



REGIONAL GOVERNMENT SERVICES AUTHORITY

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2013 AND 2012**

**JAMES MARTA &
COMPANY LLP**

**CERTIFIED PUBLIC
ACCOUNTANTS**

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REGIONAL GOVERNMENT SERVICES AUTHORITY

BOARD OF DIRECTORS

JUNE 30, 2013

Chair

Steven Rogers – Town of Yountville

Vice Chair

Ken Nordhoff – City of Walnut Creek

Board Members

Nancy Mackle – City of San Rafael

Joni Pattillo – City of Dublin

Herbert Pike – Association of Bay Area Governments

Dan Schwarz – City of Larkspur

Executive Director

Richard Averett

REGIONAL GOVERNMENT SERVICES AUTHORITY

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James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Regional Government Services Authority
Carmel Valley, California

Report on the Financial Statements

We have audited the accompanying Statement of Net Position of Regional Government Services Authority (the "Authority") as of June 30, 2013 and the related Statement of Revenues, Expenses and Changes in Net Position and Cash Flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Regional Government Services Authority as of June 30, 2013, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as systems prescribed by the State Controller's Office and state regulators governing special districts.

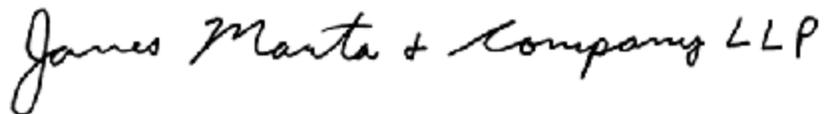
Other Matters

The financial statements of Regional Government Services Authority as of and for the year ended June 30, 2012 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated February 6, 2013.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 – 7 and Schedule of Funding Progress for Other Postemployment Benefits on page 22 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 (GASB) 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 principally 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2014 on our consideration of Regional Government Services Authority's internal control over financial reporting and our tests of its compliance with provisions of laws, regulations, contracts, and 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* in considering Regional Government Services Authority's internal control over financial reporting and compliance.



James Marta & Company LLP
Certified Public Accountants
February 21, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

REGIONAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013 AND 2012

The following discussion and analysis of the financial performance of the Regional Government Services Authority (the "Authority" or "RGS") provides an overview of the Authority's financial activities for the fiscal year (FY) ended June 30, 2013. Please read it in conjunction with the Authority's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- In the fiscal year ended June 30, 2013, the Authority's net position decreased \$321,661 (38%) from the prior fiscal year. This is primarily due to the four factors noted below.
- The Authority terminated its services agreement with Gold Coast Health Plan in early FY2013, resulting in decreases in revenue and expenditures compared to the prior fiscal year.
- The Authority joined the Municipal Services Authority (MSA) insurance pool and contributed an additional \$300,000 mid-year to MSA reserves for claims expenses. The Authority also reversed a prior year liability for a claim against the Authority. To offset this reversal and to plan for future claims expenses, the Authority contributed the additional funding to MSA referred above.
- At mid-year, the Authority brought financial and payroll services in-house after contracting with a CPA consulting firm for these services for the last 6.5 years. While eventually resulting in reduced operating costs and increased control over administrative operations, the transition required one-time overlapping expenditures for contract monitoring, staffing, training, set-up and reconciliation.
- Due to restructuring and long term fiscal discipline, the Regional Government Services Authority is in a strong financial position. The Authority is not dependent on any one or several major clients, but is growing its client base and service offerings. While RGS's net position decreased this fiscal year and is budgeted to decrease slightly in FY2014, the Authority's administrative personnel, technical infrastructure, internal processes and outreach activities should result in positive income growth within the next 12 months.
- The Authority has designated a portion (\$211,959) of the unrestricted net position for post-employment medical benefits and will convert to pay-as-you-go Health Retirement Accounts in the 2014 fiscal year. It is anticipated that moneys already set aside for OPEB liability will be sufficient to fund prior service contributions.

OPERATIONAL HIGHLIGHTS

- During the fiscal year ended June 30, 2013, the Authority completed a transition of payroll and financial services from external consultant provision to RGS staff services, and payroll processing from ADP to Automatic Payroll Systems, Inc. (APS). The consultant contract assigned two full-time staff to perform RGS services and RGS assigned one Sr. Analyst to troubleshoot billing and payroll problems. RGS now staffs these services with a part-time Sr. Analyst and Finance Technician and two part-time Payroll Technicians. The investment results in lower operating costs, improved reporting and controls, and increased capacity to take on additional client work and new client services.
- As a result of this successful transition, in FY2014 the Authority will be reviewing its remaining technology needs, including updating its website, cost model, and investigating the need for customer relations management software to help internal communications regarding client contacts, contracts, billing information and other efficiencies.

REGIONAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013 AND 2012

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, 2013 and June 30, 2012. 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. Other factors, such as shifting (i.e. contributing) assets and liabilities to the new insurance JPA, Municipal Services Authority, must also be considered to assess the overall health of the Authority.

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 de minimus interest earnings.

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 accounting principles generally accepted in the United States of America that are not otherwise present in the financial statements.

REGIONAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013 AND 2012

FINANCIAL ANALYSIS

NET POSITION

The Authority's net position at June 30, 2013 totaled \$520,858 compared with \$842,519 at June 30, 2012. The decrease represents decreased cash and investments due to decreased client revenues, as noted above. 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.

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Change</u>	<u>Percent Change</u>
Current Assets	<u>\$ 1,606,151</u>	<u>\$ 2,428,085</u>	<u>\$ 1,568,401</u>	<u>\$ (859,684)</u>	<u>-35.4%</u>
Current Liabilities	<u>731,540</u>	<u>774,626</u>	<u>294,316</u>	<u>(480,310)</u>	<u>-62.0%</u>
Non-Current Liabilities	<u>405,629</u>	<u>810,940</u>	<u>753,227</u>	<u>(57,713)</u>	<u>-7.1%</u>
Total Liabilities	<u>1,137,169</u>	<u>1,585,566</u>	<u>1,047,543</u>	<u>(538,023)</u>	<u>-33.9%</u>
Net Position					
Unrestricted	<u>\$ 468,982</u>	<u>\$ 842,519</u>	<u>\$ 520,858</u>	<u>\$ (321,661)</u>	<u>-38.2%</u>

The June 30, 2013 cash and cash equivalents balance decreased \$749,597 from the balance at the end of the prior year. The Authority invests surplus cash in 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.

The unrestricted portion of net position has been designated by the Board of Directors based on potential contingencies and policy-based priorities. In prior years, the Authority has designated a portion of unrestricted net position and has collected \$211,959 through June 30, 2013, from its clients for post-employment medical benefits for eligible employees. This amount is now shown as a Non-Current Liability and thus not included in the Unrestricted Net Position. Additional information on the designation of unrestricted net position can be found in the notes to the financial statements.

REGIONAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013 AND 2012

REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Authority reported a decrease in net position of \$321,661 for the year ended June 30, 2013. Net operating revenues were significantly less than the prior year, due to the termination of services to a large client agency early in the fiscal year. This service agreement was originally scheduled to end after two years, but was extended several months at the request of the client to aid in their transition.

Operating expenses also decreased significantly from the prior fiscal year for the same reason. This category includes all costs related to payroll and employee benefits, as well as general and administrative expenses, including an additional \$300,000 contribution to MSA claims reserves. The largest single line item decrease (\$1,889,254) represents personnel expenses, most of which was attributable to the aforementioned client termination.

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Change</u>	<u>Percent Change</u>
Operating Revenues:					
Charges for services	<u>\$ 5,946,555</u>	<u>\$ 8,700,588</u>	<u>\$ 5,775,183</u>	<u>\$ (2,925,405)</u>	<u>-33.6%</u>
Operating Expenses:					
Salaries and benefits	5,028,321	7,388,026	5,498,772	(1,889,254)	-25.6%
Professional services	209,138	263,052	217,714	(45,338)	-17.2%
Administration	527,483	404,615	772,971	368,356	91.0%
Total Operating Expenses	<u>5,764,942</u>	<u>8,055,693</u>	<u>6,489,457</u>	<u>(1,566,236)</u>	<u>-19.4%</u>
Operating Income (Loss)	181,613	644,895	(714,274)	(1,359,169)	-210.8%
Non-Operating Revenues:					
Investment income	-	5,175	5,963	788	15.2%
Special item (Note 9)	<u>-</u>	<u>(386,650)</u>	<u>386,650</u>	<u>773,300</u>	<u>-200.0%</u>
Change in net position	181,613	263,420	(321,661)	(585,081)	-222.1%
Beginning Net Position	287,369	579,099	842,519	263,420	45.5%
Ending Net Position	<u>\$ 468,982</u>	<u>\$ 842,519</u>	<u>\$ 520,858</u>	<u>\$ (321,661)</u>	<u>-38.2%</u>

CAPITAL ASSETS

At June 30, 2013, the Authority had no capital assets, no depreciation expenses and no immediate plans to acquire capital assets in the future.

REGIONAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013 AND 2012

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 local and regional government agencies and their non-profit partners. How we can be of value to local governments varies from agency to agency, but in general there are four lines of business: on-going staffing and employment services; interim staffing to fill personnel gaps or to provide time to consider alternative service model options; consulting expertise; and administrative services (such as accounts payable, payroll, training, etc.). Agencies use our services when they determine it is in their best to do so. Because financial pressures on local governments are cyclical but ever increasing, the demand for RGS services is expected to vary but to generally increase over time as long as those services are relevant to the needs and 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. Our growth over the last 12 years, from formation to now over 40 active clients and over 60 employees, from borrowing start-up funds to having no debt and over half a million dollars (not including insurance reserves in MSA) in net equity, are testament to the vision and practicality of that guidance. There have been and will be 'bumps' along the way that require adjustments and investments in the Authority's plans and capacity. Fiscal year 2013 was a year of adjustments and investments. RGS adjusted to a major client leaving by focusing on growing the number of agencies it serves. RGS invested in its capacity to improve and expand services by hiring the expertise to meet its own payroll and financial services, which could then be made available to other public agencies. It is continuing that investment into the 2014 fiscal year by expanding and improving its HR and Financial Services offerings to local agencies and increasing its outreach to agencies, so more cities, special districts and joint powers authorities know who we are and what we do.

The 2013-2014 budget reflects the loss of this major client and the investment in capacity. A small deficit is anticipated as the Authority retools itself for these initiatives. By the end of the fiscal year, if not before, it is expected that monthly financial performance will again be positive. Thereafter, the Authority's net position should resume its positive growth, so the Agency can meet future challenges and investment opportunities.

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, Directors, and client agencies, it will remain a valuable public asset long into the future. Planning that is being accomplished through the governing body will guide the Authority as it strives to meet its strategic objectives and accomplish its mission:

Regional Government Services is a California joint powers authority that provides high-quality staffing, consulting and administrative services to meet local government needs.

BASIC FINANCIAL STATEMENTS

REGIONAL GOVERNMENT SERVICES AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets:		
Cash and investments	\$ 915,373	\$ 1,664,970
Accounts receivable	596,072	723,948
Prepaid expenses	56,956	36,490
CJPIA deposits	-	2,677
	<u>1,568,401</u>	<u>2,428,085</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	170,295	330,177
Unearned revenue	66,841	387,000
Due to other governments	-	-
Compensated absences - current	57,180	57,449
Total Current Liabilities	<u>294,316</u>	<u>774,626</u>
Non-Current Liabilities:		
Compensated absences - non-current	171,542	172,346
CJPIA assessments	359,476	445,590
Unemployment claims payable	10,250	-
OPEB liability	211,959	193,004
Total Liabilities	<u>1,047,543</u>	<u>1,585,566</u>
NET POSITION		
Net Position		
Unrestricted	<u>\$ 520,858</u>	<u>\$ 842,519</u>

REGIONAL GOVERNMENT SERVICES AUTHORITY

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION**

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Operating Revenues:		
Charges for services	\$ 5,775,183	\$ 8,700,588
Total Operating Revenues	<u>5,775,183</u>	<u>8,700,588</u>
Operating Expenses:		
Salaries and benefits	5,498,772	7,388,026
Professional services	217,714	263,052
Administration	772,971	404,615
Total Operating Expenses	<u>6,489,457</u>	<u>8,055,693</u>
Operating Income (Loss)	(714,274)	644,895
Non-Operating Revenues:		
Investment income	5,963	5,175
Special item (Note 9)	<u>386,650</u>	<u>(386,650)</u>
Change in net position	(321,661)	263,420
Beginning Net Position	842,519	579,099
Ending Net Position	<u>\$ 520,858</u>	<u>\$ 842,519</u>

