LOCAL AND REGIONAL GOVERNMENT SERVICES AUTHORITIES

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RGS FINANCE COMMITTEE AGENDA

Agenda materials may be viewed on the Agency's web site or by contacting the Executive Director prior to the meeting.

REGULAR MEETING
February 28, 2013
1:00 p.m.

Dublin City Hall, Library Program Room
100 Civic Plaza
Dublin, CA 94568

1. ROLL CALL

2. APPROVAL OF CONSENT AGENDA

Consent agenda items are considered to be routine and will be enacted by one motion. There will be no separate discussion on these items unless members of the Finance Committee, staff or public request specific items to be removed for separate action.

A. Approval of **November 6th 2012** Minutes *Action*

3. OLD BUSINESS - None

4. NEW BUSINESS

A. Approval of RGS and LGS FY2012 Audited Financial Statements *Action*
B. Review and Approval of LAIF Authorized Persons List *Action*
C. Approval of Audit Services Firm *Action*
D. Approval of Revised Administrative and Financial Policies *Action*
E. Approve iPad-Tablet Policy *Action*

5. PUBLIC COMMENT

Each speaker is limited to two minutes. If you are addressing the Executive Committee (EC) on a non-agenda item, the EC may briefly respond to statements made or questions posed as allowed by the Brown Act (Government Code Section 54954.2). However, the EC's general policy is to refer items to staff for attention, or have a matter placed on a future EC agenda for a more comprehensive action or report.

6. ADJOURN TO NEXT MEETING: TBA

Americans with Disabilities Act

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact Richard Averett at (650) 587-7301. Notification in advance of the meeting will enable Agency to make reasonable arrangements to ensure accessibility.

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DRAFT MINUTES

REGIONAL GOVERNMENT SERVICES
JOINT POWERS AUTHORITY
FINANCE COMMITTEE MINUTES
NOVEMBER 6, 2012

The Finance Committee of the Regional Government Services Joint Powers Authority held a special meeting of the Finance Committee via a teleconference. The meeting was called to order at 10:00 a.m.

1. ROLL CALL

Members Present: Chair Ken Nordhoff and Vice-Chair Joni Pattillo
Members Absent: None
Other Attendees: Richard Averett, Executive Director/CFO
Glenn Lazof, RGS Project Manager
Sherry Kelly, Authority Clerk

2. APPROVAL OF CONSENT AGENDA

A. Approval of **July 30th 2012** Minutes
Action: Moved, seconded (Pattillo/Nordhoff) and carried unanimously to approve the minutes as submitted.

3. OLD BUSINESS - None

4. NEW BUSINESS

A. Review and Approve Administrative Cost Allocation Policy and Amendment of Auditor Rotation Policy
Action: Moved, seconded (Pattillo/Nordhoff) and carried unanimously to approve the Cost Allocation Policy and Amendment of Auditor Rotation Policy.

B. Approval of Auditor RFP and Authorization to Issue RFP
Action: Moved, seconded (Nordhoff/Pattillo) and carried unanimously to approve the RFP and authorize issuance of the RFP. Direction to staff to present to the Board the recommendation that the Executive Committee have authority to select the auditor and at a later date to formalize this authority in the Auditor Rotation policy.

C. Review of Preliminary FY2012 Financial Statements
Action: Reviewed financial statements. No action required.

D. Approval of Recommendation to RGS and LGS Boards to Make Additional RGS and LGS Insurance Pool Contributions to MSA
Action: Executive Director Averett reported that based on preliminary FY 2012 financial information, there should be sufficient net income in fiscal year 2012, to enable both agencies to make additional contributions to MSA's reserves for claims. Nearly one-half of the net income was attributable to one former client - from whom there is exposure to three substantial claims. Because of the net income growth exceeding budget and the potential for claim payouts, staff recommendation is to have RGS contribute $300,000 and LGS contribute $500,000 to increase MSA's reserves to $946,000.

Members Nordhoff and Pattillo agreed that it would be prudent to take this action to ensure adequate reserves for MSA and recommended items be added to a future Board agenda for establishment of: 1) reconsidered reserve levels for LGS, RGS and MSA in light of MSA formation for insurance pooling; and 2) interagency loan approval policy for reserve funds.

Moved, seconded (Pattillo/Nordhoff) and carried unanimously to approve staff recommendations to make additional RGS and LGS insurance pool contributions to MSA.

5. PUBLIC COMMENT- None

6. ADJOURN TO NEXT MEETING

The meeting adjourned at 10:26 a.m.

LOCAL AND REGIONAL GOVERNMENT SERVICES AUTHORITIES

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TO: FINANCE COMMITTEE **FC Meeting: 02-28-13**
FROM: Glenn Lazof, Project Manager **Item: 4A**
SUBJECT: APPROVAL OF AUDIT REPORTS FOR FISCAL YEAR ENDING JUNE 30, 2012

RECOMMENDATION

Review and approve the independent audit reports for fiscal year 2012.

BACKGROUND

The outside audit firm of Mayer Hoffman McCann, P.C. was retained to complete the fiscal year (FY) 2007 and FY2008 audits, and has completed all subsequent annual audits of both Local and Regional Government Services Authorities through FY2012. Electronic copies of the June 30, 2012 audits, along with SAS (Statement on Auditing Standards) letters 114 and 115 were distributed to the Finance Committee, Executive Committee and Board of Directors on February 13, 2013. Audited financial statements are posted to the JPA web site.

AUDIT RESULTS

LGS and RGS audit results are summarized below, with more information and analysis in the Management Discussion and Analysis section of each audit report. Overall, the FY2012 audit results indicate continuation of very positive financial results based on a sound business model. These financial results better enable the JPAs to provide quality services to our clients and employees.

Working with our auditors, two categories of significant adjustments were made for fiscal year 2012.

1. Accruals for sick and administrative leave: Sick and administrative leave is not normally paid out following termination. Audit adjustments were made to LGS and RGS to reduce compensated absences (that is, to unaccrue sick and administrative leaves) to properly reflect that leave balances of this type are not subject to automatic pay out at termination. For RGS the resulting increase in year-end net assets was $110,117. For LGS the resulting increase in year-end net assets was $146,861.
2. Outstanding probable liability claim: An adjustment of $386,650 was made to RGS for a probable claim now under litigation. During FY 2013, the Board approved transferring a total of $800,000 from LGS and RGS to MSA to fund this and other potential claims expenses and the FY2012 adjustment in RGS was reversed.

RGS FINANCIAL HIGHLIGHTS

- Total net assets from operations increased $263,420 in FY2012 and $181,613 in FY2011.
- Revenues from client reimbursements for services provided increased $2,759,208 in FY2012 from the 2011 FY and $2,423,792 in FY2011 from FY2010.
- Total operating expenditures increased $2,677,401 in FY2012 from FY2011 and increased $2,469,814 in FY 2011 from FY2010.
- Net Assets at the end of the fiscal year are $842,519 in FY2012 and were $468,982 in FY 2011, increasing $373,537 over the fiscal year.

- Net assets at the end of FY2011 were restated by $110,117 to reduce compensated absences for sick and administrative leave not paid out upon termination of employees.

LGS FINANCIAL HIGHLIGHTS

- Total net assets from operations increased $297,313 in FY2012 and $143,059 in FY2011.
- Revenues from client reimbursements for services provided increased $394,041 in FY2012 from the 2011 FY and $1,542,921 in FY2011 from FY2010.
- Total operating expenditures decreased $548,925 in FY2012 from FY2011 and increased $1,709,697 in FY 2011 from FY2010.
- Net Assets at the end of the fiscal year are $1,521,534 in FY2012 and were $1,077,360 in FY 2011.
- Net assets at the end of FY2011 were restated by $146,861 to reduce compensated absences for sick and administrative leave not paid out upon termination of employees.

LOCAL GOVERNMENT SERVICES AUTHORITY

Basic Financial Statements

Year ended June 30, 2012

LOCAL GOVERNMENT SERVICES AUTHORITY

Basic Financial Statements

Year ended June 30, 2012

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	3
Basic Financial Statements:	
Statement of Net Assets	9
Statement of Revenues, Expenses and Changes in Net Assets	10
Statement of Cash Flows	11
Notes to the Basic Financial Statements	12

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Board of Directors
Local Government Services Authority
Carmel Valley, California

INDEPENDENT AUDITORS' REPORT

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated February 6, 2013 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
February 6, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

- Total net assets increased $297,313 in FY 2012 and increased $143,059 in FY2011.
- Revenues from client reimbursements for services provided decreased $394,041 in FY2012 from fiscal year 2011 and increased $1,542,921 in FY2011 from fiscal year 2010.
- Total operating expenditures decreased $548,295 in FY 2012 from the 2011 fiscal year and increased $1,709,697 in FY2011 from the 2010 fiscal year.
- Net assets at the end of the fiscal year are $1,521,534 in FY2012 and were $1,077,360 in FY2011.
- Net assets as of June 30, 2011 were restated by $146,861 to reduce compensated absences for sick and admin leave not paid out upon termination of an employee.

OVERVIEW OF THE FINANCIAL STATEMENTS

Using the Accompanying Financial Statements

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

The basic financial statements include the following:

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

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

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

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

Government Fund Reporting:

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

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

		Fund Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Authority government (except fiduciary funds) and the Authority's component units	The activities of the Authority that are not proprietary or fiduciary	Activities the Authority operates similar to private businesses	Instances in which the Authority is the trustee or agent for someone else's resources
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures and changes in fund balances	• Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows	• Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Modified accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term debt included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Authority's fiduciary funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid.

