

REGIONAL GOVERNMENT SERVICES AUTHORITY

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

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2015 AND 2014**

**JAMES MARTA &
COMPANY LLP**

**CERTIFIED PUBLIC
ACCOUNTANTS**

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REGIONAL GOVERNMENT SERVICES AUTHORITY

BOARD OF DIRECTORS

JUNE 30, 2015

Chair

Ken Nordhoff – City of Walnut Creek

Vice Chair

Dan Schwarz – City of Larkspur

Board Members

Chris Foss – City of Dublin

Herbert Pike – Association of Bay Area Governments

Steven Rogers – Town of Yountville

Executive Director

Richard Averett

REGIONAL GOVERNMENT SERVICES AUTHORITY

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James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Regional Government Services Authority
Carmel Valley, California

Report on the Financial Statements

We have audited the accompanying Statement of Net Position of Regional Government Services Authority (the Authority) as of June 30, 2015 and 2014 and the related Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Regional Government Services Authority as of June 30, 2015 and 2014, and the respective changes in net position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as systems prescribed by the State Controller’s Office and state regulators governing special districts.

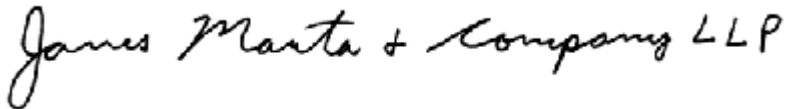
Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2015 on our consideration of Regional Government Services Authority’s internal control over financial reporting and our tests of its compliance with provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority’s internal control over financial reporting and compliance.



James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 16, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

REGIONAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

The following discussion and analysis of the financial performance of the Regional Government Services Authority (the "Authority" or "RGS") provides an overview of the Authority's financial activities for the fiscal year (FY) ended June 30, 2015. Please read it in conjunction with the Authority's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- In the fiscal year ended June 30, 2015, the Authority's net loss of \$227,006 decreased \$315,488 over the prior fiscal year. This is primarily due to a \$468,816 supplemental member contribution to the Municipal Services Authority (MSA) claims reserve. Adjusting for the MSA contribution, the Authority's Net Income would have been \$241,810, a strong increase over the \$88,482 gain FY2014.
- Due to consistently replacing retiring client agreements, adding new services (such as training and communications), and long term cost-recovery discipline, the Regional Government Services Authority is in a strong financial position. The Authority is not dependent on any one or several major clients, but is growing its client base and service offerings. The Authority's administrative personnel, technical infrastructure, internal processes and outreach activities should result in strong net income growth in the coming years.

OPERATIONAL HIGHLIGHTS

- During the fiscal year the Authority updated its phone system to one which provides state of the art videoconferencing, software integration, and user self-service. The system provides personal extensions for all consultants further supporting our collaborative, virtual organizational model.
- In FY2015 the Authority also established a new Information Technology service contract which consolidated several technology platforms and standardized desktop software. All of these changes provide more stability and 24x7x365 technical support for the Authority's virtual workforce.
- A new website was launched in FY2015 which provides enhanced stakeholder communications, establishes an updated brand image, and will support enhanced outreach activities planned for FY2016.
- RGS provides all accounting, human resources and payroll functions for the Authority and for Local Government Services Authority and Municipal Services Authority, with a full-time Executive Director, part-time Director, full-time Manager, three part-time Finance Technicians, one part-time HR Technician and one part-time Payroll Technician. The investments in JPA resources results in lower operating costs, improved reporting and controls, and increased capacity to take on additional 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.

REGIONAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

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, 2015, June 30, 2014, and June 30, 2013. The level of net position is one way to measure the Authority's financial health. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. Other factors, such as shifting (i.e. contributing) assets and liabilities to the new insurance JPA, Municipal Services Authority, must also be considered to assess the overall health of the Authority.

THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position presents information which shows how the Authority's net position changed during the fiscal year. The statement measures the success of the Authority's operations during the year and determines whether the Authority has recovered its costs through user fees, its only revenue source other than de minimis interest earnings. The changes in net position for the fiscal years shown in this report agree with the differences in net position shown at June 30, 2015, 2014, and 2013 in the below mentioned Statement of Net Position.