REGIONAL GOVERNMENT SERVICES AUTHORITY

STATEMENTS OF CASH FLOWS

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received for services	\$ 5,577,307	\$ 9,463,163
Cash paid to suppliers for goods and services	(857,570)	(697,410)
Cash paid to employees for services	<u>(5,480,890)</u>	<u>(7,198,703)</u>
Net cash provided (used) by operating activities	(761,153)	1,567,050
Cash flows from investing activities:		
Interest income received	<u>11,556</u>	<u>5,175</u>
Increase (decrease) in cash and cash equivalents	(749,597)	1,572,225
Cash and cash equivalents, beginning of year	<u>1,664,970</u>	<u>92,745</u>
Cash and cash equivalents, end of year	<u>\$ 915,373</u>	<u>\$ 1,664,970</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (714,274)	\$ 644,895
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Special item	\$ 386,650	\$ (386,650)
Decrease (increase) in:		
Accounts receivable	122,283	762,850
Prepaid expenses	(20,466)	(14,162)
CJPIA deposits	2,677	1,603
Increase (decrease) in:		
Accounts payable	(159,882)	44,310
Unearned revenue	(320,159)	305,600
Due to other governments	-	(305,875)
Compensated absences	(1,073)	106,319
CJPIA assessments	(86,114)	-
Claims payable	10,250	325,156
OPEB liability	<u>18,955</u>	<u>83,004</u>
Net cash provided (used) by operating activities	<u>\$ (761,153)</u>	<u>\$ 1,567,050</u>
Supplemental Information: Noncash investing activities		
Unrealized losses	\$ 5,593	\$ -

REGIONAL GOVERNMENT SERVICES AUTHORITY

STATEMENTS OF FIDUCIARY NET ASSETS

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets:		
Cash and investments	<u>\$ 2,493,412</u>	<u>\$ 2,012,120</u>
LIABILITIES		
Current Liabilities:		
Due to other governments	<u>\$ 2,493,412</u>	<u>\$ 2,012,120</u>

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Regional Government Services Authority (the "Authority") is an independent administrative and fiscal government agency whose purpose is to provide services for public agencies and other non-profit entities at reduced net costs. The Authority was established by a Joint Powers Agreement on March 1, 2001, under the provisions of the Joint Exercise of Powers Act of the Government Code of the State of California.

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.

B. BASIS OF ACCOUNTING

Enterprise Fund

The Authority is accounted for as an enterprise fund and its financial statements are prepared using the economic resources 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 revenues of the Authority include fees for services. Operating expenses of the Authority include the cost of personnel providing the services, administrative expenses and other professional services. All revenues and expenses not meeting this definition are reported as 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 assets. 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 assets and does not present a statement of changes in fiduciary net assets. 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.

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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.

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 market value. Changes in fair market value are reported as revenue in the Statement of Revenues, Expenses, and Changes in Net Position. The effect of recording investments at fair market value is reflected as an increase in the fair value of investments on the Statement of Revenues, Expenses, and Changes in Net Position. Fair market values of investments have been determined by the sponsoring government based on quoted market prices. 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. 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 annually.

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

H. INCOME TAXES

The Authority is a governmental entity and as such its income is exempt from taxation under Section 115(1) of the Internal Revenue Code and Section 23701d of the California and Taxation Code. Accordingly, no provision for federal or state income taxes has been made in the accompanying financial statements.

I. USE OF ESTIMATES

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

J. RECLASSIFICATIONS

Certain reclassifications have been made to the prior year balances to conform to the current year presentation.

2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Cash on hand and in banks	\$ 257,878	\$ 62,141
CaITRUST Funds	3,090,463	3,566,839
Local Agency Investment Fund	<u>60,444</u>	<u>48,110</u>
Total Cash and Investments	3,408,785	3,677,090
Cash and investments held in fiduciary capacity	<u>(2,493,412)</u>	<u>(2,012,120)</u>
Net Cash and Investments	<u>\$ 915,373</u>	<u>\$ 1,664,970</u>

The Authority is holding cash and investments on behalf of Local Government Services Authority and Municipal Services Authority totaling \$2,493,412 and \$2,012,120 for the years ended June 30, 2013 and 2012, respectively (see Note 8 – Related Party Transactions).

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

2. CASH AND INVESTMENTS (CONTINUED)

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.