Reporting the Authority as a Whole

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

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

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

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

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

Reporting the Authority's Proprietary Fund

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

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

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

Table 1

	Business-Type Activities		
	2010	2011	2012
ASSETS			
Current Assets	$1,939,682	$2,607,415	$2,560,241
Total Assets	1,939,682	2,607,415	2,560,241
LIABILITIES			
Current Liabilities	613,992	864,418	635,400
Noncurrent Liabilities	391,389	665,637	403,307
Total Liabilities	1,005,381	1,530,055	1,038,707
NET ASSETS			
Unrestricted	934,301	1,077,360	1,521,534
Total Net Assets	934,301	1,077,360	1,521,534
Total net assets and liabilities	$1,939,682	$2,607,415	$2,560,241

The increase in net assets is an indication that the overall operating financial position of the Authority improved during each of the last two years: by $297,313 in FY2012 and by $143,059 in FY2011, as indicated in the Changes in Net Assets Table 2 below. The remaining increase in net assets of $146,861 is attributable to prior period audit adjustment to accrue only unpaid vacation leave and not unpaid sick or administrative leave, since sick and admin leave is not paid upon termination of an employee. The net assets of the Authority's business-type activities increased from prior year restated net assets by 28 percent in 2012 and by 15 percent in 2011.

A summary of the statement of activities follows:

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

	Business - Type Activities		
	2010	2011	2012
Operating Revenues			
Charges for services	$ 5,743,146	$ 7,286,067	$ 6,892,026
Total revenues	$ 5,743,146	$ 7,286,067	$ 6,892,026
Operating Expenses			
Salaries and benefits	$ 4,702,001	$ 5,914,003	$5,625,962
Professional services	1,678	2,756	2,756
Administration	729,632	1,226,249	965,995
Total expenses	$ 5,433,311	7,143,008	6,594,713
Change in net assets	$ 309,835	143,059	$ 297,313
Beginning net assets	624,466	934,301	1,077,360
Prior period adjustment	-	-	146,861
Ending net assets	$ 934,301	$ 1,077,360	$1,521,534
Less Reserve	467,151	448,180	760,767
Remaining Net Assets	467,150	629,180	760,767

Business-Type Activities

Revenues of the Authority's operations (see Table 2) decreased by 5.4 percent in F2012 and increased by 27 percent in FY2011. Operating expenses decreased by 7.6 percent in FY2012 from FY2011, and increased by 31 percent in FY2011 from FY2010.

LONG-TERM DEBT

The Authority (JPA) has no long-term debt other than compensated absences. Additional information on the Authority's long-term debt can be found in the notes to the accompanying basic financial statements.

BUDGET VERSUS ACTUAL PERFORMANCE

In FY2012, the primary reason for the variances from budget was the unexpected delay in termination of an LGS client until mid-year. This termination was planned and budgeted to occur in August, but LGS continued providing services through the end of the calendar year when the client could assume full operational responsibility for the services LGS had provided. Another reason for actual performance exceeding budget was the additional staffing provided for LGS' largest client. This increase over budgeted business services provided is reflected in revenues and expenses that increased 38% and 35%, respectively, above budgeted levels. The budget was adopted anticipating an $80,400 addition to net earnings. Actual net addition to net assets was $216,913 more than budgeted primarily due to these two factors – extended duration of services to one terminating client and additional services provided another client.

Budget Performance – Budget vs. Actual
June 30, 2012
Table 3

	Budget Performance Budget vs. Actual		
	FY12 Budget	FY12 Actual	Variance
Operating Revenues			
Charges for Services	$4,984,200	$6,892,026	$ 1,907,826
Total Revenues	$4,984,200	$6,892,026	$ 1,907,826
Operating Expenses			
Salaries and Benefits	$3,979,600	$5,625,962	$1,646,362
Professional Services	292,100	2,756	(289,344)
Administration	632,100	965,995	333,895
Total Expenses	$4,903,800	$6,594,713	$1,690,913
Net Addition/(Reduction) in net Assets	$ 80,400	$ 297,313	$ 216,913

Future Financial Performance

One existing major client, with 12 to 13 assigned staff, was terminated in fiscal year 2012. However, JPA support services remain structured so that changes in service demand can quickly adjust up or down to client needs. Therefore, we do not expect this decrease in client services nor normal fluctuations in the number of clients or level of client services provided to significantly impact the JPA's financial position. Additional client growth has historically more than offset decreased revenue from projects completed during the year. The loss of this major client is anticipated to reduce net additional assets through fiscal year end 2013, before new client growth can fully make up for the decrease in total services provided.

Since restructuring its administrative functions during fiscal year 2008, the JPA has experienced sustained, positive financial performance. The JPA has been successful in adding new clients to replace completed client assignments. Management is not aware of any other commitments or conditions that may have a significant impact on the financial condition or operating results of the Authority after the date of the financial statements presented.

Contacting the Authority's Financial Management

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

BASIC FINANCIAL STATEMENTS

LOCAL GOVERNMENT SERVICES AUTHORITY

Statement of Net Assets

June 30, 2012

(with comparative information for the prior year)

	2012	2011
Assets		
Current assets:		
Cash and investments (note 2)	$ 2,012,120	$ 1,158,786
Accounts receivable	473,153	1,062,001
Due from other governments	-	305,875
Prepaids	30,907	44,481
Deposits	44,061	36,272
Total current assets	2,560,241	2,607,415
Total assets	2,560,241	2,607,415
Liabilities		
Current liabilities:		
Accounts payable	166,082	229,276
Unearned revenue	179,500	214,500
Client deposits	240,403	240,403
Compensated absences - current portion (note 3)	49,415	180,239
Total current liabilities	635,400	864,418
Noncurrent liabilities:		
Compensated absences - long term (note 3)	115,303	420,559
Claims payable - long term (note 3 and 7)	-	64,078
OPEB liability - long term (note 3 and 8)	288,004	181,000
Total noncurrent liabilities	403,307	665,637
Total liabilities	1,038,707	1,530,055
Net Assets		
Net assets:		
Unrestricted (note 4)	1,521,534	1,077,360
Total net assets	$ 1,521,534	$ 1,077,360

See accompanying notes to the basic financial statements.

LOCAL GOVERNMENT SERVICES AUTHORITY

Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2012

(with comparative information for the prior year)

	2012	2011
Operating revenues:		
Charges for services	$ 6,892,026	$ 7,286,067
Total operating revenues	6,892,026	7,286,067
Operating expenses:		
Salaries & benefits	5,625,962	5,914,003
Professional services	2,756	2,756
Administration	965,995	1,226,249
Total operating expenses	6,594,713	7,143,008
Change in net assets	297,313	143,059
Net assets at beginning of year, as restated (note 9)	1,224,221	934,301
Net assets at end of year	$ 1,521,534	$ 1,077,360

See accompanying notes to the basic financial statements.

LOCAL GOVERNMENT SERVICES AUTHORITY

Statement of Cash Flows

Year ended June 30, 2012

(with comparative information for the prior year)

	2012	2011
Cash flows from operating activities:		
Cash received from customers	$ 7,570,995	$ 6,713,287
Cash paid to suppliers for goods and services	(983,234)	(1,057,462)
Cash paid to employees for services	(5,734,427)	(5,802,718)
Net cash provided by (used for) operating activities	853,334	(146,893)
Net increase (decrease) in cash and cash equivalents	853,334	(146,893)
Cash and cash equivalents at beginning of year	1,158,786	1,305,679
Cash and cash equivalents at end of year	$ 2,012,120	$ 1,158,786
Reconciliation of change in net asset to net cash provided by (used for) operating activities:		
Change in net assets	$ 297,313	$ 143,059
Adjustments to reconcile change in net asset to net cash provided by (used for) operating activities:		
(Increase) decrease in accounts receivable	408,094	(467,530)
(Increase) decrease in due from other governments	305,875	(305,875)
(Increase) decrease in prepaids	13,574	(4,949)
(Increase) decrease in deposits	(7,789)	(36,272)
Increase (decrease) in accounts payable	(63,194)	40,892
Increase (decrease) in deferred revenue	(35,000)	200,625
Increase (decrease) in compensated absences	(108,465)	111,285
Increase (decrease) in claims payable	(64,078)	(9,128)
Increase (decrease) in OPEB liability	107,004	181,000
Total adjustments	556,021	(289,952)
Net cash provided by (used for) operating activities	$ 853,334	$ (146,893)

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

See accompanying notes to the basic financial statements.

LOCAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

Year ended June 30, 2012

(1) Summary of Significant Accounting Policies

Nature of Business

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

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

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

Basis of Accounting

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

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

Investments

For financial reporting purposes, investments are adjusted to their fair value whenever the difference between fair market value and the carrying amount is material. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

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

Cash and Cash Equivalents

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

Receivables

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

Compensated Absences

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

Use of Estimates

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

Prior Year Information

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

(2) Cash and Investments

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

Deposits with financial institutions	$ -
Investments	2,012,120
Total cash and investments	$2,012,120

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

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

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

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

(2) Cash and Investments, (Continued)

Disclosures Relating to Interest Rate Risk

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

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

		Remaining Maturing (in Months)			
Investment Type	Total	12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
CalTRUST investment pool	$2,012,120	2,012,120	-	-	-
Total	$2,012,120	2,012,120	-	-	-

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Authority's investment policy, or debt agreements, and the actual rating as of the year end June 30, 2012 for each investment type was as follows.

		Minimum Legal	Exempt From	Rating as of Year End		
Investment Type	Total	Rating	Disclosure	AAA	Aa	Not Rated
CalTRUST investment pool	$2,012,120	N/A	-	-	-	2,012,120
Total	$2,012,120	N/A	-	-	-	2,012,120

(2) Cash and Investments, (Continued)

Concentration of Credit Risk

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

Custodial Credit Risk

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

Investment in 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 help 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.

(3) Long-Term Debt

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

	Balance at July 1, 2011 As restated	Additions	Deletions	Balance at June 30, 2012	Portion Due Within One Year
Compensated absences	$273,183	82,202	190,667	164,718	49,415
Claims payable	64,078	-	64,078	-	-
OPEB liability	181,000	107,004	-	288,004	-
Total	$518,261	189,206	254,745	452,722	49,415

Compensated absences as of July 1, 2011 has been restated by $327,615. See prior period adjustment footnote 9 for further information.

(4) Net Assets

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

Unrestricted net assets available for operations	$ 760,767
Unrestricted, board designated net assets:	
Reserve for contingencies**	760,767
Total unrestricted net assets	1,521,534
Total restricted net assets	-
Total net assets	$1,521,534

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

(5) Defined Benefit Pension Plan (PERS)

Plan Description

The Authority contributes to the California Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. PERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by PERS. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, California 95814.