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, 2015 totaled \$741,810 compared with \$968,816 at June 30, 2014. 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.

	2013	2014	2015	Change	Percent Change
Current Assets	\$ 1,568,401	\$ 1,629,787	\$ 1,377,386	\$ (252,401)	-15%
Current Liabilities	237,136	410,487	370,587	(39,900)	-10%
Non-Current Liabilities	450,931	250,484	264,989	14,505	6%
Total Liabilities	688,067	660,971	635,576	(25,395)	-4%
Net Position					
Unrestricted	\$ 880,334	\$ 968,816	\$ 741,810	\$ (227,006)	-23%

REGIONAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

The June 30, 2015 cash and cash equivalents balance decreased \$238,117 from the balance at the end of the prior year. 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.

REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Authority reported a decrease in net position of \$227,006 for the year ended June 30, 2015. Net operating revenues grew by \$1,442,221 as a result of the Authority's growth in client agencies served.

Operating expenses also increased from the prior fiscal year for the same reason. This category includes all costs related to payroll and employee benefits, as well as general and administrative expenses, including an additional \$468,816 contribution to MSA claims reserves.

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

	2013	2014	2015	Change	Percent Change
Operating Revenues:					
Charges for services	\$ 5,775,183	\$ 6,711,634	\$ 8,153,855	\$ 1,442,221	21%
Operating Expenses:					
Salaries and benefits	5,195,559	5,871,812	7,194,398	1,322,586	23%
Professional services	217,714	96,700	90,829	(5,871)	-6%
Administration	716,708	687,715	1,113,967	426,252	62%
Total Operating Expenses	6,129,981	6,656,227	8,399,194	1,742,967	26%
Operating Income (Loss)	(354,798)	55,407	(245,339)	(300,746)	-543%
Non-Operating Revenues					
Investment income	5,963	33,075	18,333	(14,742)	-45%
Special item	386,650	-	-	-	
Change in net position	37,815	88,482	(227,006)	(315,488)	-357%
Beginning Net Position	842,519	880,334	968,816	88,482	10%
Ending Net Position	\$ 880,334	\$ 968,816	\$ 741,810	\$(227,006)	-23%

REGIONAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

CAPITAL ASSETS

At June 30, 2015, 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 four lines of business: on-going staffing and employment services; interim staffing to fill personnel gaps or to provide time to consider alternative service model options; consulting expertise; and administrative services (such as accounts payable, payroll, training, etc.). Agencies use our services when they determine it is in their best to do so. Because financial pressures on local governments are cyclical but ever increasing, the demand for RGS services is expected to vary but to generally increase over time as long as those services are relevant to the needs of and cost effective for the clients.

The Authority's governing body – its Board of Directors and committees – guide and ensure that the Authority stays current with its mission to serve local agencies in a fiscally sustainable manner. Our growth over the last 13 years, from formation to now over 65 active clients and over 100 employees, from borrowing start-up funds to having no debt and an adequate reserve in net equity, are testament to the vision and practicality of that guidance. There have been and will be 'bumps' along the way that require adjustments and investments in the Authority's plans and capacity. Fiscal year 2015 was a year of continued growth in the number of partner agencies served, as well as the range of service offerings. RGS invested in its capacity to improve and expand services by hiring the expertise to meet its own payroll and financial services, which could then be made available to other public agencies. It is continuing that investment into the 2016 fiscal year by expanding and improving its HR and Financial Services offerings to local agencies, increasing its outreach to agencies, so more cities, special districts and joint powers authorities know of RGS' services and value, and by increasing its training and professional development of its Advisors and core administrative staff.

The FY2015/2016 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. By the end of the fiscal year, it is expected that positive financial performance will reflect these activities. Thereafter, the Authority is well positioned meet future challenges and investment opportunities.