Local Agency Investment Fund

The Authority is a voluntary participant in Local Agency Investment Fund (LAIF), which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the state of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the state and invests the cash. The fair value of the Authority's investment in this pool, which approximates cost, is reported in the accompanying financial statements 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. Funds are accessible and transferable to the master account with twenty-four hour notice. The Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity, and yield are not jeopardized. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset backed securities, and floating rate securities issued by Federal Agencies, government-sponsored enterprises and corporations. The monies held in the LAIF are not subject to categorization by risk category. It is also not rated as to credit risk by a nationally recognized statistical rating organization. LAIF is administered by the State Treasurer and audited annually by the Pooled Money Investment Board and the State Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall, Sacramento, California 95814.

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). The balance available for withdrawal is based on the accounting records maintained by CalTRUST, which are recorded on an amortized cost basis.

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 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 THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

2. CASH AND INVESTMENTS (CONTINUED)

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, 2013.

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

The following is a schedule of changes in long-term liabilities for the year ended June 30, 2013:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Current</u> <u>Portion</u>
Compensated absences	\$ 229,795	\$ -	\$ 1,073	\$ 228,722	\$ 57,180
CJPIA Assessments	445,590		86,114	359,476	-
OPEB liability	193,004	18,955	-	211,959	-
Total	<u>\$ 868,389</u>	<u>\$ 18,955</u>	<u>\$ 87,187</u>	<u>\$ 800,157</u>	<u>\$ 57,180</u>

4. EMPLOYEE RETIREMENT PLANS

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 December 31, 2013 and 2012 were \$158,142 and \$216,328, respectively.

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

4. EMPLOYEE RETIREMENT PLANS (CONTINUED)

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.

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 December 31, 2013 and 2012 totaled \$405,230 and \$559,014, 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.

5. OTHER POSTEMPLOYMENT BENEFITS

A. 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 employer contribution for active employees' single coverage under a health benefit plan administered by the Public Employee's 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.

B. Funding Policy

The Authority has not elected to participate in the CalPERS OPEB Trust, form its own trust 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 nonprofit agencies.

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

5. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

C. Annual OPEB Cost and Net OPEB Obligation

The Authority's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contributions (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Authority's Annual OPEB Cost for the fiscal year ended June 30, 2013, the amount actually contributed to the plan, and changes in the Authority's Net OPEB Obligation:

Annual Required Contribution (ARC)	\$ 22,396
Interest on Net OPEB Obligation	7,720
Adjustment to annual required contribution	<u>(11,162)</u>
Annual OPEB cost	18,955
Contributions made	<u>-</u>
Change in Net OPEB obligation	18,955
Net OPEB obligation - beginning of year	<u>193,004</u>
Net OPEB obligation - end of year	<u><u>\$ 211,959</u></u>

The Regional Government Services Authority Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the plan, and the Net OPEB Obligation for the past three years are as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
June 30, 2011	\$ 78,000	0.0%	\$ 110,000
June 30, 2012	\$ 83,004	0.0%	\$ 193,004
June 30, 2013	\$ 18,955	0.0%	\$ 211,959

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

5. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

D. Funding Status and Funding Progress

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 Regional Government Services Authority 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, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. 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 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 the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The plan's most recent actuarial valuation was performed as of July 1, 2012. In that valuation, the Entry Age Normal Cost Method was used. The actuarial assumptions included a 4.0% discount rate, and a medical trend assumption of 8.0% graded down by 1.0% per year to an ultimate rate of 5.0% after three years. These assumptions reflect an implicit 4.0% general inflation assumption. The Regional Government Services Authority unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over 30 years.

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

6. JOINTLY GOVERNED ORGANIZATIONS

Effective July 1, 2012, the Authority is a member of Municipal Services Authority (MSA) which provides coverage for workers' compensation, general liability and errors and omissions.

MSA is governed by a Board consisting of representatives from its two 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. Payments to MSA for the year ended June 30, 2013 were \$635,000, \$300,000 in response to an MSA request to build reserves, and \$335,000 to support general liability and workers compensation coverage. A portion of the \$335,000 was allocated to Local Government Services. Full financial statements are available separately from MSA. Condensed financial information for the year ended June 30, 2013 is as follows:

Total Assets	\$ 1,016,565
Total Liabilities	197,042
Net Position	<u>\$ 819,523</u>
Revenues	\$ 1,235,000
Expenses	415,477
Change in Net Postion	<u>\$ 819,523</u>

Prior to July 1, 2012, the Authority was a member of California Joint Powers Insurance Authority (CJPIA). CJPIA is composed of California public entities and provides coverage for workers' compensation, property, liability and errors and omissions. The CJPIA governing board is made up of one member from each entity. 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. CJPIA prepares an annual retrospective premium calculation for those members and former members who participated in the workers' compensation and liability programs. As of June 30, 2013, the Authority had a retrospective payable of \$359,476 (\$149,442 for workers' compensation and \$210,034 for liability) due to CJPIA. At June 30, 2012 the amount due for liability was \$58,940 and the Authority had a net refund due for workers' compensation in the amount of \$2,677.

7. PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2012, the Authority restated the beginning net position 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 position at July 1, 2011 was originally reported at \$468,982 and was restated at \$579,099.

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

8. RELATED PARTY TRANSACTIONS

Regional Government Services Authority (RGSA) provides administration for Local Government Services Authority (LGSA) and Municipal Services Authority (MSA) and allocates a share of its administrative overhead to LGSA and MSA each month based on revenues to date. The amounts charged for the years ended June 30, 2013 and 2012 were \$772,102 and \$958,131, respectively for LGSA and \$45,000 for MSA for the year ended June 30, 2013. RGSA also holds cash and investments on behalf of LGSA and MSA. At June 30, 2013, the amount held on behalf of LGSA is \$2,080,847 and MSA is \$412,565. At June 30, 2012, the amount held on behalf of LGSA is \$2,012,120 and MSA is \$0.

9. SPECIAL ITEM

The Authority recorded a liability for a claim related to its participation in CJPIA (Note 6) in the amount of \$386,650 for the year ended June 30, 2012. For the year ended June 30, 2013, the Authority reversed the accrual as the amounts related to the claim will be reflected in future CJPIA assessments.

10. SUBSEQUENT EVENTS

Regional Government Services Authority management evaluated its June 30, 2013 financial statements for subsequent events through February 21, 2014, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

REGIONAL GOVERNMENT SERVICES AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF FUNDING PROGRESS –
OTHER POSTEMPLOYMENT BENEFITS**

JUNE 30, 2013

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarially Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered ((b-a)/c)</u>
6/30/2010	\$ -	\$ 87,000	\$ 87,000	0%	\$ 1,206,000	7.21%
7/1/2012	\$ -	\$ 81,535	\$ 81,535	0%	\$ 4,273,982	1.91%

OTHER INDEPENDENT AUDITOR'S REPORT



James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Regional Government Services Authority
Carmel Valley, California

We have audited the basic financial statements of Regional Government Services Authority (the "Authority"), as of and for the year ended June 30, 2013. 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.

Internal Control Over Financial Reporting

Management of Regional Government Services Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financials statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2013-1 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

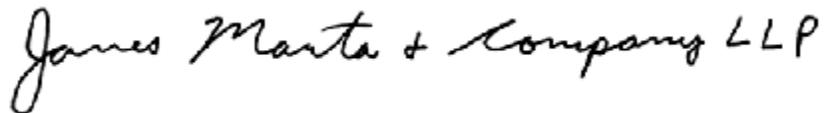
Compliance and Other Matters

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

Regional Government Services Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Regional Government Services Authority's response and, accordingly, we express no opinion on it.

We noted certain other matters that we reported to management of the Authority in a separate letter dated February 21, 2014.

This report is intended solely for the information and use of management, the board of directors, others within the entity, and the California State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "James Marta & Company LLP".

James Marta & Company LLP
Certified Public Accountants
February 21, 2014

REGIONAL GOVERNMENT SERVICES AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2013

2013-01 Monthly Accounting

Observation:

There were several accounts identified with balances that were either incorrect or the details and nature of the balance were unknown to management.

Recommendations:

All balance sheet accounts should be reviewed and reconciled on a monthly basis. Unknown balances should be investigated and corrected in a timely manner to ensure that the financial statements presented to the board are accurate. If an account is still being investigated, that fact should be disclosed in the presentation of the monthly financial statements.

Corrective Action Plan:

The Auditors Recommendation has been implemented effective November 2013. All balance sheet accounts are now reviewed and reconciled on a monthly basis. Unknown balances are investigated and corrected in a timely manner to ensure that the financial statements presented to the board are accurate. If an account is still under investigation, that will be disclosed in the presentation of the monthly financial statements.