Contributions

The participant's portion to contribute is 7% of their annual covered salary. The Authority has designated three groups of employees for whom the Authority makes the contributions required of Agency employees on their behalf and for their account. Benefit provisions and all other requirements are established by state statute and individual employment agreement.

For each of the fiscal years shown below, the Authority has contributed at the actuarially determined rate provided by PERS' actuaries. Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2011 to June 30, 2012 has been determined by an actuarial valuation of the plan as of June 30, 2009. The Authority's covered payroll for PERS was $4,065,989 for the year ended June 30, 2012, while the Authority's total payroll for all employees was $4,223,282 during the same period. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2012, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2011 to June 30, 2012.

Three-Year Trend Information

Fiscal Year	Employer Contribution Rate	Employer Contribution	Percentage Contributed	Net Pension Obligation
6/30/10	9.586%	$ 596,917	100%	-
6/30/11	9.068%	707,131	100%	-
6/30/12	10.128%	684,110	100%	-

(6) Defined Contribution Plans

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

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

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

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

(7) Liability, Insured Programs and Workers' Compensation Protection

For the year ended June 30, 2012, the Authority was a member of the California Joint Powers Insurance Authority (Cal JPIA). The JPIA Executive Committee used a "rolling" retro payment and refund schedule for members. One-fourth of the retro amount is paid or refunded each year. The effect is that payments and refunds will partially net out, thus reducing cash flow fluctuations from year to year. At June 30, 2012 the cumulative retrospective deposit refund for general liability is $17,844 and the cumulative retrospective deposit refund for workers' compensation is $26,217. These receivables have been included in deposits on the Statement of Net Assets in the accompanying financial statements.

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

Description of Self-Insurance Pool Pursuant to Joint Powers Agreement

Cal JPIA is composed of 123 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of Cal JPIA is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other lines of coverage. The California JPIA began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a 9-member Executive Committee.

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

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

Self-Insurance Programs of the Authority

General Liability In the liability program claims are pooled separately between police and non-police exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to $30,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from $30,000 to $750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of $750,000 up to the reinsurance attachment point of $5 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from $5 million to $10 million are paid under a reinsurance contract subject to a $2.5 million annual aggregate deductible. Costs of covered claims from $10 million to $15 million are paid under two reinsurance contracts subject to a combined $3 million annual aggregate deductible. On a cumulative basis for all 2011-12 reinsurance contracts the annual aggregate deductible is $5.5 million. (6) Costs of covered claims from $15 million up to $50 million are covered through excess insurance policies.

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

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

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

Workers' Compensation In the workers' compensation program claims are pooled separately between public safety (police and fire) and non-public safety exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to $50,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from $50,000 to $100,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of $100,000 up to the reinsurance attachment point of $2 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from $2 million up to statutory limits are paid under a reinsurance policy. Protection is provided per statutory liability under California Workers' Compensation Law.

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

Purchased Insurance

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

Adequacy of Protection

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

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

Municipal Services Authority

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

(8) Post Employment Benefit Plan

Plan Description: Certain employees who retire from the Authority with 10 years of service are eligible to receive health care benefits covering themselves and any qualified members. For those employees with employment agreements stipulating this benefit, the Authority pays 100% of the single rate premium charged to active employees under a health benefit plan administered by the Public 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.

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

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

Annual OPEB Cost and Net OPEB Obligation. The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC),* an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed fifteen years, with a sensitivity analysis of 10 years. The following table shows the components of the Authority's annual OPEB cost for the fiscal year ending June 30, 2012, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation for these benefits:

(8) Post Employment Benefit Plan, (Continued)

Annual required contribution	$114,000
Interest on annual required contribution	7,004
Amortization	(14,000)
Annual OPEB cost (expense)	107,004
Contributions made (including premiums paid)	-
Increase in net OPEB obligation	107,004
Net OPEB obligation—beginning of year	181,000
Net OPEB obligation—end of year	$288,004

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	$ 81,000	0.0%	$ 81,000
6/30/2011	100,000	0.0%	181,000
6/30/2012	107,004	0.0%	288,004

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

(8) Post Employment Benefit Plan, (Continued)

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

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

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Actuarial UAAL as a Percentage of Covered Payroll (b-a)/c)
6/30/2010	$0	$205,000	$205,000	0%	$3,217,000	6.37%

(9) Prior Period Adjustment

During the year ended June 30, 2012, the Authority restated the beginning net assets to reduce the compensated absences for sick and admin leave that would not be paid out upon termination in the amount of $327,615 and the related contra account receivable in the amount of $180,754.

Net assets, beginning, as previously reported	$ 1,077,360
Adjustment to compensated absences	327,615
Adjustment to accounts receivable	(180,754)
Net assets, beginning, as restated	$ 1,224,221

REGIONAL GOVERNMENT SERVICES AUTHORITY

Basic Financial Statements

Year ended June 30, 2012

REGIONAL GOVERNMENT SERVICES AUTHORITY

Basic Financial Statements

Year ended June 30, 2012

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	3
Basic Financial Statements:	
Statement of Net Assets	9
Statement of Revenues, Expenses and Changes in Net Assets	10
Statement of Cash Flows	11
Notes to the Basic Financial Statements	12

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Regional Government Services Authority
Carmel Valley, California

INDEPENDENT AUDITORS' REPORT

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Accounting principles generally accepted in the United States of America require that *management's discussion and analysis* beginning on page 2 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures to not provide us with sufficient evidence to express and opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 6, 2013 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
February 6, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

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

OVERVIEW OF THE FINANCIAL STATEMENTS

Using the Accompanying Financial Statements

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

The basic financial statements include the following:

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

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

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

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

Government Fund Reporting:

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

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

		Fund Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Authority government (except fiduciary funds) and the Authority's component units	The activities of the Authority that are not proprietary or fiduciary	Activities the Authority operates similar to private businesses	Instances in which the Authority is the trustee or agent for someone else's resources
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures and changes in fund balances	• Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows	• Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Modified accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term debt included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Authority's fiduciary funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid.

Reporting the Authority as a Whole

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

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

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

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

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

Reporting the Authority's Proprietary Fund

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

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

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

Table 1

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

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

A summary of the statement of activities follows:

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

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

Business-Type Activities

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

LONG-TERM DEBT

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

BUDGET VERSUS ACTUAL PERFORMANCE

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

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

Future Financial Performance

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

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

Contacting the Authority's Financial Management

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

BASIC FINANCIAL STATEMENTS

REGIONAL GOVERNMENT SERVICES AUTHORITY

Statement of Net Assets

June 30, 2012

(with comparative information for the prior year)

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

See accompanying notes to the basic financial statements.

REGIONAL GOVERNMENT SERVICES AUTHORITY

Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2012
(with comparative information for the prior year)

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

See accompanying notes to the basic financial statements.

REGIONAL GOVERNMENT SERVICES AUTHORITY

Statement of Cash Flows

Year ended June 30, 2012
(with comparative information for the prior year)

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

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

See accompanying notes to the basic financial statements.

REGIONAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

Year ended June 30, 2012

(1) Summary of Significant Accounting Policies

Nature of Business

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

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

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

Basis of Accounting

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

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

Investments

For financial reporting purposes, investments are adjusted to their fair value whenever the difference between fair market value and the carrying amount is material. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

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

Cash and Cash Equivalents

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

Receivables

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

Compensated Absences

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

Use of Estimates

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

Prior Year Information

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

(2) Cash and Investments

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

Deposits with financial institutions	$ 62,141
Investments	1,602,829
Total cash and investments	$1,664,970

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

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

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

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

(2) Cash and Investments, (Continued)

Disclosures Relating to Interest Rate Risk

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

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

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

(2) Cash and Investments, (Continued)

Disclosures Relating to Credit Risk

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

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

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

Concentration of Credit Risk

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

(2) Cash and Investments, (Continued)

Custodial Credit Risk

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

Investment in State Investment Pool

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Investment in CalTRUST Investment Pool

The Authority is a voluntary participant in the Investment Trust of California (CalTRUST), a public joint powers authority formed to pool and invest the funds of public agencies. CalTRUST invests in fixed income securities eligible for investment pursuant to California Government Code Sections 53601 and 53635. Investment guidelines adopted by the board of Trustees may further restrict the types of investments help 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.

(3) Long-Term Debt

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

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

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

(4) Net Assets

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

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

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

(5) Defined Contribution Plans

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

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

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

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

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

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

Description of Self-Insurance Pool Pursuant to Joint Powers Agreement

Cal JPIA is composed of 123 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of Cal JPIA is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other lines of coverage. The California JPIA began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a 9-member Executive Committee.

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

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

Self-Insurance Programs of the Authority

General Liability In the liability program, claims are pooled separately between police and non-police exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within

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

the formula. (2) The first layer of losses includes incurred costs up to $30,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from $30,000 to $750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of $750,000 up to the reinsurance attachment point of $5 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from $5 million to $10 million are paid under a reinsurance contract subject to a $2.5 million annual aggregate deductible. Costs of covered claims from $10 million to $15 million are paid under two reinsurance contracts subject to a combined $3 million annual aggregate deductible. On a cumulative basis for all 2011-12 reinsurance contracts the annual aggregate deductible is $5.5 million. (6) Costs of covered claims from $15 million up to $50 million are covered through excess insurance policies.

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

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

Workers' Compensation In the workers' compensation program, claims are pooled separately between public safety (police and fire) and non-public safety exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to $50,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from $50,000 to $100,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of $100,000 up to the reinsurance attachment point of $2 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from $2 million up to statutory limits are paid under a reinsurance policy. Protection is provided per statutory liability under California Workers' Compensation Law.

