 years	5 years or More
Money Market Account	\$ 984,877	\$ 984,877	\$ -	\$ -	\$ -	\$ -
CalTrust Funds	467,929	467,929	-	-	-	-
Local Agency Investment Fund	26,251	26,251	-	-	-	-
Total	\$1,479,057	\$1,479,057	\$ -	\$ -	\$ -	\$ -

2019

Investment Type	Fair Value	Investment Maturities (in years)				
		1 year or Less	2 years	3 years	4 years	5 years or More
Money Market Account	\$ 399,352	\$ 399,352	\$ -	\$ -	\$ -	\$ -
CalTrust Funds	1,171,811	1,171,811	-	-	-	-
Local Agency Investment Fund	1,222	1,222	-	-	-	-
Total	\$1,572,385	\$1,572,385	\$ -	\$ -	\$ -	\$ -

Credit Risk

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

Concentration of Credit Risk

The investment policy of Regional Government Services Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total Authority investments for the year ended June 30, 2020 and 2019.

Regional Government Services Authority
Financial Statements
For the years ended June 30, 2020 and 2019
Notes to Financial Statements

2. CASH AND INVESTMENTS, Continued

E. Risk Disclosures, 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.

3. LONG TERM LIABILITIES

A. Compensated Absences

The Authority has long term liabilities for compensated absences in the amount of \$241,531 and \$107,776 as of June 30, 2020 and 2019.

	Balance	2020		Balance
	July 1, 2019	Additions	Reductions	June 30, 2020
Compensated absences	\$ 107,776	\$ 223,844	\$ (90,089)	\$ 241,531

	Balance	2019		Balance
	July 1, 2018	Additions	Reductions	June 30, 2019
Compensated absences	\$ 123,746	\$ -	\$ (15,970)	\$ 107,776

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3. LONG TERM LIABILITIES, Continued

B. Claims Liabilities

The Authority was a member of Municipal Services Authority (MSA), which provided coverage for workers' compensation, general liability and errors and omissions. MSA dissolved during fiscal year 2019, and risk for workers' compensation, general liability, and errors and omissions was assumed by the Authority. The Authority became a member of Municipal Insurance Cooperative (MIC), a newly formed Joint Powers Authority which provides coverage for general liability and workers compensation.

MIC is governed by a Board consisting of representatives from its member agencies. The Board controls the operations, including selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the Board. Each member agency pays a contribution or assessment commensurate with the level of coverage and services requested and shares surpluses and deficits proportionate to their participation in the joint powers authority.

Condensed financial information for MIC as of and for the years ended June 30, 2020 and 2019 were as follows:

	2020	2019
Total Assets	\$ 144,456	\$ 114,900
Total Liabilities	20,950	8,500
Net Position	<u>\$ 123,506</u>	<u>\$ 106,400</u>
Revenues	\$ 1,805,686	\$ 2,161,922
Expenses	1,803,573	2,126,622
Nonoperating income	14,993	19,296
Change in Net Position	<u>\$ 17,106</u>	<u>\$ 54,596</u>

The claims liability for the years ended June 30, 2020 and 2019 was based on an actuarial valuation. The schedule below represents changes in claims liabilities for the Authority during the period ended June 30, 2020 and 2019.

For the Years Ended June 30,	Claims Payable July 1	Fiscal Year Claims and Changes in Estimates	Claims Payments	Claims Payable June 30
2020	120,682	95,255	(55,437)	160,500
2019	-	120,682	-	120,682

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4. RETROSPECTIVE CONTRIBUTIONS

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

The amounts assumed by Authority for the workers’ compensation and liability programs for the years ended 2020 and 2019 were as follows:

	2020	2019
Workers compensation	\$ 153,036	\$ 156,113
Liability	1,884,457	1,896,676
Total	<u>\$ 2,037,493</u>	<u>\$ 2,052,789</u>

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

5. EMPLOYEE RETIREMENT PLANS

A. *Deferred Compensation Plan*

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. Employee contributions to the plan for the years ended June 30, 2020 and 2019 were \$482,352 and \$363,660, respectively.

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

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5. EMPLOYEE RETIREMENT PLAN, Continued

B. Other Defined Contribution Plan

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

Distributions are made upon the participant's termination, retirement, death or total disability, and in a manner in accordance with the election made by the participant. Contributions to the plan for the year ended June 30, 2020 and 2019 totaled \$764,264 and \$647,722, respectively, and were contributed by the Authority.

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

6. OTHER POSTEMPLOYMENT BENEFITS

A. Plan Description

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

B. Funding Policy

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

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7. JOINTLY GOVERNED ORGANIZATIONS

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

MSA was governed by a Board consisting of representatives from its two member agencies. The Board controlled the operations, including selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the Board. Each member agency paid a contribution or assessment commensurate with the level of coverage and services requested and shares surpluses and deficits proportionate to their participation in the joint powers authority. Payments to MSA for the year ended June 30, 2019 were \$135,000 to support general liability and workers compensation coverage; there were no supplemental contributions beyond net operating proceeds. Full financial statements are available separately from MSA.

Condensed financial information for the year ended June 30, 2019 was as follows:

	2019
Total Assets	\$ -
Total Liabilities	-
Net Position	\$ -
Revenues	\$ 135,966
Expenses	140,062
Special Items	(733,225)
Change in Net Position	\$ (737,321)

8. RELATED PARTY TRANSACTIONS

Regional Government Services Authority (RGSA) provided administration for Local Government Services Authority (LGSA) and Municipal Services Authority (MSA). The amounts charged to LGSA are calculated each month based on revenues to date. The amounts charged to MSA are set by the Board of Directors, as deemed necessary.

The amounts charged for the year ended June 30, 2019 were \$80,994 for LGSA and \$39,000 for MSA. LGSA and MSA were dissolved during fiscal year 2019.

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9. SPECIAL ITEM

During fiscal year 2019, LGSA and MSA were dissolved. Amounts held by RGSA on behalf of LGSA were returned to LGSA, and were subsequently transferred to a successor entity contracted to resolve LGSA's outstanding obligations. Assets and liabilities accounted for by MSA relating to RGSA were transferred to RGSA, and were reported as a special item in the Authority's financials statements. The composition of accounts transferred comprised of the following:

	2019
Cash and investments	\$ 1,815,038
Prepaid items	75,769
Write off of amount due from MSA	(146,563)
Claims payable	(182,893)
Retrospective contributions payable	(2,065,630)
Net transfer to RGSA	<u>\$ (504,279)</u>

10. COVID-19 PANDEMIC

During December 2019, the Novel corona Virus Disease (COVID-19) was discovered. The COVID-19 was subsequently declared a world-wide pandemic by the World Health Organization on March 11, 2020. On March 4, 2020, California State Governor Gavin Newsom proclaimed a State of Emergency as a result of the threat of the COVID-19 in the State of California which led to a mandated shelter in place order. Although there has been no direct financial impact on the Authority so far, management is continuing to monitor the financial effect it may potentially have on the coming years.