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

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

BASIC FINANCIAL STATEMENTS

REGIONAL GOVERNMENT SERVICES AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets:		
Cash and investments	\$ 483,124	\$ 721,241
Accounts receivable	885,002	857,255
Prepaid expenses	<u>9,260</u>	<u>51,291</u>
Total Assets	<u>1,377,386</u>	<u>1,629,787</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	341,758	296,391
Employee benefits payable	-	6,750
Unearned revenue	28,829	9,552
Due to other governments	-	97,794
Total Current Liabilities	<u>370,587</u>	<u>410,487</u>
Non-Current Liabilities:		
Compensated absences	264,989	246,098
Unemployment claims payable	-	4,386
Total Noncurrent Liabilities	<u>264,989</u>	<u>250,484</u>
Total Liabilities	<u>635,576</u>	<u>660,971</u>
NET POSITION		
Unrestricted	<u>\$ 741,810</u>	<u>\$ 968,816</u>

REGIONAL GOVERNMENT SERVICES AUTHORITY

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

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Charges for services	<u>\$ 8,153,855</u>	<u>\$ 6,711,634</u>
Operating Expenses:		
Salaries and benefits	7,194,398	5,871,812
Professional services	90,829	96,700
Administration	<u>1,113,967</u>	<u>687,715</u>
Total Operating Expenses	<u>8,399,194</u>	<u>6,656,227</u>
Operating Income (Loss)	(245,339)	55,407
Non-Operating Revenues:		
Investment income	<u>18,333</u>	<u>33,075</u>
Change in net position	(227,006)	88,482
Beginning Net Position	968,816	880,334
Ending Net Position	<u>\$ 741,810</u>	<u>\$ 968,816</u>

REGIONAL GOVERNMENT SERVICES AUTHORITY

STATEMENT OF CASH FLOWS

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received for services	\$ 8,036,443	\$ 6,477,739
Cash paid to suppliers for goods and services	(1,121,784)	(658,518)
Cash paid to employees for services	<u>(7,182,257)</u>	<u>(6,059,645)</u>
Net cash provided (used) by operating activities	(267,598)	(240,424)
Cash flows from investing activities:		
Interest income received	<u>29,481</u>	<u>46,292</u>
Increase (decrease) in cash and cash equivalents	(238,117)	(194,132)
Cash and cash equivalents, beginning of year	<u>721,241</u>	<u>915,373</u>
Cash and cash equivalents, end of year	<u>\$ 483,124</u>	<u>\$ 721,241</u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (245,339)	\$ 55,407
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Decrease (increase) in:		
Accounts receivable	(38,895)	(274,400)
Prepaid expenses	42,031	5,665
Increase (decrease) in:		
Accounts payable	45,367	126,096
Unearned revenue	19,277	(57,289)
Due to other governments	(97,794)	97,794
Compensated absences	18,891	17,376
Unemployment claims payable	(4,386)	(5,864)
OPEB liability	-	(211,959)
Employee benefits payable	<u>(6,750)</u>	<u>6,750</u>
Net cash provided (used) by operating activities	<u>\$ (267,598)</u>	<u>\$ (240,424)</u>
Supplemental Information: Noncash investing activities		
Unrealized losses	\$ 11,148	\$ 13,217

REGIONAL GOVERNMENT SERVICES AUTHORITY

STATEMENT OF FIDUCIARY NET POSITION

FOR THE FISCAL YEARS ENDED

JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets:		
Cash and investments	<u>\$ 3,591,931</u>	<u>\$ 2,739,012</u>
LIABILITIES		
Current Liabilities:		
Due to other governments	<u>\$ 3,591,931</u>	<u>\$ 2,739,012</u>

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

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

Members of the Authority include the City of San Rafael, City of Larkspur, the Association of Bay Area Governments (ABAG), the Town of Yountville, the City of Dublin and the City of Walnut Creek. The City of San Rafael was a member agency until September 2014, when it resigned its position on the governing board. A five member board consisting of one representative from each member controls the Authority. None of the member entities exercise specific control over budgeting and financing of the Authority's activities beyond their representation on the board.

B. BASIS OF ACCOUNTING

Enterprise Fund

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

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

Fiduciary Fund

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Authority uses an agency fund for cash held on behalf of other government entities. These funds are reported in a separate statement of fiduciary net 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 THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

C. CASH AND CASH EQUIVALENTS

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

D. ACCOUNTS RECEIVABLE

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

E. INVESTMENTS

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

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

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

F. UNEARNED REVENUE

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

G. COMPENSATED ABSENCES

The Authority has a PTO (paid time off) policy in effect. It is the Authority's policy to permit employees to accumulate earned but unused vacation leave. Vacation hours can accrue up to a maximum of two times the annual allowable amount, subject to the individual employment agreement. The Authority pays all earned vacation pay upon termination. All accumulated vacation pay is recorded as an expense and a liability annually. A portion of the compensated absence liability as of June 30, 2014 is currently being disputed by the Authority and a former client. See note 9 for further detail.