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

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

Purchased Insurance

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

Adequacy of Protection

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

Municipal Services Authority

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

(7) Post Employment Benefit Plan

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

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

(7) Post Employment Benefit Plan, (Continued)

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

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

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

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

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

(7) Post Employment Benefit Plan, (Continued)

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

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

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

SCHEDULE OF FUNDING PROGRESS

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

(8) Prior Period Adjustment

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

Net assets, beginning, as previously reported	$ 468,982
Adjustment to compensated absences	110,117
Net assets, beginning, as restated	$ 579,099

(9) Contingencies

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

LOCAL AND REGIONAL GOVERNMENT SERVICES AUTHORITIES

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P.O. Box 1350 · Carmel Valley, CA 93924 · 650.587.7300

TO: FINANCE COMMITTEE **FC Meeting: 02-28-13**
FROM: RICHARD AVERETT, Executive Director **Item: 4B**
SUBJECT: **APPROVAL OF RESOLUTION NO. 2013-01 LAIF AUTHORIZED PERSOINS LIST**

RECOMMENDATION

Forward **Resolution number 2013-01** to the Board of Directors approving additions to the RGS LAIF Authorized Persons List.

BACKGROUND

The Local Agency Investment Fund (LAIF) requires that a resolution be approved by the Authority to transact business with LAIF. Each Authority representative delegated to make deposits or withdrawal of funds be "authorized by delegation." "Authorized by delegation" refers to local agency staff delegated responsibility for day-to-day LAIF business by those authorized on the resolution on file with LAIF. Delegated individuals may not make changes to the LAIF account, but may only request transactions and information. LAIF participants are responsible for notifying LAIF immediately in writing whenever there are changes to the agency's LAIF account. All changes are subject to verification by the State Treasurer's Office.

Discussion:

This action will not change Authority representative(s) or their successors authorized by resolution to make changes to the Authority's LAIF account:

Richard Averett, Executive Director/CFO
Daniel Schwarz, Board Chair

This action will authorize by delegation the following staff members and the Board Chair or their successors the responsibility to conduct day-to-day LAIF business, including transactions and requests for information:

Glenn Lazof, RGS Project Manager - added
Richard Averett, Executive Director – currently authorized
Jennifer Bower, Director of Human Resources – currently authorized
Daniel Schwarz, Board Chair - added

FISCAL IMPACT

There is no fiscal impact associated with this action.

RESOLUTION NO. RGSBOD2013-01

RESOLUTION OF THE BOARD OF DIRECTORS OF REGIONAL GOVERNMENT SERVICES, A JOINT POWERS AUTHORITY, AUTHORIZING ADDITIONAL RGS OFFICER TO INVEST MONIES IN THE LOCAL AGENCY INVESTMENT FUND (LAIF)

WHEREAS, Pursuant to Chapter 730 of the statutes of 1976 Section 16429.1 was added to the California Government Code to create a Local Agency Investment Fund in the State Treasury for the deposit of money of a local agency for purposes of investment by the State Treasury; and

WHEREAS, the Board of Directors hereby find that the deposit and withdrawal of money in the Local Agency Investment Fund in accordance with the provisions of Section 16429.1 of the Government Code for the purpose of investment as stated therein is in the best Interests of the Regional Government Services Authority;

NOW, THEREFORE, BE IT RESOLVED that the following Regional Government Services Authority officer, or their successor in office, shall be authorized by resolution to make changes to the District's LAIF account:

Richard Averett, Executive Director
Daniel Schwartz, Board Chair

And the following Regional Government Services Authority staff, or their successors, shall be authorized by delegation to order the deposit or withdrawal of monies in the District's LAIF account:

Richard Averett, Executive Director
Jennifer Bower, Director of Human Resources
Glenn Lazof, RGS Project Manager

I hereby certify that the foregoing Resolution was duly and regularly passed and adopted by the Board of Directors of the Regional Government at a publicly noticed meeting thereof held on the 28th day of February, 2013, by the following vote:

AYES: _____

NOES: _____

ABSTAIN: _____

APPROVED: _____
Dan Schwarz, Chair, Board of Directors
Regional Government Services

PRINT

LOCAL AGENCY INVESTMENT FUND (LAIF)
AUTHORIZATION FOR TRANSFER OF FUNDS

DATE	AGENCY NAME	LAIF ACCOUNT #
	Regional Government Services Authority	40-27-008

AGENCY'S LAIF RESOLUTION # minutes OR RESOLUTION DATE 02-28-2013

Only the following individuals of this agency whose signatures appear in the table below are hereby authorized on the LAIF account. ***This authorization supersedes all prior authorizations on file with LAIF (current authorized individuals not listed below will be deleted).***

NAME*	TITLE	SIGNATURE
Richard H. Averett	Executive Director/CFO	
Glenn Lazof	Project Manager	
Jennifer Bower	Director of Human Resources	
Daniel Schwartz	Board Chair	

* Please attach additional sheets, if necessary.

Two authorized signatures required pursuant to your agency's resolution.

SIGNATURE	SIGNATURE
Richard H. Averett	Daniel Schwartz
PRINT NAME	PRINT NAME
Executive Director	Board Chair
TITLE	TITLE
831.308.1508	415.927.5018
TELEPHONE	TELEPHONE

Mail completed form to:
State Treasurer's Office
Local Agency Investment Fund
P.O. Box 942809
Sacramento, CA 94209-0001

Revised 04/12

LOCAL AND REGIONAL GOVERNMENT SERVICES AUTHORITIES

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P.O. Box 1350 · Carmel Valley, CA 93924 · 831.308.1508

TO: FINANCE COMMITTEE **FC Meeting: 2-28-13**
FROM: GLENN LAZOF, Project Manager **Item: 4C**
SUBJECT: PROPOSALS FOR INDEPENDENT AUDIT SERVICES

RECOMMENDATION

Review audit firm proposals and select an independent auditor for the current and next two fiscal years or provide direction to staff to amend and reissue the RFP for audit services.

BACKGROUND

The RFP was issued December 3, 2012, with a deadline for submission of January 25, 2013. The successful proposer would conduct the 2012-2013 Audit. The contract period is three years with the option to extend two additional years.

DISCUSSION

Twenty firms requested proposals and a half dozen requested follow-up information. Only three proposals were received, with all three proposals meeting the minimum technical qualifications. The JPAs have experience with two of these proponents. Mayer, Hoffman, McCann is our current auditor. We have found no material inadequacies in their work for our agency. This firm was the auditor for the City of Bell during the period that Bell staff allegedly perpetrated fraud. Staff has had previous experience with Moss, Levy, and Hartzheim in which the engagement was terminated due to inadequate responsiveness.

We have no experience with Harshwal and Company but have discussed their work with the references given. Below are results of two reference calls:

Hector Balderas, NM State Auditor, and New Mexico Office of the State Auditor: This State Auditor does not give references. They did confirm that Harshwal and Company does perform engagements for their office.

Joyce Sandoval, Admin Service Director, and City of Espanola, NM: She used to be an auditor for the State Agency that reviews public agency audits throughout the state, and is therefore familiar with the work of many auditors. She had a lot positive things to say about Harshwal. She finds them easygoing, very communicative, and helpful in suggesting alternatives and also making reasonable recommendations. Ms. Sandoval noted that Harshwal is very skilled in working with electronic files and communications and encourages the use of thereof.

ANALYSIS

Staff has included a suggested template for evaluating proposals, but the Committee may decide on any manner of evaluating proposals that supports your deliberations. The first page of this form reflects compliance with only those elements of proposals which staff feels represent material compliance with RFP Submission Requirements. The Committee also has the option to request telephone or other

interviews of some or all of the proponents or direct staff to follow up with additional review of the proponents.

In anticipation that the Committee might recommend the second option, staff will solicit modifications that may be made to the RFP that might encourage additional responses. Towards that end, staff has already contacted several firms that requested proposals, had follow up questions, but elected not to submit a proposal. One firm responded that they did not submit because their marketing person was ill and they missed the deadline. The principal stated that they would definitely submit if they had another opportunity to do so. A second firm indicated that the time frame for the audit fell in their busy season and they would not have the capacity to adequately service us. The third firm's contact had high praise for the RFP, but did not submit because they felt the travel costs for Monterrey County site visits would result in a proposal with a non-competitive price point. That firm stated that if they had the opportunity to reconsider, they would likely do so.

The RFP and three responses have been distributed to the Committee.

FISCAL IMPACT

Funds for the annual audits were included in the RGS annual budget. Total fees for the FY2012 RGS and LGS audits were $17,600 combined. The table below summarizes the cost proposals from each submittal. The RFP is for audit services of RGS, LGS and MSA.

Respondent:	**Harshwal & Co.**	**Meyer, Hoffman**	**Moss , Levy, Hartzheim**
Fiscal Year Bid			
2012-2013	$ 19,890	$ 21,700	$ 21,708
2013-2014	$ 19,890	$ 22,120	$ 22,140
2014-2015	$ 19,890	$ 22,500	$ 22,580
Three Year Total	**$ 59,670**	**$ 66,320**	**$ 66,428**

LOCAL AND REGIONAL GOVERNMENT SERVICES AUTHORITIES

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TO: FINANCE COMMITTEE **FC Meeting: 2-28-13**
FROM: GLENN LAZOF, Project Manager **Item: 4D**
SUBJECT: ADMINISTRATIVE AND FINANCIAL POLICIES REPORT

RECOMMENDATIONS

Approve revisions to Administrative and Financial Policies, including revisions to:

A. Conflict of Interest Policy, page 7, adding MSA to the agencies covered and specifying LGS as a covered agency;
B. Investment Policy, page 13, deleting reference to contract financial services;
C. Audit Rotation Policy, page 20, establishing the Finance Committee's authority to select the independent auditor; and
D. Financial Reserves Policy, pages 21-23, establishing net assets targets for RGS, LGS and MSA, and adding a provision for inter-agency loans.

BACKGROUND

Revisions to the Conflict of Interest, Investments and Audit Rotation sections of the Administrative and Financial Policies are to reflect the formation of MSA, updated JPA operations and Boards of Directors action. These revisions are highlighted in the attached Policies document.

Revisions to the Financial Reserves section are proposed in recognition of the pooled insurance risks now borne by Municipal Services Authority, and the resulting diminished need for large reserves in RGS and LGS. RGS and LGS reserve are still needed to provide sufficient funds to ensure that each agency could smoothly adjust to significant and rapid increases or decreases in client workload, and for use as opportunity funds enabling the agencies to take advantage of unique circumstances that have a high likelihood of resulting in increased reimbursement revenue. When the Municipal Services Authority was formed last year to consolidate risks for RGS & LGS, it also sought to build reserves to pay claims expenses without disrupting operations and to permit higher self-insurance retention thereby facilitating lower premiums for Workers Compensation and Liability Insurance.

