

# **Regional Government Services Authority**

*Basic Financial Statements and  
Independent Auditors' Reports*

*For the years ended June 30, 2019 and 2018*



**Regional Government Services Authority**  
**Financial Statements**  
**For the years ended June 30, 2019 and 2018**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the enterprise fund and the aggregate remaining fund information of the Regional Government Services Authority (Authority), as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise fund and the aggregate remaining fund information of the Authority, as of June 30, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

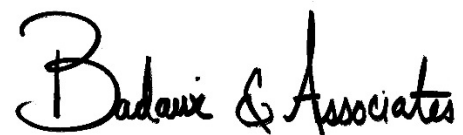
### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

Berkeley, California  
January 17, 2020

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Regional Government Services Authority (the "Authority" or "RGS") financial performance provides an overview of the Authority's financial activities for the fiscal year (FY) ended June 30, 2019. Please read it in conjunction with the Authority's financial statements which follow this section.

### FINANCIAL HIGHLIGHTS

- In the fiscal year ended June 30, 2019, the Authority's net loss of \$457,454 is a \$464,737 decrease from the gain of \$7,283 in the prior fiscal year
- There were two significant, non-operating events that contribute to the changes to the JPA's financial position: the dissolutions of Local Government Services Authority (LGS) and Municipal Services Authority (MSA); and the correction of a reporting error by the California Joint Powers Insurance Authority (CJPIA) of the RGS retrospective contributions payable.
- The dissolution of MSA generated the transfer to RGS of \$1,090,943 representing one half of the net equity, as well as transfers of other RGS assets and liabilities on the MSA balance sheet.
- The reporting error by CJPIA increased the RGS retrospective contributions payable from \$616,969 in FY18 to \$2,052,789 for FY19. This reporting error was not revealed to JPA staff until five months after end of FY19 and further justification has been requested.
- Absent these two extraordinary items, the JPA operating performance for FY19 would have resulted in a loss of less than \$50,000 versus the \$185,980 loss that had been budgeted.
- Due to consistently replacing retiring client agreements, expanding new services (such as Emergency Management Services), and long-term cost-recovery discipline, Regional Government Services Authority continues operational sustainability. The Authority's largest client began with RGS in 2009 and has grown to have thirteen assigned employees.
- As a result of actions by CalPERS, a major client since inception (Local Government Services Authority or LGS) ceased operation in fiscal year 2019. RGS client revenue from LGS has been partially offset by administrative services client revenues from Municipal Shared Services Corporation (MSS) and Municipal Dental Pool, a dental benefit program participated in by nineteen public agencies, including RGS.
- The dissolution of LGS precipitated the dissolution of MSA, also a joint powers authority, which also compensated RGS for administrative services.
- The Authority has administrative personnel, technical infrastructure, internal processes and outreach activities in place to control costs and grow RGS services revenue. It is expected that by FY2020, RGS should be able to fully offset the loss of LGS and MSA client revenue.
- As a result of CalPERS audits of several client partners, additional legal services costs were \$133,313 during the fiscal year. The Authority is undergoing a major risk mitigation review and has already implemented a number of measures to better protect its relationship to clients as an independent contractor.

### OPERATIONAL HIGHLIGHTS

- The Authority now identifies its services by nine Service Groups: Emergency Management Services, Finance, Human Resources, Outreach, Planning, Risk Management, Workplace Safety, Public Safety and Training. Internal tracking and reporting have been established to allow staff to better manage these services.
- In addition to the Service Group consultative services, the Authority provides back-office financial and administrative services to support other agencies. During the fiscal year RGS contracted to

provide a complete support and administrative platform for Municipal Shared Services Corporation (MSS) and oversight of the Municipal Dental Pool.

