

REGIONAL GOVERNMENT SERVICES AUTHORITY

Basic Financial Statements

Years ended June 30, 2010 and 2009

REGIONAL GOVERNMENT SERVICES AUTHORITY

Basic Financial Statements

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Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

Board of Directors
Regional Government Services Authority
Carmel Valley, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of the Regional Government Services Authority (the "Authority") as of and for the years ended June 30, 2010 and 2009 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 audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audits provide 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, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

Mayer Hoffman McCann P.C.

Irvine, California
January 31, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

REGIONAL GOVERNMENT SERVICES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Years ended June 30, 2010 and 2009

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, 2010 and 2009. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$227,635 in FY2010 and increased \$54,380 in FY2009.
- Revenues from client reimbursements for services provided increased \$1,218,079 in FY2010 from fiscal year 2009 and \$236,881 in FY2009 from fiscal year 2008.
- Total operating expenditures increased \$1,044,824 in FY2010 from the 2009 fiscal year and increased \$196,639 in FY2009 from FY2008.
- Net assets at the end of the fiscal year are \$287,369 in FY2010 and were \$59,734 in FY2009.

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		
	<u>Government-wide Statements</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire Authority government (except fiduciary funds) and the Authority's component units	The activities of the Authority that are not proprietary or fiduciary	Activities the Authority operates similar to private businesses	Instances in which the Authority is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • 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, 2008, 2009 & 2010

Table 1

	Business - Type Activities		
	2008	2009	2010
<u>ASSETS</u>			
Current assets	\$ 357,515	333,068	749,015
Total assets	<u>\$ 357,515</u>	<u>333,068</u>	<u>749,015</u>
<u>LIABILITIES:</u>			
Liabilities	\$ 352,161	273,334	461,646
Total liabilities	<u>\$ 352,161</u>	<u>273,334</u>	<u>461,646</u>
<u>NET ASSETS:</u>			
Reserved	\$ -	-	-
Unreserved	5,354	59,734	287,369
Total net assets	<u>\$ 5,354</u>	<u>59,734</u>	<u>287,369</u>
Total net assets and liabilities	<u>\$ 357,515</u>	<u>333,068</u>	<u>749,015</u>

The increase in net assets is an indication that the overall financial position of the Authority improved during each of the last two years; by \$227,635 in FY2010 and by \$54,380 in FY2009, as indicated in the Changes in Net Assets Table 2 on the following page. The net assets of the Authority's business-type activities increased by 381 percent in 2010 and increased by over 1000 percent in 2009. The net assets (financial position) of the Authority changed as a result of client revenues increasing more than payroll and administrative expenditures increased as described below for the business-type activities of the Authority.

A summary of the statement of activities follows:

**Change in Net Assets – Year Ended
June 30, 2008, 2009 & 2010
Table 2**

	Business - Type Activities		
	2008	2009	2010
<u>Operating Revenues</u>			
Charges for services	\$ 2,067,803	2,304,684	3,522,763
Total revenues	<u>\$ 2,067,803</u>	<u>2,304,684</u>	<u>3,522,763</u>
<u>Operating Expenses</u>			
Salaries and benefits	\$ 1,898,164	1,888,359	2,749,905
Professional services	97,955	230,420	280,216
Administration	60,546	131,525	265,007
Total expenses	<u>\$ 2,056,665</u>	<u>2,250,304</u>	<u>3,295,128</u>
Change in net assets	\$ 11,138	54,380	227,635
Beginning net assets	(5,784)	5,354	59,734
Ending net assets	<u>\$ 5,354</u>	<u>59,734</u>	<u>287,369</u>
Less board designated reserve			143,684
Remaining net equity			143,685

Business-Type Activities

Revenues of the Authority's operations (see Table 2) increased by 52.9 percent in FY2010 and by 11.5 percent in FY2009. Operating expenses increased by 46.4 percent in FY2010 from FY 2009, and increased by 9.4 percent in FY2009 from FY2008.

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. That long-term payable was paid in early fiscal year 2011 in order to realize a pre-payment discount from JPIA. 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 FY2010, the primary reasons for the variances from budget were the growth in client services during the fiscal year and a more appropriate level of reimbursement from Local Government Services Authority for administrative services provided by RGS. This client-generated growth is reflected in revenues and expenditures significantly (51 percent and 45 percent, respectively) above budgeted levels. The budget was adopted anticipating a \$68,460 addition to net earnings. Client growth and controlled administrative expenditures resulted in a more than tripling of the budgeted addition to net earnings.