Staff was directed to recommend policies that would re-establish reserve levels for LGS, RGS and MSA in light of MSA formation for insurance pooling; and also provide for inter-agency loans for investment and improved cash flow. The annual board review of Administrative and Financial Policies is scheduled for May.

DISCUSSION

The proposed revision sets a minimum net asset target of $750,000 each for RGS and LGS. The longer term target would be $1.5 million for each agency or approximately 25 percent of last year's budgets. A net asset target for MSA of 100 to 200 percent of combined retention exposure would result in targets of $1,050,000 to $2,100,000. A section has also been added to the policies permitting loans between the agencies, subject to Board approval (per the Cooperation Agreement entered by all three agencies).

FISCAL IMPACT

The proposed policy changes will not affect overall net assets held by the JPAs, and may enable future savings in premium costs for insurance services.

LOCAL AND REGIONAL GOVERNMENT
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www.lgs.ca.gov www.rgs.ca.gov

Local Government Services, Regional Government Services and Municipal Services Authorities

Administrative and Financial Policies

Created
November 15, 2012

Administrative Offices: P.O. Box 1350 · Carmel Valley, CA 93924 *ph:* 831/308-1508 *fax:* 831/308-1509
Human Resources: P.O. Box 1077 · Camarillo, CA 93011 *ph:* 650/587-7316 *fax:* 650/587-7317

Local Government Services Authority (LGS)
Regional Government Services Authority (RGS)
and
Municipal Services Authority (MSA)

Administrative and Financial Policies

Resolution:

WHEREAS, the Finance Committee for Local Government Services and Regional Government Services (The JPAs) are authorized to adopt rules and regulations for the regulation of financial policies of the JPAs; and

WHEREAS, the objectives of these Financial Policies are to facilitate efficient and economical services to the government agency community; and

WHEREAS, these Financial Policies ensure adherence to generally agreed to accounting principles; and

WHEREAS, at the same time, within the limits of administrative feasibility, considerable latitude shall be given to Executive Director and designee in the interpretation of these rules; now, therefore, be it

RESOLVED, that the Finance Committee of the JPAs does hereby adopt the following Financial Policies.

Table of Contents

	Page
Resolution	2
Table of Contents	3
Introduction	4
Policies	
1. Cooperation and Utilization	6
2. Conflict of Interest	7
3. Records Retention	9
4. Investments	10
5. Allocation of JPA Administrative Expenses	19
6. Audit Rotation	20
7. Financial Reserves Designation-Net Assets	21
8. Inter-JPA Loans	22

Introduction

JPAs: Local Government Services and/or Regional Government Services, herein after, the JPAs, provide services to a variety of clients with employees assigned to perform those services. Employees are the JPA's representatives when performing services.

Board of Directors and Executive Committee: The Boards of Directors for Local Government Services, Regional Government Services and Municipal Services are each comprised of one representative from each member organization. Finance Committee Members are appointed by the LGS and RGS Boards.

Name: These Financial Policies (hereafter "Policies") generally describe the financial rules and procedures approved by the Committee, Board or Executive Director, in the case of administrative policies. These Policies attempt to reflect and encourage best practices for public agencies. These Policies apply to LGS, RGS and MSA, except where otherwise indicated in these Policies.

Conflicting Policies: These Policies were established to conform and be complementary to JPA procedures. In cases where there is deemed to be a conflict between a Policy and a procedure, the Policy shall prevail.

Additional Policies: The Executive Director is the executive leader of the JPAs and may issue additional rules or policies as deemed necessary for the efficient administration of the agencies. However, such administrative rules or policies shall not conflict with these Policies. In cases where there is deemed to be a conflict between an Administrative rule and these Policies, these Policies shall prevail.

Amendments: These Policies may be amended from time to time and approved by the Finance Committee and the JPA Governing Board.

Accessing Policies: These Policies are available to all employees and are posted on both JPAs' websites. Employees are responsible for reading and complying with them.

Violation of Policies: Violations of the provisions of these Policies shall result in disciplinary action, up to and including dismissal, to be taken in accordance with the Personnel Rules and Regulations.

Discrepancies: In the event there is a discrepancy between the language in these Policies and state or federal law, federal or state law shall prevail over these Policies.

Severability: If any part of these Policies is determined to be unconstitutional or illegal, such part shall be severed from these Policies and the remaining Policies shall be given full force and effect.

Word Usage: The term Agency, JPA or JPAs as used in these Policies refers to Local Government Services and/or Regional Government Services and/or Municipal Services Authority. Responsibilities and rights of the JPAs under these Policies are exercised by the Executive Director, and may be delegated by the Director in his/her discretion.

Executive Director: The term Executive Director refers to Local Government Services and/or Regional Government Services Executive Director. The Executive Director may designate authority to the administration or human resources manager, as appropriate. When interpreting these Policies, anytime the Executive Director is listed, it should also be interpreted to mean the Executive Director or his/her designee.

Cooperation and Utilization Policy

Board of Directors Approval: May 17, 2012
Next Board of Directors Review: May 16, 2013

Purpose: To reduce duplication of shared administrative procedural and policy actions.

Cooperation Agreement Utilization Plan: LGS, RGS and MSA adopted an updated Cooperation Agreement on January 12, 2012. The Cooperation Agreement states that the agencies will share administrative resources, including staff and vendor services, to more cost-effectively achieve and coordinate their operational needs.

In order to more fully realize the value of the Cooperation Agreement, it is recommended that shared administrative actions taken by RGS are effectively approved by LGS and MSA as signatories of the Cooperation Agreement. If LGS or MSA is the lead agency on administrative actions in the future, those actions will be effectively approved by the other agencies, as appropriate.

Conflict of Interest Policy

Board of Directors Approval: May 17, 2012
Next Board of Directors Review: May 15, 2014

Purpose: The Political Reform Act of 1974 (Government Code Sections 81000 et seq.) requires state and local government agencies to adopt and promulgate Conflict of Interest Codes.

Conflict of Interest Code: The Fair Political Practices Commission has adopted a regulation (2 Cal. Code of Regs. Section 18730), which contain the terms of a standard Conflict of Interest Code and can be incorporated by reference in an agency's code. After public notice and hearing, it may be amended by the Fair Political Practices Commission to conform to amendments in the Political Reform Act.

Therefore, the terms of 2 California Code Regulations Section 18730 and any amendments duly adopted by the Fair Political Practices Commission are hereby incorporated by reference. These regulations and the attached appendix, designating officials and employees and establishing disclosure categories, shall constitute the Conflict of Interest Code of the Regional Government Services Joint Powers Authority, Local Government Services Joint Powers Authority and the Municipal Services Joint Powers Authority.

Designated officials and employees shall file statements of economic interests with the Regional Government Services ~~Joint Powers~~ Authority, Local Government Services Authority and Municipal Services Authority who will make the statements available for public inspection and reproduction (Gov. Code Section 81008.) The Secretary will retain statements for all designated officials and employees.

Appendix: Designated Officers and Employees

Position	**Disclosure Category**
Board Directors, Alternates and Executive Committee Member	1
Executive Director/Chief Financial Officer	1
Director of Human Resources	1
General Counsel	1
Consultants*	1

*Consultants shall be included in the list of designated officials and employees and shall disclose pursuant to the broadest disclosure category in the Code subject to the following limitation:

> The Chief Executive Officer, or his or designee, may determine in writing on a case by case basis that a particular consultant, although a designed position, is hired to perform a range of duties that is limited in scope and thus does not require compliance, or full compliance with disclosure requirements. Any such written determination shall include a description of the consultant's duties and a statement as to the extent of disclosure requirements. The Chief Executive Officer may determine whether a contract consultant constitutes a "consultant" as defined in the Political Reform Act. The Chief Executive

Officer's determination is a public record and shall be retained for public inspection in the same manner and location as this Conflict of Interest Code.

Disclosure Category 1: Persons in this category must disclose all investments and business positions in business entities, doing business in, and sources of income and interests in real property, in the state in which the Authority operates.

Records Retention Policy

Board of Directors Approval: June 9, 2011
Next Board of Directors Review: May 16, 2013

Purpose: At the June 9, 2011 Board of Directors meeting, the Human Resources Director presented a Records Retention Policy which included a records retention schedule created by an expert in municipal government records.

The JPAs were desirous of adopting a Records Retention Policy to realize efficiency gains and cost savings by reducing current and future records storage costs, eliminating duplication of effort, increasing efficiency, and taking advantage of current technology and changes in law.

Records Retention Policy: JPA staff is to refer to the records retention schedules when making decisions as to the maintenance of JPA records. The full records retention schedule contains 13 comprehensive sections, each relating to a unique business area. They provide clear, specific records descriptions and retention periods, and apply current law and technology to the management of records.

The records retention schedule is a proprietary document and cannot be published in a public document. The full retention schedule is on file and available for JPA staff to reference when needed.

The records retention schedule can be amended by approval of the Board.

Investment Policy

Financial Committee Approval: N/A
Board of Directors Approval: May 17, 2012
Next Finance Committee Review: May, 2013
Next Board of Directors Review: May 16, 2013

I. INTRODUCTION

This statement will identify various policies and procedures that will foster a prudent and systematic investment program as well as organize and formalize investment related activities. The related activities which comprise good cash management include:

- Accurate cash projections;
- Timely collection of revenues;
- Control of disbursements;
- Cost-effective banking and financial services; and
- Adherence to a system of internal controls.

In accordance with the LOCAL & REGIONAL GOVERNMENT SERVICES AUTHORTIES Joint Powers Agreements as Amended and under authority granted by the Agencies' Board of Directors, the Agency Treasurer is responsible for investing the unexpended cash.

The investment of the funds of the LOCAL & REGIONAL GOVERNMENT SERVICES AUTHORTIES, and MUNICIPAL SERVICES AUTHORITY, is directed to the goals of safety, liquidity and yield. The authority governing investments for municipal governments is set forth in the California Government Code, Sections 53601 through 53659.