- RGS provides all accounting and human resources functions for a Groundwater Sustainability Agency (GSA), financial and IT functions for the Self-Directed Tax-Advantaged Retirement System (STARS), and financial functions for MSS with a complement of a few full-time staff and the majority being part-time. The investments in JPA resources results in lower operating costs, improved reporting and controls, and increased capacity to take on addition client work and new client services.
- The Authority continues to review its remaining technology needs, including improving the cost model, enhancements to financial and time recording data gathering and reporting, and better utilization of social media platforms and customer relations management software.

## **USE OF FINANCIAL STATEMENTS TO ANALYZE THE AUTHORITY'S CONDITION**

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

### **THE STATEMENT OF NET POSITION**

The Statement of Net Position details the Authority’s assets, liabilities and the difference between them, known as net position, at the end of the fiscal years, June 30, 2019, June 30, 2018, and June 30, 2017. The level of net position is one way to measure the Authority’s financial health. Over time, increases or decreases in the Authority’s net position are one indicator of whether its financial health is improving or deteriorating.

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

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

### **THE STATEMENT OF CASH FLOWS**

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



## THE NOTES TO FINANCIAL STATEMENTS

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

### FINANCIAL ANALYSIS

#### NET POSITION

The Authority's net position at June 30, 2019 totaled \$226,733 compared with \$684,187 at June 30, 2018 and \$676,904 at June 30, 2017. A summary of the Authority's asset, liability and net position balances at the end of the current and prior fiscal years appears on the following chart.

	2017	2018	2019	Change	Percent Change
Current Assets	\$1,761,230	\$1,896,065	\$2,968,347	\$1,072,282	57%
Current Liabilities	954,466	1,088,132	460,367	-627,765	-58%
Non-Current Liabilities	129,860	123,746	2,281,247	2,157,501	1743%
Total Liabilities	1,084,326	1,211,878	2,741,614	1,529,736	126%
Net Position					
Unrestricted	676,904	684,187	226,733	-457,454	-67%

The June 30, 2018 cash and cash equivalents balance increased \$1,113,106 or 211% from the balance at the end of the prior year. \$830,451 of the increase is a result of the dissolution of MSA and the transfer of cash from its balance sheet to RGS. Accounts receivable decreased 5% from the prior year reflecting typical JPA billing and client payment cycle variances. The Authority invests surplus cash in a Money Market account at Rabobank, the Local Agency Investment Fund, a governmental investment pool managed and directed by the California State Treasurer, and also in the Investment Trust of California (CalTRUST), a public joint powers authority formed to pool and invest the funds of public agencies.

Non-Current liabilities grew \$2,157,501. The principal cause of the increase is the result of a reporting error by CJPIA which increased the RGS retrospective contributions payable from \$616,969 in FY18 to \$2,052,789 for FY19. Additional liabilities result from the dissolution of MSA whereby RGS became its own insurance risk bearing entity therefor the liabilities now include claims payable.

#### REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Authority reported a decrease in net position of \$457,454 for the year ended June 30, 2019. Net operating income decreased slightly.

Operating revenue and expenses increased slightly from the prior fiscal. Operating expenses include all costs related to payroll and employee benefits, as well as general and administrative expenses. Professional services nearly doubled to \$955,130, 81% of which is attributed to the authority's largest client, and all of these costs are passed on to the client. Administrative cost controls resulted in a \$127,204 (18%) reduction in expenses.

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

	2017	2018	2019	Change	Percent Change
<b>Operating Revenues:</b>					
Charges for services	\$ 8,979,402	\$ 9,180,635	\$ 9,182,646	\$ 2,011	0%
<b>Operating Expenses:</b>					
Salaries and benefits	7,772,196	7,982,732	7,642,273	-340,459	-4%
Professional services	862,026	484,117	955,130	471,013	97%
Administration	461,154	714,364	587,160	-127,204	-18%
Total Operating Expenses	9,095,376	9,181,213	9,184,563	3,350	0%
Operating Income (Loss)	-115,974	-578	-1,917	-1,339	232%
<b>Non-Operating Revenues</b>					
Investment income	9,990	7,861	48,742	40,881	520%
Special item			-504,279		
Change in net position	-105,984	7,283	-457,454	-464,737	-6381%
Beginning Net Position	782,888	676,904	684,187	7,283	1%
Ending Net Position	\$ 676,904	\$ 684,187	\$ 226,733	\$ (457,454)	-67%

#### CAPITAL ASSETS

At June 30, 2019, the Authority had no capital assets, no depreciation expenses and no immediate plans to acquire capital assets in the future.