	FY10 Budget	FY10Actual	Variance
OPERATING REVENUES	\$ 2,335,700	\$ 3,522,763	\$ 1,187,063
Operating Expenditures			
Salaries & Benefits	1,876,926	2,749,905	(872,979)
Operating & Maintenance	390,314	545,223	(154,909)
TOTAL OPERATING EXPENSES	2,267,240	3,295,128	(1,027,888)
Net Addition/(Reduction) in net Assets	\$ 68,460	\$ 227,635	\$ 159,175

Future Financial Performance

No existing major client is anticipated to discontinue JPA services in fiscal year 2011. 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 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 Authority has, however, added several clients that are anticipated to contribute to continued growth.

Since restructuring its administrative functions during fiscal year 2008, the JPA has experienced sustained 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, Regional Government Services Authority, PO Box 1350, Carmel Valley, CA 93924.

BASIC FINANCIAL STATEMENTS

REGIONAL GOVERNMENT SERVICES AUTHORITY

Statements of Net Assets

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>Assets</u>		
Current assets:		
Cash and investments (note 2)	\$ 307,073	\$ 83,202
Accounts receivable	307,425	151,277
Prepaid expenses	<u>134,517</u>	<u>98,589</u>
Total current assets	<u>749,015</u>	<u>333,068</u>
Total assets	<u>749,015</u>	<u>333,068</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	147,466	100,781
Deferred revenue	77,243	38,372
Client deposits	20,000	20,000
Compensated absences - current portion (note 3)	<u>38,230</u>	<u>17,127</u>
Total current liabilities	<u>282,939</u>	<u>176,280</u>
Noncurrent liabilities:		
Compensated absences - long term (note 3)	114,689	97,054
Claims payable - long term (note 3 and 6)	<u>64,019</u>	<u>-</u>
Total noncurrent liabilities	<u>178,708</u>	<u>97,054</u>
Total liabilities	<u>461,646</u>	<u>273,334</u>
<u>Net Assets</u>		
Net assets (deficit):		
Unrestricted (note 4)	<u>287,369</u>	<u>59,734</u>
Total net assets (deficit)	<u>\$ 287,369</u>	<u>\$ 59,734</u>

See accompanying notes to the basic financial statements.

REGIONAL GOVERNMENT SERVICES AUTHORITY
Statements of Revenues, Expenses and Changes in Net Assets
Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Charges for services	\$ 3,522,763	\$ 2,304,684
Total operating revenues	<u>3,522,763</u>	<u>2,304,684</u>
Operating expenses:		
Salaries & benefits	2,749,905	1,888,359
Professional services	280,216	230,420
Administration	<u>265,007</u>	<u>131,525</u>
Total operating expenses	<u>3,295,128</u>	<u>2,250,304</u>
Change in net assets	<u>227,635</u>	<u>54,380</u>
Net assets (deficit) at beginning of year	<u>59,734</u>	<u>5,354</u>
Net assets (deficit) at end of year	<u>\$ 287,369</u>	<u>\$ 59,734</u>

See accompanying notes to the basic financial statements.

REGIONAL GOVERNMENT SERVICES AUTHORITY

Statements of Cash Flows

Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,405,486	\$ 2,284,942
Cash paid to suppliers for goods and services	(534,466)	(477,395)
Cash paid to employees for services	<u>(2,647,149)</u>	<u>(1,928,322)</u>
Net cash provided by (used for) operating activities	<u>223,871</u>	<u>(120,775)</u>
Cash flows from noncapital financing activities:		
Cash received from other governments	<u>-</u>	<u>49,623</u>
Net cash provided by (used for) noncapital financing activities	<u>-</u>	<u>49,623</u>
Net increase (decrease) in cash and cash equivalents	223,871	(71,152)
Cash and cash equivalents at beginning of year	<u>83,202</u>	<u>154,354</u>
Cash and cash equivalents at end of year	<u>\$ 307,073</u>	<u>\$ 83,202</u>
Reconciliation of change in net assets to net cash provided by (used for) operating activities:		
Change in net assets	<u>\$ 227,635</u>	<u>\$ 54,380</u>
Adjustments to reconcile change in net asset to net cash provided by (used for) operating activities:		
(Increase) decrease in accounts receivable	(156,148)	2,261
(Increase) decrease in prepaid expenses	(35,928)	(98,589)
Increase (decrease) in accounts payable	46,685	(16,861)
Increase (decrease) in deferred revenue	38,871	(22,003)
Increase (decrease) in client deposits	-	-
Increase (decrease) in compensated absences	38,737	(39,963)
Increase (decrease) in claims payable	<u>64,019</u>	<u>-</u>
Total adjustments	<u>(3,764)</u>	<u>(175,155)</u>
Net cash provided by (used for) operating activities	<u>\$ 223,871</u>	<u>\$ (120,775)</u>

There were no significant noncash financing or investing activities for the periods ended June 30, 2010 and 2009.

