



REGIONAL GOVERNMENT SERVICES AUTHORITY

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

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015**

**JAMES MARTA &
COMPANY LLP**

**CERTIFIED PUBLIC
ACCOUNTANTS**

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REGIONAL GOVERNMENT SERVICES AUTHORITY

BOARD OF DIRECTORS

JUNE 30, 2016

Chair

Ken Nordhoff – City of Walnut Creek

Vice Chair

Dan Schwarz – City of Larkspur

Board Members

Chris Foss – City of Dublin

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, 2016 and 2015 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, 2016 and 2015, 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.

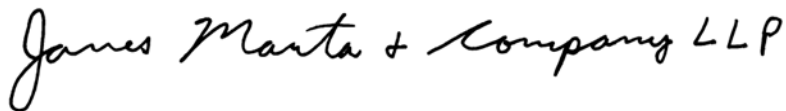
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis 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 9, 2016 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 9, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

REGIONAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015

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, 2016. Please read it in conjunction with the Authority's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- In the fiscal year ended June 30, 2016, the Authority's net profit of \$41,078 is a \$268,084 improvement over the prior fiscal year loss of \$227,006. This result is net of a \$200,000 supplemental member contribution to the Municipal Services Authority (MSA) claims reserve. Adjusting for the MSA contribution, the Authority's Net Income would have been \$241,078.
- 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 has two larger clients with ten and thirteen assigned employees. RGS ended services with the smaller of these two clients in June 2016. This reduction in employees and services rendered is expected to be fully absorbed by FYE (fiscal year end) 2017 due to growth in client base and service offerings.
- As a result of actions by CalPERS in advance of finalizing its audit of Local Government Services Authority (LGS), LGS revenue will decrease significantly over FY2017. LGS and RGS share in the cost of administrative services, and thus RGS will not be reimbursed for its administrative cost in the amount previously recovered. The Authority has administrative personnel, technical infrastructure, internal processes and outreach activities in place to control costs and grow RGS services. It is expected that by FY2019, RGS should be able to fully absorb LGS' share of administrative costs and resume its net income growth in subsequent years.

OPERATIONAL HIGHLIGHTS

- During the fiscal year the Authority upgraded all computers to Windows 10 as well as enhanced security software.
- The Authority has transitioned several parts of its new employee orientation to video recordings allowing staff to focus on other activities and new employees to learn the material on a more convenient schedule.
- The Authority refined its marketing materials including new logo/colors for the website and coordinated marketing materials (cut sheets, brochures, proposal folders, pop-up banners, business cards).
- RGS provides all accounting, human resources and payroll functions for the Authority as well as for Local Government Services Authority and Municipal Services Authority, with a full-time Executive Director, part-time Administrative Services Director, full-time Manager, three part-time Finance Technicians, one part-time HR Technician, one part-time Marketing Coordinator, 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 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.

REGIONAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015

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, as of June 30, 2016, 2015, and 2014. 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 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 as of June 30, 2016, 2015, and 2014 in the Statement of Net Position on the following page.

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.

REGIONAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015

FINANCIAL ANALYSIS

NET POSITION

The Authority's net position at June 30, 2016 totaled \$782,888 compared with \$741,810 at June 30, 2015 and \$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.

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Change</u>	<u>Percent Change</u>
Current Assets	\$ 1,629,787	\$ 1,377,386	\$ 2,355,864	\$ 978,478	71%
Current Liabilities	410,487	370,587	1,290,343	919,756	248%
Non-Current Liabilities	<u>250,484</u>	<u>264,989</u>	<u>282,633</u>	<u>17,644</u>	<u>7%</u>
Total Liabilities	<u>660,971</u>	<u>635,576</u>	<u>1,572,976</u>	<u>937,400</u>	<u>147%</u>
Net Position					
Unrestricted	<u>\$ 968,816</u>	<u>\$ 741,810</u>	<u>\$ 782,888</u>	<u>\$ 41,078</u>	<u>6%</u>

The June 30, 2016 cash and cash equivalents balance increased \$57,484 or 12% from the balance at the end of the prior year. Accounts receivable doubled from the prior year reflecting both a 25% growth in revenue for the fiscal year and a short term slowdown in collections. 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. Current liabilities increased by 248% compared to FY2015 due to the growth in accounts receivable which reduced the cash balances normally used to retire the 'due to other governments' liability at fiscal year-end. The accounts receivable were collected in subsequent months.

REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Authority reported an increase in net position of \$41,078 for the year ended June 30, 2016. Net operating revenues grew by \$2,052,711 as a result of a small growth in the number of client agencies served by the Authority, expansion in the number of employees provided to existing clients, a modest rate increase, and diversification of service offerings.