#### ECONOMIC FACTORS AND BUDGET

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

financial pressures on local governments are cyclical but ever increasing, the demand for RGS services is expected to vary, but generally to increase over time as long as those services are relevant to the needs of and are cost effective for the clients.

The Authority's governing body – its Board of Directors and committees – guide and ensure that the Authority stays current with its mission to serve local agencies in a fiscally sustainable manner. The Authority's growth over the last 17.5 years, from formation to now over 132 active clients over the course of the fiscal year and over 275 client agencies served, is confirmation of the value of that mission and of the guidance received by the local government executives who serve on our Board. There have been and will be challenges along the way which require adjustments and investments in the Authority's capacity. Fiscal year 2019 was a year of continued growth in the number of partner agencies served, as well as the range of service offerings. RGS continued to invest in its capacity to improve existing and develop new services by hiring committed and professional staff. It has also continued to invest in RGS sponsorship of local agencies and professionals, and its outreach to agencies so more cities, special districts and joint powers authorities know of RGS' services and value; increased its investment in technological tools to better track projects and resources; and increased training and professional development of RGS Advisors and core administrative staff.

The FY2020 budget reflects a stable base of partner agencies, consistent replacement of expiring services agreements, continued investments in conference and sponsorship activities, and the careful monitoring and adjustment of charges for services. Fiscal year 2020 financial performance is expected to be break even as the JPA continues to absorb legal and administrative costs associated with CalPERS increased involvement in local government operations. RGS is well poised to regain stronger growth in second half of the 2020 fiscal year.

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

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

**Regional Government Services Authority**  
**Statement of Net Position**  
**June 30, 2019 and 2018**

	2019	2018
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ 1,638,248	\$ 525,142
Accounts receivables	1,250,512	1,323,128
Due from other agencies	24,999	36,322
Prepaid expenses	54,588	11,473
<b>Total assets</b>	<b>2,968,347</b>	<b>1,896,065</b>
<b>LIABILITIES AND NET POSITION</b>		
Current liabilities:		
Accounts payable	429,254	379,492
Unearned revenue	31,113	24,752
Due to Municipal Services Authority	-	683,888
<b>Total current liabilities</b>	<b>460,367</b>	<b>1,088,132</b>
Noncurrent liabilities:		
Compensated absences	107,776	123,746
Claims payable	120,682	-
Retrospective contributions payable	2,052,789	-
<b>Total noncurrent liabilities</b>	<b>2,281,247</b>	<b>123,746</b>
<b>Total liabilities</b>	<b>2,741,614</b>	<b>1,211,878</b>
<b>NET POSITION</b>		
Unrestricted	226,733	684,187
<b>Total net position</b>	<b>\$ 226,733</b>	<b>\$ 684,187</b>

See accompanying Notes to Basic Financial Statements.

**Regional Government Services Authority**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For the years ended June 30, 2019 and 2018**

	2019	2018
<b>OPERATING REVENUES:</b>		
Charges for services:		
Service charges	\$ 9,182,646	\$ 9,180,635
<b>Total operating revenues</b>	<b>9,182,646</b>	<b>9,180,635</b>
<b>OPERATING EXPENSES:</b>		
Salaries and benefits	7,642,273	7,982,732
Professional services	955,130	484,117
Administration	587,160	714,364
<b>Total operating expenses</b>	<b>9,184,563</b>	<b>9,181,213</b>
<b>OPERATING INCOME:</b>	<b>(1,917)</b>	<b>(578)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Investment income	48,742	7,861
<b>Total nonoperating revenues</b>	<b>48,742</b>	<b>7,861</b>
<b>SPECIAL ITEM:</b>		
Transfer relating to dissolved related party entities (Note 8)	(504,279)	-
<b>NET INCOME</b>	<b>(457,454)</b>	<b>7,283</b>
<b>NET POSITION:</b>		
Beginning of year	684,187	676,904
End of year	<u>\$ 226,733</u>	<u>\$ 684,187</u>

See accompanying Notes to Basic Financial Statements.