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

H. INCOME TAXES

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

I. USE OF ESTIMATES

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

2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Cash on hand and in banks	210,841	\$ 101,487
Money Market Account	301,684	-
CalTRUST Funds	3,561,361	3,322,644
Local Agency Investment Fund	<u>1,169</u>	<u>36,122</u>
Total Cash and Investments	4,075,055	3,460,253
Cash and investments held in fiduciary capacity	<u>(3,591,931)</u>	<u>(2,739,012)</u>
Net Cash and Investments	<u>\$ 483,124</u>	<u>\$ 721,241</u>

The Authority is holding cash and investments on behalf of Local Government Services Authority and Municipal Services Authority totaling \$3,591,931 and \$2,739,012 for the years ended June 30, 2015 and 2014, respectively (see Note 7 – Related Party Transactions).

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

2. CASH AND INVESTMENTS (CONTINUED)

Cash in Bank

The carrying amount of the Authority's cash is covered by federal depository insurance up to \$250,000. Should deposits exceed the insured limits, the balance is covered by collateral held by the bank in accordance with California law requiring the depository bank to hold collateral equal to 110% of the excess government funds on deposit.

Local Agency Investment Fund

The Authority is a voluntary participant in Local Agency Investment Fund (LAIF), which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the state of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the state and invests the cash. The fair value of the Authority's investment in this pool, which approximates cost, is reported in the accompanying financial statements based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Funds are accessible and transferable to the master account with twenty-four hour notice. The Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity, and yield are not jeopardized. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset backed securities, and floating rate securities issued by Federal Agencies, government-sponsored enterprises and corporations. The monies held in the LAIF are not subject to categorization by risk category. This fund currently yields approximately .28% interest annually. It is also not rated as to credit risk by a nationally recognized statistical rating organization and has an average life of 232 days. LAIF is administered by the State Treasurer and audited annually by the Pooled Money Investment Board and the State Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall, Sacramento, California 95814.

CalTRUST Investment Pool

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

Interest Rate Risk

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

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

2. CASH AND INVESTMENTS (CONTINUED)

Credit Risk

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

Concentration of Credit Risk

The investment policy of Regional Government Services Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total Authority investments for the year ended June 30, 2015 and 2014.

Custodial Credit Risk

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

3. LONG TERM LIABILITIES

The following is a schedule of changes in long-term liabilities for the year ended June 30, 2015:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Compensated absences	\$ 246,098	\$ 18,891	\$ -	\$ 264,989
Unemployment claims	4,386	-	4,386	-
Total	<u>\$ 250,484</u>	<u>\$ 18,891</u>	<u>\$ 4,386</u>	<u>\$ 264,989</u>

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

4. EMPLOYEE RETIREMENT PLANS

Deferred Compensation Plan

The Authority has established a deferred compensation plan in accordance with Internal Revenue Code Section 457(b), whereby employees may elect to defer portions of their compensation in a self-directed investment plan for retirement. Plan assets are invested in each individual's name with a deferred compensation plan provider. Distributions are made upon the participant's termination, retirement, death or total disability, and in a manner in accordance with the election made by the participant. All employees are eligible for plan participation. Employee contributions to the plan for the years ended June 30, 2015 and 2014 were \$293,170 and \$230,719, 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.

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, 2015 and 2014 totaled \$615,314 and \$519,393, respectively, and were contributed by the Authority.

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

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

5. OTHER POSTEMPLOYMENT BENEFITS

EMPLOYEE BENEFITS PAYABLE

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.

A. Plan Description

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 liability for the payments to the health reimbursement account at June 30, 2015 and 2014 was \$61,754 and \$6,750, respectively.

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.