See accompanying notes to the basic financial statements.

REGIONAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

Years ended June 30, 2010 and 2009

(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 and the Association of Bay Area Governments (ABAG), with the Town of Yountville joining the Authority in June 2010. A four-member board consisting of one representative from each member controls the Authority. None of the member entities exercise specific control over budgeting and financing of the Authority's activities beyond their representation on the board. Accounting services are provided by McGilloway, Ray, Brown & Kaufman.

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

Basis of Accounting

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

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

Investments

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

REGIONAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

(Continued)

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

Cash and Cash Equivalents

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

Receivables

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

Compensated Absences

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

Use of Estimates

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

(2) Cash and Investments

Cash and investments held by the Authority at June 30, 2010 consist of the following:

Deposits with financial institutions	\$ (82,856)
Investments	<u>389,929</u>
Total cash and investments	<u>\$307,073</u>

REGIONAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Cash and investments held by the Authority at June 30, 2009 consist of the following:

Deposits with financial institutions	\$ (34,542)
Investments	<u>117,744</u>
Total cash and investments	<u>\$83,202</u>

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

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

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

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

REGIONAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the Authority's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity for year ended June 30, 2010:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturing (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
CalTRUST investment pool	\$280,048	280,048	-	-	-
State investment pool (LAIF)	<u>109,881</u>	<u>109,881</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$389,929</u>	<u>389,929</u>	<u>-</u>	<u>-</u>	<u>-</u>

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, 2009:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturing (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
State investment pool (LAIF)	<u>\$117,144</u>	<u>117,144</u>	<u>-</u>	<u>-</u>	<u>-</u>

REGIONAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Disclosures Relating to Credit Risk

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

Presented below is the minimum rating required by (where applicable) the California Government Code, the Authority's investment policy, or debt agreements, and the actual rating as of year end June 30, 2010 for each investment type was as follows.

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
CalTRUST investment pool	\$280,048	N/A	-	-	-	280,048
State investment pool (LAIF)	109,881	N/A	-	-	-	109,881
Total	<u>\$389,929</u>	N/A	<u>-</u>	<u>-</u>	<u>-</u>	<u>389,929</u>

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 year end June 30, 2009 for each investment type was as follows.

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
State investment pool	<u>\$117,144</u>	N/A	<u>-</u>	<u>-</u>	<u>-</u>	<u>117,144</u>

Concentration of Credit Risk

The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total Authority investments for fiscal years ended June 30, 2010 and 2009, respectively.

REGIONAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Custodial Credit Risk

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

Investment in State Investment Pool

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

Investment in CalTRUST Investment Pool

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

REGIONAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(3) Long-Term Debt

The following is a schedule of changes in long-term liabilities for the year ended June 30, 2010:

	Balance at July 1, 2009	Additions	Deletions	Balance at June 30, 2010	Portion Due Within One Year
Compensated absences	114,181	80,812	42,075	152,918	38,230
Claims payable	<u>-</u>	<u>64,019</u>	<u>-</u>	<u>64,019</u>	<u>-</u>
Total	<u>\$114,181</u>	<u>144,831</u>	<u>42,075</u>	<u>216,937</u>	<u>38,230</u>

The following is a schedule of changes in long-term liabilities for the year ended June 30, 2009:

	Balance at July 1, 2008	Additions	Deletions	Balance at June 30, 2009	Portion Due Within One Year
Compensated absences	<u>154,144</u>	<u>35,834</u>	<u>75,797</u>	<u>114,181</u>	<u>17,127</u>
Total	<u>\$154,144</u>	<u>35,834</u>	<u>75,797</u>	<u>114,181</u>	<u>17,127</u>

REGIONAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(4) Net Assets

Net assets consisted of the following as of June 30:

	<u>2010</u>	<u>2009</u>
Unrestricted net assets available for operations	\$ 143,685	59,734
Unrestricted, board designated net assets:		
Reserve for contingencies**	<u>143,684</u>	<u>-</u>
Total unrestricted net assets	<u>287,369</u>	<u>59,734</u>
Total restricted net assets	<u>-</u>	<u>-</u>
Total net assets	<u>\$ 287,369</u>	<u>59,734</u>

**At the June 10, 2010 Board of Directors meeting, the Authority's Board of Directors authorized designation of general funds as reserves for insurance and normal operations. It is anticipated that following an actuarial study of OPEB liabilities, a separate reserve or trust will be established for that purpose.

REGIONAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(5) Defined Contribution Plans

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

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

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

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

REGIONAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

(Continued)

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

For the years ended June 30, 2009 and 2010, 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, 2010 the cumulative retrospective deposit payable for general liability is \$64,019. There was no liability at June 30, 2009.

Description of Self-Insurance Pool Pursuant to Joint Powers Agreement

The Authority is a member of the California Joint Powers Insurance Authority (Cal JPIA). Cal JPIA is composed of 122 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 coverages. Cal JPIA's pool 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.

Self-Insurance Programs of the Authority

General Liability Each member government pays a primary deposit to cover estimated losses for a fiscal year (claims year). After the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Claims are pooled separately between police and non-police. Costs are allocated to members by the following methods within each of the four layers of coverage: (1) the first \$30,000 of each occurrence is charged directly to the member's primary deposit; (2) costs from \$30,000 to \$750,000 and the loss development reserves associated with losses up to \$750,000 are pooled based on the member's share of losses under \$30,000; (3) losses from \$750,000 to \$5,000,000 and the associated loss development reserves are pooled based on payroll; (4a) costs of covered claims from \$5,000,000 to \$10,000,000 are paid under reinsurance policies and are subject to a \$2,500,000 annual aggregate deductible; (4b) costs of covered claims from \$10,000,000 to \$50,000,000 are covered through excess insurance policies; (4c) Costs of covered claims for subsidence losses are paid by excess insurance with a sub-limit of \$25,000,000 per occurrence per member. This \$25,000,000 subsidence sub-limit is composed of \$10,000,000 in reinsurance and \$15,000,000 in excess insurance. The excess insurance layer has a \$15,000,000 annual aggregate. The costs associated with 4a, 4b, and 4c are estimated using actuarial models and pre-funded as part of the primary and retrospective deposits.

REGIONAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

(Continued)

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

Workers' Compensation The Authority also participates in the workers' compensation pool administered by Cal JPIA. Each member pays a primary deposit to cover estimated losses for a fiscal year (claims year). After the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Claims are pooled separately between public safety and non-public safety. Costs are allocated to members by the following methods within each of the four layers of coverage: (1) the first \$50,000 of each loss is charged directly to the member's primary deposit; (2) losses from \$50,000 to \$100,000 and the loss development reserve associated with losses up to \$100,000 are pooled based on the member's share of losses under \$50,000; (3) losses from \$100,000 to \$2,000,000 and the loss development reserves associated with those losses are pooled based on payroll; (4) losses from \$2,000,000 up to statutory limits are paid under an excess insurance policy. Protection is provided per statutory liability under California Workers' Compensation law.

Employer's Liability losses are pooled among members to \$2,000,000, coverage from \$2,000,000 to \$4,000,000 is purchased as part of an excess insurance policy, and losses from \$4,000,000 to \$10,000,000 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 arranged by the Authority. Premiums are paid annually and are not subject to retroactive adjustments.

Adequacy of Protection

During the past three fiscal (claims) years, none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

REGIONAL GOVERNMENT SERVICES AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(7) Post Employment Benefit Plan

Employees who retire from the Authority with 10 years of service are eligible to receive health care benefits covering themselves and any qualified members. 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. There were no expenses for post-employment health care benefits for fiscal years 2010 and 2009, respectively.

(8) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2010, that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the Authority's future financial statements.

Governmental Accounting Standards Board Statement No. 45

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local government employers. This statement is effective as of June 30, 2010. The Authority anticipates that the effect of this statement will not be significant to its financial statement presentation. As noted in note 6, the Authority has not had any OPEB expenses nor does management expect any OPEB expenses in the next 12 months, since the total of employees is small and the vesting period is 10 years. Therefore the Authority has not established a trust or funded a reserve.

However, in anticipation of future expenses, in fiscal year 2011 the Authority requested an actuarial study of its OPEB liabilities. The study and resulting funding segregation (from undesignated reserves established June 10, 2010) are expected to be completed by the fiscal year ending June 30, 2011.