**Regional Government Services Authority**  
**Statement of Cash Flows**  
**For the years ended June 30, 2019 and 2018**

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received for services	\$ 9,272,946	\$ 8,826,803
Cash paid to supplies for goods and services	(2,365,377)	(1,058,878)
Cash paid to employees for services	(7,658,243)	(7,988,846)
<b>Net cash provided by (used in) operating activities</b>	<b>(750,674)</b>	<b>(220,921)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Cash transferred from dissolved related party entities	\$ 1,815,038	\$ -
<b>Net cash provided by noncapital financing activities</b>	<b>1,815,038</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment income received	48,742	7,861
<b>Net cash provided by investing activities</b>	<b>48,742</b>	<b>7,861</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,113,106</b>	<b>(213,060)</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	525,142	738,202
End of year	<u>\$ 1,638,248</u>	<u>\$ 525,142</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET</b>		
<b>CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ (1,917)	\$ (578)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Changes in assets and liabilities:		
Accounts receivable	83,939	(359,920)
Prepaid expenses	32,654	12,025
Accounts payable	49,762	25,091
Unearned revenue	6,361	6,088
Due to other government	(830,451)	102,487
Claims payable	(75,052)	-
Compensated absences	(15,970)	(6,114)
<b>Net cash provided by operating activities</b>	<b>\$ (750,674)</b>	<b>\$ (220,921)</b>
<b>NONCASH ITEMS:</b>		
Prepaid items transferred	(75,769)	-
Due to Municipal Services Authority adjustment	146,563	-
Claims and retrospective contribution payable transferred	2,248,523	-

See accompanying Notes to Basic Financial Statements.

**Regional Government Services Authority**  
**Statement of Fiduciary Net Position**  
**Agency Fund**  
**June 30, 2019 and 2018**

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	<u>2019</u>	<u>2018</u>
<b>Assets:</b>		
Cash and investments	\$ -	\$ 1,773,150
<b>Total assets</b>	<u>\$ -</u>	<u>\$ 1,773,150</u>
<b>Liabilities:</b>		
Deposits and Advances	\$ -	\$ 1,773,150
<b>Total liabilities</b>	<u>\$ -</u>	<u>\$ 1,773,150</u>

See accompanying Notes to Basic Financial Statements.

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# NOTES TO BASIC FINANCIAL STATEMENTS

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**Regional Government Services Authority**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2019 and 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

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

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

**B. Basis of Accounting**

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

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

Fiduciary Fund

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

**Regional Government Services Authority**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2019 and 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**C. Cash and Cash Equivalents**

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

**D. Accounts Receivable**

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

**E. Investments**

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

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

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

**F. Unearned Revenue**

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

**Regional Government Services Authority**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2019 and 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**G. Use of Estimates**

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

**H. Net Position**

**Financial Statements**

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

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

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

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

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

**I. New Pronouncements**

In 2018, the Authority adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 83, *Certain Asset Retirement Obligations* - The objective of this statement is to address accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this statement did not apply to the Authority for the current fiscal year
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* - The objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this statement did not apply to the Authority for the current fiscal year.