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

6. JOINTLY GOVERNED ORGANIZATIONS

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

MSA is governed by a Board consisting of representatives from its two member agencies. The Board controls the operations, including selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the Board. Each member agency pays a contribution or assessment commensurate with the level of coverage and services requested and shares surpluses and deficits proportionate to their participation in the joint powers authority. Payments to MSA for the year ended June 30, 2014 were \$459,992, \$125,000 was deposited to reserves and \$334,992 to support general liability and workers compensation coverage. Payments to MSA for the year ended June 30, 2015 were \$903,816, \$468,816 went to reserves and the remainder was to support coverage for programs. Full financial statements are available separately from MSA. Condensed financial information for the year ended June 30, 2015 is as follows:

Total Assets	\$ 2,653,967
Total Liabilities	<u>963,139</u>
Net Position	<u>\$ 1,690,828</u>
Revenues	\$ 1,229,119
Expenses	<u>(87,375)</u>
Change in Net Postion	<u>\$ 1,316,494</u>

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

6. JOINTLY GOVERNED ORGANIZATIONS (CONTINUED)

Prior to July 1, 2012, the Authority was a member of California Joint Powers Insurance Authority (CJPIA). CJPIA is composed of California public entities and provides coverage for workers' compensation, property, liability and errors and omissions. The CJPIA governing board is made up of one member from each entity. Each member agency pays a contribution or assessment commensurate with the level of coverage and services requested and shares surpluses and deficits proportionate to their participation in the joint powers authority. CJPIA prepares an annual retrospective premium calculation for those members and former members who participated in the workers' compensation and liability programs. As of July 1, 2013, liabilities associated with the annual retrospective premium adjustment have been assumed by Municipal Services Authority.

7. RELATED PARTY TRANSACTIONS

Regional Government Services Authority (RGSA) provides administration for Local Government Services Authority (LGSA) and Municipal Services Authority (MSA) and allocates a share of its administrative overhead to LGSA and MSA each month based on revenues to date. The amounts charged for the years ended June 30, 2015 and 2014 were \$776,111 and \$727,024, respectively for LGSA and \$40,000 and \$30,000 for MSA for the years ended June 30, 2015 and 2014, respectively. RGSA also holds cash and investments on behalf of LGSA and MSA. At June 30, 2015, the amount held on behalf of LGSA is \$2,234,613 and MSA is \$1,357,318. At June 30, 2014, the amount held on behalf of LGSA was \$2,196,212 and MSA is \$542,800.

8. CONTINGENCIES

Regional Government Services Authority is currently unable to come to an agreement with Gold Coast Health Plan (GCHP), a former client, on the amount owed for compensated absences due to differing interpretations of paid time off benefits. As of June 30, 2015 and 2014, the Authority believes that they are only obligated to pay out vacation time, but have included the disputed admin and sick time liabilities on top of their vacation liability balance owed to GCHP. The portion of the Authority's compensated absence liability owed to GHCP is \$171,886. GCHP has not contacted RGSA regarding the liability. In addition, GCHP owes the Authority \$32,626 as of the end of each fiscal year.

9. SUBSEQUENT EVENTS

Regional Government Services Authority management evaluated its June 30, 2015 financial statements for subsequent events through November 16, 2015, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

OTHER INDEPENDENT AUDITOR'S REPORT



James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

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

Board of Directors
Regional Government Services Authority
Carmel Valley, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Regional Government Services Authority (the Authority), as of and for the year ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Regional Government Services Authority's basic financial statements, and have issued our report thereon dated November 16, 2015.

Internal Control Over Financial Reporting

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

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

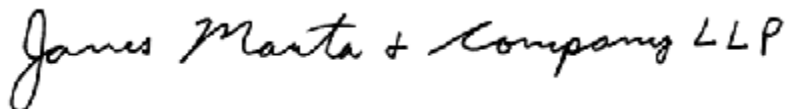
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. Given these limitations, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "James Marta & Company LLP". The signature is written in a cursive, flowing style.

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 16, 2015

REGIONAL GOVERNMENT SERVICES AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2015

No matters were reported.

REGIONAL GOVERNMENT SERVICES AUTHORITY

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2015

2014-01 Monthly Accounting

Observation:

There were several accounts identified with balances that were either incorrect or adjusted by management after initial submission of the trial balance.

Recommendations:

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

Status:

Implemented.