II. SCOPE

This policy applies to all financial assets and investment activities of the LOCAL & REGIONAL GOVERNMENT SERVICES AUTHORTIES and MUNICIPAL SERVICES AUTHORITY.

III. OBJECTIVES

Safety of Principal: The primary objective of this policy is to protect, preserve and maintain the cash and investments of the Authorities. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker-dealer default or erosion of market value. The Agencies shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.

Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the Agencies' capital base and cash flow.

Market risk, defined as market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by limiting the average maturity of the Agencies' investment portfolio to two years, the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity and avoiding the purchase of long term securities for the sole purpose of short term speculation. Investments shall be placed in those securities as outlined by type and maturity sector in this document. Effective cash flow management and resulting cash investment practices are recognized as essential to good fiscal

management and control. The Agencies' portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and Agency policy. Portfolio management requires continual analysis and as a result the balance between the various investments and maturities may change in order to give the LOCAL & REGIONAL GOVERNMENT SERVICES AUTHORTIES the optimum combination of necessary liquidity and optimal yield based on cash flow projections.

Liquidity: An adequate amount of the portfolio will be maintained in liquid short-term securities which can be converted to cash, as necessary, to meet disbursement requirements. This amount will be determined from projected cash flow trends and disbursement requirements. Investments will be made in securities with active secondary or resale markets. Securities with low market risk will be emphasized. The Agencies' investment portfolio will remain sufficiently liquid to enable the Agencies to meet all reasonably anticipated operating requirements.

Yield

Within the constraints of safety and liquidity, the highest and best return will be sought. Because the portfolio is too small to allow investments in significant long-term purchases, the objective will be to maximize yield, taking into account risk constraints of the Authorities, cash flow characteristics of the portfolio and compliance with state and federal regulations.

Prudence

The standard to be used by investment officials shall be that of a "prudent investor" and shall be applied in the context of managing all aspects of the overall portfolio. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the Agencies, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Agencies. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law. (Government Code Section 53600.3)

It is the Agencies' full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars. However, it is realized that market prices of securities will vary depending on economic and interest rate conditions at any point in time. It is further recognized that in a well-diversified investment portfolio, occasional measured losses are inevitable due to economic, bond market or individual security credit analysis. These occasional losses must be considered within the context of the overall investment program objectives and the resultant long-term rate of return.

The Agencies Treasurer and other individuals assigned to manage the investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

IV. INVESTMENT INSTRUMENTS AND MATURITIES

Permitted Investments

Investments will be within statutory limits imposed by Government Code Section 53601, as further limited herein.

1. Local Agencies Investment Fund (LAIF) which is a State of California managed investment pool, Investment Trust of California (the CalTRUST JPA pool) which is a joint powers authority under the provision of Title 1, Division 7, Chapter 5 of the California Government Code, and California county investment pools, may be used up to the maximum permitted by California State Law.
2. Time deposits, non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or savings and loan associations. Since time deposits are not liquid, no more than 25% of the investment portfolio may be invested in this investment type.
3. Various daily money market or sweep account funds administered for or by trustees, paying agents and custodian banks contracted by the LOCAL & REGIONAL GOVERNMENT SERVICES AUTHORTIES may be purchased as allowed under State of California Government Code. Only funds holding U.S. Treasury or Government Agency obligations can be utilized.
4. Direct obligations of the United States Treasury or any other obligation guaranteed as to principal and interest by the United States government, per CA Code 53601.7 e(1).
5. Bonds, notes, warrants, or other indebtedness of the local agency, or any local agencies within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agencies, or by a department, board, Agencies, or authority of the local Agencies, per CA Code 53601.7 e(4).
6. Local and Regional Government Services Authorities receivables.
7. Customized investments in or with other local governments, specifically and individually approved by the Board.

The following summary of maximum percentage limits, by instrument, is established for the Agencies' total portfolio. Maturities of investments will be selected based on liquidity requirements to minimize interest rate risk and maximize earnings.

Investment Type	Percentage/Amount
Local Agencies Investment Fund	$0 to $40,000,000 per account
CalTrust and County Pools	0% to 100%
Time Certificates of Deposit	0% to 25%
Sweep Accounts – not applicable	0% to 100%
U.S. Government Obligations	0% to 25%
California Agencies' Indebtedness	0% to 75%, limited to one year maturity
JPA Receivables	0% to 75%, limited to one year maturity

Excluded Investments

Ineligible investments are those that are not described herein, including but not limited to: common stocks; long term (over five years in maturity) notes and bonds; Reverse Repurchase Agreements; financial futures and financial options, inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages; any derivative security that could result in a zero interest accrual if held to maturity; and Guaranteed Small Business Administration (SBA) notes.

V. PERFORMANCE EVALUATION

The Agencies' investment portfolio is designed to attain safety and liquidity, with the rate of return being maximized while taking into account risk constraints of the Authorities, cash flow characteristics of the portfolio and compliance with state and federal regulations. Therefore, the Agencies are not establishing a benchmark because to do so would be impractical given the limited excess funds available for investment in longer-term, higher-yielding securities and the Authorities' liquidity needs.

Investment performance is monitored and evaluated by the Agencies' Executive Committees. Performance statistics and activity reports are generated on a quarterly basis for presentation to the Agencies' Executive Committees at their regularly scheduled meetings. Annually, a statement of investment policy, and any proposed changes to the policy, will be rendered to the Agencies' Boards of Directors for Board consideration at a public meeting.

VI. AUTHORITY TO INVEST MONIES

Government Code sections 53600 through 53601.6 provide legal authorization for investment of the funds of local agencies. All investments of the authority shall conform to the restrictions of those laws. LOCAL & REGIONAL GOVERNMENT SERVICES AUTHORTIES' Boards of Directors hereby assign responsibility for investing unexpended cash to the Agencies' Treasurer, who shall establish procedures for the operation consistent with this investment policy.

VII. ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program, or impairs their ability to make impartial investment decisions. Additionally the Treasurer/CFO and other Agency officials authorized to approve investment transactions are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission (FPPC).

VIII. INTERNAL CONTROL

A system of internal controls shall be established and maintained in written form. These controls shall be designed to prevent losses of public funds arising from fraud, error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by employee/offers of the Authority. The most important controls are: control of collusion, separation of duties, separation of transaction authority from accounting and bookkeeping, custodial safekeeping, delegation of authority, limitations regarding securities losses and remedial action, written confirmation of telephone transactions, minimization of the number of authorized investment officials, documentation of transactions and strategies, and annual review of controls by the Treasurer.

In recognition of the Agencies' current limited investment staffing (one primary person performing daily cash management, and one primary approver plus one backup staff approver) and limited funds to invest (approximately four million dollars), the Agencies rely more heavily on: separation of wire transfer preparation and approval of funds duties between ~~the Finance~~Authority ~~S~~staff~~Agencies' outside Accountant, staff cash manager and the Agencies' staff Treasurer~~; Executive Committee quarterly reviews of investments; annual independent audit of investments and investment transactions; and on an extremely conservative investment strategy that reduces risks associated with frequent investment transaction, negotiated investments, and with complex transactions. The Authority's investment products will be limited by this policy until such time that funds available to invest are sufficient to enable longer-term commitments. Proper documentation obtained from confirmation and cash disbursement wire transfers is required for each investment transaction. Timely bank reconciliation is conducted to ensure proper handling of all transactions.

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The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the Authority's~~gencies' contract Accountant~~Finance Staff on a monthly basis. An independent analysis by an external auditor shall be conducted annually to review internal control, account activity and compliance with policies and procedures.

IX. REPORTING

The Agencies' Treasurer shall render quarterly reports to the Agencies Executive Committee. These reports shall include the face amount of the cash investment, the classification of the investment, the name of the institution or entity, the rate of interest, the maturity date, the current market value and accrued interest due for all securities. At the annual Boards of Directors meeting, the investment policy shall be submitted to the Boards for review and adoption.

X. BANKS AND SECURITIES DEALERS

In selecting financial institutions for the deposit or investment of Authority funds, the Treasurer shall consider their credit worthiness. The Treasurer shall continue to monitor their credit characteristics and financial history throughout the period in which Authority funds are deposited or invested. A commercial rating or bank watch service may be used to accomplish this objective.

Financial institutions/investment managers shall annually sign a certification form attesting that the individual responsible for the Authority's account with that firm has reviewed and understands the investment policy and intends to present only those investment transactions appropriate under the policy.

XI. LEGISLATIVE CHANGES

Any State of California legislative action that further restricts allowable maturities, investment type, or percentage allocations will be incorporated into the LOCAL & REGIONAL GOVERNMENT SERVICES AUTHORTIES' Investment Policy and supersedes any and all previous applicable language.

XII. LIMITING MARKET VALUE EROSION

The longer the maturity of securities, the greater their market price volatility. Therefore, it is the general policy of the Agencies to limit the potential effects from erosion in market values by adhering to the following guidelines:

- All immediate and anticipated liquidity requirements will be addressed prior to purchasing all investments.
- Maturity dates for long-term investments will coincide with significant cash flow requirements where possible, to assist with short term cash requirements at maturity.
- All long-term securities will be purchased with the intent to hold all investments to maturity under then prevailing economic conditions. However, economic or market conditions may change, making it in the Agencies' best interest to sell or trade a security prior to maturity.

XIII. PORTFOLIO MANAGEMENT ACTIVITY

The investment program shall seek to augment returns consistent with the intent of this policy, identified risk limitations and prudent investment principals. These objectives will be achieved by use of the following strategies:

Active Portfolio Management. Through active fund and cash flow management, taking advantage of current economic and interest rate trends, the portfolio yield may be enhanced with limited and measurable increases in risk by extending the weighted maturity of the total portfolio.

Portfolio Maturity Management. When structuring the maturity composition of the portfolio, the Agencies shall evaluate current and expected interest rate yields and necessary cash flow requirements. It is recognized that in normal market conditions longer maturities produce higher yields. However, the securities with longer maturities also experience greater price fluctuations when the level of interest rates change.