**Regional Government Services Authority**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2019 and 2018**

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**2. CASH AND INVESTMENTS**

Cash and investments as of June 30, 2019 and 2018 consisted of the following:

	2019	2018
Cash on hand and in the banks	\$ 65,863	\$ 7,572
Money Market Account	399,352	400,282
CalTrust Funds	1,171,811	1,889,243
Local Agency Investment Fund	1,222	1,195
Total Cash and Investments	<u>\$ 1,638,248</u>	<u>\$ 2,298,292</u>
Enterprise Fund	\$ 1,638,248	\$ 525,142
Agency	-	1,773,150
Total Cash and Investments	<u>\$ 1,638,248</u>	<u>\$ 2,298,292</u>

The Authority is holding cash and investments on behalf of Local Government Services Authority and Municipal Services Authority totaling \$0 and \$1,773,150 for the years ending June 30, 2019 and 2018, respectively (see Note 7 - Related Party Transactions).

**A. Cash in Bank**

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

**Regional Government Services Authority**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2019 and 2018**

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**2. CASH AND INVESTMENTS, Continued**

***B. Local Agency Investment Fund***

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by Code Section 16429 under the oversight of the Treasurer of the State of California. The Authority's investments with LAIF at June 30, 2019 and 2018, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

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

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

As of June 30, 2019, the Authority had \$1,222 invested in LAIF respectively, which had invested 1.67% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 2.67% in the previous year. The LAIF fair value factor of 1.001711790 was used to calculate the fair value of the investments in LAIF.

As of June 30, 2018, the Authority had \$1,195 invested in LAIF respectively, which had invested 2.67% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 2.89% in the previous year. The LAIF fair value factor of 0.998126869 was used to calculate the fair value of the investments in LAIF.

***C. CalTRUST Investment Pool***

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

**Regional Government Services Authority**  
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**2. CASH AND INVESTMENTS, Continued**

*D. Fair Value Measurements*

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. None of the Authority's investments were subject to levelling disclosure.

*E. Risk Disclosures*

Interest Rate Risk

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

**2019**

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

**2018**

Investment Type	Fair Value	Investment Maturities (in years)				
		1 year or Less	2 years	3 years	4 years	5 years or More
Money Market Account	\$ 400,282	\$ 400,282	\$ -	\$ -	\$ -	\$ -
CalTrust Funds	1,889,243	1,889,243	-	-	-	-
Local Agency Investment Fund	1,195	1,195	-	-	-	-
<b>Total</b>	<b>\$2,290,720</b>	<b>\$2,290,720</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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**2. CASH AND INVESTMENTS, Continued**

*E. Risk Disclosures, Continued*

Credit Risk

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

Concentration of Credit Risk

The investment policy of Regional Government Services Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total Authority investments for the year ended June 30, 2019 and 2018.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

**3. LONG TERM LIABILITIES**

*A. Compensated Absences*

The Authority has long term liabilities for compensated absences in the amount of \$107,776 and \$123,746 as of June 30, 2019 and 2018.

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

	Balance	2018		Balance
	July 1, 2017	Additions	Reductions	June 30, 2018
Compensated absences	\$ 129,860	\$ -	\$ (6,114)	\$ 123,746



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**3. LONG TERM LIABILITIES, Continued**

**B. Claims Liabilities**

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

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

Condensed financial information for MIC as of and for the year ended June 30, 2019 is as follows:

	2019
Total Assets	\$ 114,900
Total Liabilities	8,500
Net Position	<u>\$ 106,400</u>
Revenues	\$ 2,161,922
Expenses	2,126,622
Nonoperating income	<u>19,296</u>
Change in Net Position	<u>\$ 54,596</u>

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

For the Years Ended June 30,	Claims Payable July 1	Fiscal Year Claims and Changes in Estimates	Claims Payments	Claims Payable June 30
2019	-	182,894	-	182,894

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**5. RETROSPECTIVE CONTRIBUTIONS**

The financial statements reflect the assumption of the retrospective contribution liabilities related to prior participation in California Joint Powers Insurance Authority (CJPIA), a risk sharing pool. These liabilities were previously assumed and reported by Municipal Services Authority (MSA), however were transferred to the Authority after MSA's dissolution during fiscal year 2019. At June 30, 2019 the amounts assumed by Authority for the workers' compensation and liability programs were \$156,113 and \$1,896,676, respectively. The amounts are based on CJPIA calculations as of June 30, 2018, respectively, as the amount as of June 30, 2019 is not calculated until after the completion of our audit.