XIV. POLICY REVIEW

The LOCAL & REGIONAL GOVERNMENT SERVICES AUTHORTIES' investment policy shall be adopted by the Agencies' Boards of Directors on an annual basis. This investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and yield, and its relevance to current law and financial and economic trends. Any amendments to the policy shall be forwarded to Agencies Boards of Directors for approval.

Glossary of Terms

- Accrued Interest- Interest earned but not yet received.
- Active Deposits- Funds which are immediately required for disbursement.
- Amortization- An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.
- Asked Price- The price a broker dealer offers to sell securities.
- Basis Point- One basis point is one hundredth of one percent (.01).
- Bid Price- The price a broker dealer offers to purchase securities.
- Bond- A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.
- Bond Swap – Selling one bond issue and buying another at the same time in order to create an advantage for the investor. Some benefits of swapping may include tax-deductible losses, increased yields, and an improved quality portfolio.
- Book Entry Securities – Securities, such stocks held in "street name," that are recorded in a customer's account, but are not accompanied by a certificate. The trend is toward a certificate-free society in order to cut down on paperwork and to diminish investors' concerns about the certificates themselves. All the large New York Agencies banks, including those that handle the bulk of the transactions of the major government securities dealers, now clear most of their transactions with each other and with the Federal Reserve through the use of automated telecommunications and the "book-entry" custody system maintained by the Federal Reserve Bank of New York. These banks have deposited with the Federal Reserve Bank a major portion of their government and Agencies securities holdings, including securities held for the accounts of their customers or in a fiduciary capacity. Virtually all transfers for the account of the banks, as well as for the government securities dealers who are their clients, are now affected solely by bookkeeping entries. The system reduces the costs and risks of physical handling and speeds the completion of transactions.
- Bearer and Registered Bonds - In the past, bearer and registered bonds were issued in paper form. Those still outstanding may be exchanged at any Federal Reserve Bank or branch for an equal amount of any authorized denomination of the same issue. Outstanding bearer bonds are interchangeable with registered bonds and bonds in "book-entry" form. That is, the latter exist as computer entries only and no paper securities are issued. New bearer and registered bonds are no longer being issued. Since August 1986, the Treasury's new issues of marketable notes and bonds are available in book-entry form only. All Treasury bills and more than 90% of all other marketable securities are now in book-entry form. Book-entry obligations are transferable only pursuant to regulations prescribed by the Secretary of the Treasury.

- Book Value- The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.
- Broker – In securities, the intermediary between a buyer and a seller of securities. The broker, who usually charges a commission, must be registered with the exchange in which he or she is trading, accounting for the name registered representative.
- Certificate of Deposit- A deposit insured up to $100,000 by the FDIC at a set rate for a specified period of time.
- Collateral- Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.
- Comprehensive Annual Financial Report (CAFR) - The annual financial report for multi-fund municipal agencies. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principals (GAAP).
- Constant Maturity Treasury (CMT) - An average yield of a specific Treasury maturity sector for a specific time frame. This is a market index for reference of past direction of interest rates for the given Treasury maturity range.
- Coupon- The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.
- Credit Analysis- A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.
- Current Yield- The interest paid on an investment expressed as a percentage of the current price of the security.
- Custody- A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.
- Delivery vs. Payment (DVP) - Delivery of securities with a simultaneous exchange of money for the securities.
- Discount- The difference between the cost of a security and its value at maturity when quoted at lower than face value.
- Diversification- Dividing investment funds among a variety of securities offering independent returns and risk profiles.
- Duration- The weighted average maturity of a bond's cash flow stream, where the present value of the cash flows serve as the weights; the future point in time at which on average, an investor has received exactly half of the original investment, in present value terms; a bond's zero-coupon equivalent; the fulcrum of a bond's present value cash flow time line.
- Fannie Mae- Trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.
- Federal Reserve System- The central bank of the U.S. that consists of a seven member Board of Governors, 12 local banks and 5,700 commercial banks that are members.
- Federal Deposit Insurance Corporation (FDIC) - Insurance provided to customers of a subscribing bank that guarantees deposits to a set limit (currently $100,000) per account.
- Fed Wire- A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.
- Freddie Mac- Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.
- Ginnie Mae- Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.

- Inactive Deposits- Funds not immediately needed for disbursement.
- Interest Rate- The annual yield earned on an investment, expressed as a percentage.
- Investment Agreements- An agreement with a financial institution to borrow public funds subject to certain negotiated terms and conditions concerning collateral, liquidity and interest rates.
- Liquidity- Refers to the ability to rapidly convert an investment into cash.
- Market Value- The price at which a security is trading and could presumably be purchased or sold.
- Maturity- The date upon which the principal or stated value of an investment becomes due and payable.
- Negotiable CD- An uncollateralized CD issued by a large banking institution which trades in the secondary market. Minimum size is $1 million, but most are much larger.
- New Issue- Term used when a security is originally "brought" to market.
- Perfected Delivery- Refers to an investment where the actual security or collateral is held by an independent third party representing the purchasing entity.
- Portfolio- Collection of securities held by an investor.
- Primary Dealer- A group of government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.
- Purchase Date- The date in which a security is purchased for settlement on that or a later date.
- Rate of Return- The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.
- Repurchase Agreement (REPO) - A transaction where the seller (bank) agrees to buy back from the buyer (Agencies) the securities at an agreed upon price after a stated period of time.
- Reverse Repurchase Agreement (REVERSE REPO) - A transaction where the seller (Agencies) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.
- Risk- Degree of uncertainty of return on an asset.
- Safekeeping- see custody.
- Sallie Mae- Trade name for the Student Loan Marketing Association (SLMA), a U.S. sponsored corporation.
- Secondary Market- A market made for the purchase and sale of outstanding issues following the initial distribution.
- Settlement Date- The date on which a trade is cleared by delivery of securities against funds.
- Time Deposit – A deposit in an interest-paying account that requires the money to remain on account for a specific length of time. While withdrawals can generally be made from a passbook account at any time, other time deposits, such as certificates of deposit, are penalized for early withdrawal.
- Treasury Bills- U.S. Treasury Bills which are short-term, direct obligations of the U.S. Government issued with original maturities of 13 weeks, 26 weeks and 52 weeks; sold in minimum amounts of $10,000 in multiples of $5,000 above the minimum. Issued in book entry form only. T-bills are sold on a discount basis.
- U.S. Government Agencies- Instruments issued by various US Government Agencies most of which are secured only by the credit worthiness of the particular Agencies.
- Yield- The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

- Yield to Maturity- The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.
- Yield Curve- The yield on bonds, notes or bills of the same type and credit risk at a specific date for maturities up to thirty years.

Allocation of JPA Administrative Expenses

Financial Committee Approval: November 6, 2012
Board of Directors Approval: November 15, 2012
Next Finance Committee Review: November, 2013
Next Board of Directors Review: November 21, 2013

Purpose: To equitably distribute administrative expenses between the JPAs.

JPA Allocation: Administrative expenditures that benefit two or all JPAs are shared amongst those JPAs that benefit based on the perceived benefit derived by the expenditures. Where appropriate, proportionality is determined by relative client revenues to the agency. Within the agency, these expenses are further allocated by client or project revenue as a percent of the agency revenue. Thus, the allocation between RGS and LGS shall be based on the relative share of revenue earned by each.

Expenses shall be direct charged when appropriate or shall be allocated as indirect costs on a monthly basis.

The work papers used to determine these allocations shall be filed in the Authorities' network until such time as software allows filing as an attachment to the Journal Entry within the Financial System.

Audit Rotation Policy

Financial Committee Approval: N/A
Board of Directors Approval: May 17, 2012
Next Finance Committee Review: May, 2013
Next Board of Directors Review: May 16, 2013

Purpose: The purpose of this policy is to provide for the periodic rotation of independent auditing firms or audit staff who perform the annual examination of the Joint Powers Authorities financial statements and render an opinion thereon. The audit is dependent on the individual auditor's assessment of risk in the Authority's control procedures and financial statement disclosures and is designed to provide reasonable, but not absolute, disclosure of such risk. Periodically changing independent auditing firms or the audit manager provides the Authority with a different risk assessment and, therefore, a different approach to testing risk in the Authority's control procedures and financial statement disclosures.

Selection Process: The Finance Committee is responsible for overseeing the solicitation and selection process and may also conduct final interviews prior to ~~recommending~~ the Finance Committee's selection of a firm to conduct the annual audit of the JPA ~~Board of Director~~s. A competitive process will be held at least every five years for the selection of the independent auditing firm. The Executive Director shall, on behalf of the Committee, solicit proposals for independent auditors as soon as feasible following the completion of the fifth year audit, but at least by April 1 of what would otherwise be year six.

The current auditing firm may be considered to serve beyond a five year consecutive period, provided that they will assign a new audit manager to the Authorities. Otherwise qualified firms may serve more than a five-year period provided that there is a minimum three-year break in their service to the Authorities.

Term of Contract: The initial contract term will be for three years. Providing services are satisfactory, the contract may be extended for an additional two years, subject to Board approval.

Scope of Services: The firm will perform the annual audit review of the Authorities' Financial Statements for the proceeding year and express an opinion about whether those statements are fairly presented in all material respects, in conformity with generally accepted accounting principles. Vendor shall conduct the audit in accordance with auditing standards as in general use in the United States; the standards contained in Government Auditing Standards issued by the General Comptroller of the United States; and otherwise assist staff in analyzing/implementing accounting pronouncements including those of the Government Accounting Standards Board (GASB).

Amendments or Exceptions: Amendment of or exceptions to this policy may be made by action of the JPA Board of Directors~~.~~, including the exclusive authority to extend an auditor's engagement beyond the five-year maximum continuous service period.

Financial Reserves Designation-Net Assets Policy

Financial Committee Approval: November 6, 2012
Board of Directors Approval: November 15, 2012
Next Finance Committee Review: ~~November~~February 28, 2013
Next Board of Directors Review: ~~November 21~~May 16, 2013

Purpose: To establish a prudent financial reserve targets for contingencies and to provide for inter-agency loans.

Background: The Board of Directors and the Executive Committee ~~have both expressed interest~~sought to establish ~~in establishing a~~ prudent ~~reserve~~ net assets for contingencies, and a policy~~ies~~ was~~ere~~ approved at~~.~~ ~~This was presented and approved by the Executive Committee at~~ their February 11, 2010 meetings. Subsequently, the Finance Committee was formed to provide additional financial oversight and Municipal Services Authority was formed to provide pooled insurance services for RGS and LGS. The Board ~~and Executive Committee~~ and Finance Committee directed staff to recommend revisions to policy that would provide appropriate reserves for all three agencies. ~~The Agency has coverage for Workers' Compensation and General Liability through the California Joint Powers Insurance Authority, as well as Crime and Errors and Omission insurance through CJPIA sub-programs. Reserves would enable the Agency to pay deductibles and other claims expenses not covered by the Agency's policies without disrupting cash needs for normal operations.~~ Adequate reserves in RGS and LGS ~~A reserve could also better enable~~will enable each JPA ~~the agency~~ to smoothly ~~transition~~ adapt to significant and rapid increases or decreases in client workload, and for use as an opportunity fund enabling the agency to take advantage of unique circumstances that have a high likelihood of resulting in increased reimbursement revenue. Adequate reserves in MSA will allow for higher self-retentions and therefore reduced premium costs.

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~~Reserve~~ Net Asset Amounts: The ~~JPAs~~ RGS and LGS are unique public sector providers of staffing and consulting services to public agencies, many with defined benefit pension plans. Considerable time and effort has been expended ~~over the last nine years~~since 2001 to establish the platform, client and employee contracts and operating procedures necessary to minimize risks of an employer-of-record status adverse ruling. However, it still is prudent that the Agency establish a reserve amount that is sufficient to meet the three objects noted above: adverse determinations, normal business risks (e.g. significant and rapid loss of revenue) and business opportunities. With the formation of an insurance pool, a reserve is needed for potential claims expenses that might otherwise disrupt normal operations by depleting cash.

~~Long term,~~ a ~~reserve amount equaling fifty percent of the Agency's annual budget should be sufficient. LGS's FY2011 budget is $6.3 million and RGS's budget is $2.3 million. Therefore, long-term target reserves would be roughly $3.2 million and $1.2 million. Cumulative retained earnings of the agency are now sufficient to begin funding the reserves by designating one-half of existing retained earnings, which are projected to be $1,042,000 and $295,000 respectively, by fiscal year end.~~ For fiscal year 2013, staff is proposing minimum net assets of $750,000 each for RGS and LGS, and $1,050,000 for MSA. Longer term, staff is proposing net assets of $1,500,000 for RGS and LGS and $2,100,000 for MGS. These amounts would represent roughly 25 percent of RGS and LGS operating budgets and twice the MSA self-insured retention. It is proposed that Staff ~~will~~ would annually present recommended amounts for

each agency, for the year concluding, with the proposed next fiscal year budget. The designation will then appear on the Agency's audited financial statements.

Loans and Transfers Between Agencies: The RGS Board of Directors, acting as lead agent for all three agencies under the Cooperation Agreement, may authorize interagency loans and transfers as needed for operational, investment, net asset objectives or other needs. No interest charge will be incurred for inter-agency loans, with all earnings retained by the lead agency (RGS at this time) as compensation for its provision of investment services. The Executive Director will track loans outstanding and report regularly on their status.

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NET ASSETS AND RESERVES

	RGS	LGS	MSA
Net Assets at FYE 2012	$ 842,519	$ 1,521,534	n/a
Initial Funding for Claims Expenses			$ 146,000
Reversal of Probable Claims	386,650		
Mid-Year Contributions to MSA	(300,000)	(500,000)	800,000
Net Assets Anticipated at FYE 2013	$ 929,169	$ 1,021,534	$ 946,000
(w/o additional net earnings or paid claims)			
Target Net Assets - Short Term			
Minimum for FY2013	750,000	750,000	1,050,000
Available for Reallocation	179,169	271,534	
Target Net Assets for FYE2013	750,000	750,000	1,396,703
Target Net Assets - Long Term	$ 1,500,000	$ 1,500,000	$ 2,100,000

LOCAL AND REGIONAL GOVERNMENT SERVICES AUTHORITIES

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TO: FINANCE COMMITTEE **FC Meeting: 2-28-2013**
FROM: RICHARD H. AVERETT, Executive Director **Item: 4E**
SUBJECT: IPAD-TABLET POLICY

RECOMMENDATION

Approve an iPad-Tablet Policy that would provide reimbursement for Executive Committee members of up to $1,000 for computer equipment and services to encourage paperless JPA meetings.

BACKGROUND

Board members, executive committee members, and administrative staff have expressed interest in using iPad/Tablets for Board and Committee meetings as well as for other RGS/LGS/MSA business. Staff recently reviewed JPA policies and practices regarding the implementation of electronic media to streamline the agenda process, enhance efficiency and mobility, and provide a cost savings through the use of iPads or similar tablet devices. In addition, staff researched current practices by other public-sector agencies on paperless agenda processes as well as borrowed liberally from the Town of Yountville's excellent work on this subject.

Staff is recommending that iPads be the JPA standard of tablet technology, however, a user may choose to use a different tablet device as long as it is capable with the paperless agenda process and is conducive to accomplishing JPA business. These devices may also be available for personal use.

iPad Operating Device and Requirements: Staff recommendation includes 32GB memory cellular-enabled iPads, the Apple Care Plan, and the requirement to set up a personal iTunes account to download required applications to be used in conjunction with the JPA's paperless agenda process. The recommended option also includes cost of Device/Cellular Enabled, Apple Care Plan, Required Apps, JPA contribution toward Cellular Data Plan and minimal accessories.

Connectivity: Most JPA meetings are at member site locations, such as community rooms, libraries, and city offices. These locations generally support multiple users.

Stipend: The JPA will provide a taxable stipend to JPA appointed officials, management team, and JPA administrative staff as deemed necessary for work purposes by the JPA Executive Director. This stipend is to purchase an iPad/Tablet and associated software. The taxable stipend will be in the initial amount of $1,000.00 to purchase the device, required applications, accessories, iTunes account, maintenance, and repair, and any downloading costs. Should a user choose a plan greater than the JPA standard, the difference shall be paid by user.

Periodic Review: The executive director will review the state of technology every three years to determine if updated devices are warranted. The stipend amount may be adjusted as well upon periodic administrative review.

Implementation: Implementation consists of the purchase of iPads by each member of the Board and Executive Committee, the management team, and other JPA Staff as determined by the Executive Director.

Ownership: The iPad/Tablet will be the personal property of the user and it will not be required to be returned to the JPA upon separation of service.

FISCAL IMPACT

There will be a maximum first-year cost of about $10,000 for all JPAs if all six members of the Executive Committee and four managers purchase a devise. Ongoing replacement costs (once every three years) and new member or staff purchase, and technology update costs are expected to average less than $3,000 per year.

REGIONAL GOVERNMENT SERVICES
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Board and Administrative Staff iPad Policy

Overview

Regional Government Services (RGS), Local Government Services (LGS), and Municipal Services Authorities (MSA) Joint Powers Authorities have appointed officials who serve on one or more of these agencies in the capacity of a board member, a member of the executive committee, or a member of a sub-committee. Regional Government Services employs administrative staff, who then provide services to all three JPAs. As appointed officials and staff are throughout the JPA's service areas, a paperless agenda process is being implemented to streamline the agenda process, enhance efficiency and mobility, and provide a cost savings through the use of iPads or similar tablet devices.

The JPAs meetings rotate to Member Agency sites, with most Member Agencies' sites being able to operate multiple users concurrently.

IPad/Tablet Eligibility

The JPA will provide a taxable stipend to JPA Officials, management team, and designated other JPA staff as deemed necessary for work purposes by the JPA Executive Director.

IPad/Tablet Amount/Stipend

This stipend is to purchase an iPad/Tablet to access agenda packets electronically, enhance efficiency, and align with established and emerging best practices. The taxable stipend will be in the amount of $1,000.00 to purchase the device, required applications and accessories. Should the appointed official of employee choose a plan greater than the JPA standard, the difference will not be paid by the JPA.

Technology and Stipend Review

The executive director will review the state of technology every three years to determine if updated devices or stipends is required. The amount of the stipend may be adjusted upon periodic administrative review.

Hardware, Software, and Accessories Requirements

- *Hardware*: In terms of efficiency and mobility, utilization of an iPad/Tablet device allows all information to be stored in one location. Notes can be made while reviewing the documents for easy retrieval by using a bookmark in the annotation applications. The JPAs standard for tablet technology is a 32GB Cellular Enabled iPads, with dual purpose usage of the device (business needs and personal use). However, an appointed official or staff may choose to use a different tablet device as long as it is capable of the

paperless agenda process and is conducive to accomplishing JPA business processes. Use of a device other than iPad must be pre-approved by the Executive Director.

- *Accessories and Applications*: As individual owners of iPads, JPA officials and staff will be required to establish a personal iTunes account with personal credit card to set up an Apple/iTunes account in order to download necessary applications. While many of the applications needed for business purposes are free, some are required to be purchased for a nominal fee, which varies between applications.
- *Applications*: The following Applications shall be required to support the paperless agenda process and are subject to change as technology evolves.
  - Dropbox or similar
  - iAnnotate or similar
  - 1Password or similar.
- *Recommended Applications*
  - Evernote
  - Notability
  - Pages (Word Processing Application)
- *Wireless Enabled*
- *AppleCare Plan/Warranty*: AppleCare Plan and Warranty includes technical support and hardware coverage. An excerpt of coverage from the Apple website is provided below:
  - Technical Support By AppleCare provides one-stop service and support from Apple experts; most issues can be resolved in a single call.
  - Apple Hardware Coverage: Apple Care provides repair (both parts and labor) or replacement coverage, from Apple-authorized technicians.
  - Service coverage includes: iPad, Battery, Time Capsule, or AirPort device, USB cable and Power Adaptor Coverage for up to two incidents of accidental damage from handling of the iPad, each subject to a $49 service fee (user is responsible for cost of service fee).
- *Additional Optional Accessories*
  - - iPad/Tablet cover
  - - Keyboard
  - - Protective screen cover

Damage

Should any damage or loss of function to the device occur, it is the responsibility of the owner to repair or replace device.