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

**4. EMPLOYEE RETIREMENT PLANS**

**A. *Deferred Compensation Plan***

The Authority has established a deferred compensation plan in accordance with Internal Revenue Code Section 457(b), whereby employees may elect to defer portions of their compensation in a self-directed investment plan for retirement. Plan assets are invested in each individual's name with a deferred compensation plan provider. Distributions are made upon the participant's termination, retirement, death or total disability, and in a manner in accordance with the election made by the participant. All employees are eligible for plan participation. Employee contributions to the plan for the years ended June 30, 2019 and 2018 were \$363,660 and \$355,351, respectively.

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

**B. *Other Defined Contribution Plan***

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

Distributions are made upon the participant's termination, retirement, death or total disability, and in a manner in accordance with the election made by the participant. Contributions to the plan for the year ended June 30, 2019 and 2018 totaled \$647,722 and \$678,764, respectively, and were contributed by the Authority.

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**4. EMPLOYEE RETIREMENT PLANS, Continued**

*B. Deferred Compensation Plan, Continued*

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

**5. OTHER POSTEMPLOYMENT BENEFITS**

*A. Plan Description*

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

As of June 30, 2013, certain employees who retired from the Authority with 10 years of service were eligible to receive health care premium coverage under which the Authority would pay 100% of the employer contribution for active employees' single coverage under a health benefit plan administered by the Public Employee's Retirement System (PERS). All other retirees were eligible for the PERS mandated benefit coverage, under which the Authority currently would pay up to \$122 per month for any health coverage, subject to the PERS vesting schedule. As of June 30, 2014, the Authority no longer participates in this health benefit plan, and all eligible employees now participate in a Health Reimbursement Account plan. The Authority had no liability for payments to the health reimbursement account and all funding requirements had been met at June 30, 2019 and 2018.

*B. Funding Policy*

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

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**6. JOINTLY GOVERNED ORGANIZATIONS**

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

MSA was governed by a Board consisting of representatives from its two member agencies. The Board controls the operations, including selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the Board. Each member agency pays a contribution or assessment commensurate with the level of coverage and services requested and shares surpluses and deficits proportionate to their participation in the joint powers authority. Payments to MSA for the year ended June 30, 2019 were \$135,000 to support general liability and workers compensation coverage; there were no supplemental contributions beyond net operating proceeds. Payments to MSA for the year ended June 30, 2018 were \$396,000 to support general liability and workers compensation coverage; there were no supplemental contributions beyond net operating proceeds. Full financial statements are available separately from MSA.

Condensed financial information for the year ended June 30, 2019 and 2018 is as follows:

	2019	2018
Total Assets	\$ -	\$ 3,063,663
Total Liabilities	-	877,681
Net Position	<u>\$ -</u>	<u>\$ 2,185,982</u>
Revenues	\$ 135,966	\$ 396,000
Expenses	140,062	302,106
Special Items	<u>(733,225)</u>	-
Change in Net Position	<u>\$ (737,321)</u>	<u>\$ 396,000</u>

**7. RELATED PARTY TRANSACTIONS**

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

The amounts charged for the year ended June 30, 2019 were \$80,994 for LGSA and \$39,000 for MSA. RGSA also holds cash and investments on behalf of LGSA and MSA. LGSA and MSA were dissolved during fiscal year 2019. The amounts charged for the year ended June 30, 2018 were \$289,384 for LGSA and \$78,000 for MSA. RGSA also holds cash and investments on behalf of LGSA and MSA. At June 30, 2018, the amount held on behalf of LGSA is \$691,786 and MSA is \$1,081,364.

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**8. SPECIAL ITEM**

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

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