Operating expenses also increased from the prior fiscal year for the same reasons. This category includes all costs related to payroll and employee benefits, as well as general and administrative expenses, including an additional \$200,000 contribution to the MSA claims reserve.

REGIONAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Change</u>	<u>Percent Change</u>
Operating Revenues:					
Charges for services	\$ 6,711,634	\$ 8,153,855	\$ 10,206,566	\$ 2,052,711	25%
Operating Expenses:					
Salaries and benefits	5,871,812	7,194,398	8,830,146	1,635,748	23%
Professional services	96,700	80,255	409,133	328,878	410%
Administration	687,715	1,124,541	985,339	(139,202)	-12%
Total Operating Expenses	<u>6,656,227</u>	<u>8,399,194</u>	<u>10,224,618</u>	<u>1,825,424</u>	<u>22%</u>
Operating Income (Loss)	55,407	(245,339)	(18,052)	227,287	-93%
Non-Operating Revenues:					
Investment income	<u>33,075</u>	<u>18,333</u>	<u>59,130</u>	<u>40,797</u>	<u>223%</u>
Change in net position	88,482	(227,006)	41,078	268,084	-118%
Beginning Net Position	880,334	968,816	741,810	(227,006)	-23%
Ending Net Position	<u>\$ 968,816</u>	<u>\$ 741,810</u>	<u>\$ 782,888</u>	<u>\$ 41,078</u>	<u>6%</u>

CAPITAL ASSETS

At June 30, 2016, 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 staffing and employment services; interim staffing to fill personnel gaps or to provide time to consider alternative service model options; administrative consulting expertise; communications 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.

REGIONAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015

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 15 years, from formation to now over 90 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 challenges along the way which require adjustments and investments in the Authority's plans and capacity. Fiscal year 2016 was a year of continued growth in the number of partner agencies served, as well as the range of service offerings. Over the last several years 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 2017 fiscal year by expanding and improving its HR, Training, Financial and Communications 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; increasing its investment in technological tools to better track projects and resources; and by increasing training and professional development of RGS Advisors and core administrative staff.

The FY2017 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 financial performance is expected to be slightly negative because LGS will not be able to contribute nearly as much to its share of RGS administrative costs, due to impacts stemming from CalPERS actions. However, RGS is well poised to grow out of this shortfall within two years, and resume a positive financial performance.

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 public agency serving the consulting, administrative and staffing needs of public agencies.

BASIC FINANCIAL STATEMENTS

REGIONAL GOVERNMENT SERVICES AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash and investments	\$ 540,608	\$ 483,124
Accounts receivable	1,767,574	885,002
Prepaid expenses	<u>47,682</u>	<u>9,260</u>
Total Assets	<u>2,355,864</u>	<u>1,377,386</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	387,040	341,758
Unearned revenue	32,541	28,829
Due to other governments	<u>870,762</u>	<u>-</u>
Total Current Liabilities	<u>1,290,343</u>	<u>370,587</u>
Non-Current Liabilities:		
Compensated absences	<u>282,633</u>	<u>264,989</u>
Total Liabilities	<u>1,572,976</u>	<u>635,576</u>
NET POSITION		
Unrestricted	<u>\$ 782,888</u>	<u>\$ 741,810</u>

The accompanying notes are an integral part of these financial statements.

REGIONAL GOVERNMENT SERVICES AUTHORITY

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

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Charges for services	<u>\$ 10,206,566</u>	<u>\$ 8,153,855</u>
Operating Expenses:		
Salaries and benefits	8,830,146	7,194,398
Professional services	409,133	80,255
Administration	<u>985,339</u>	<u>1,124,541</u>
Total Operating Expenses	<u>10,224,618</u>	<u>8,399,194</u>
Operating Income (Loss)	(18,052)	(245,339)
Non-Operating Revenues:		
Investment income	<u>59,130</u>	<u>18,333</u>
Change in Net Position	41,078	(227,006)
Beginning Net Position	741,810	968,816
Ending Net Position	<u><u>\$ 782,888</u></u>	<u><u>\$ 741,810</u></u>

REGIONAL GOVERNMENT SERVICES AUTHORITY

STATEMENT OF CASH FLOWS

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received for services	\$ 10,198,468	\$ 8,036,443
Cash paid to suppliers for goods and services	(1,387,612)	(1,121,784)
Cash paid to employees for services	<u>(8,812,502)</u>	<u>(7,182,257)</u>
Net cash provided (used) by operating activities	(1,646)	(267,598)
Cash flows from investing activities:		
Interest income received	<u>59,130</u>	<u>29,481</u>
Increase (decrease) in cash and cash equivalents	57,484	(238,117)
Cash and cash equivalents, beginning of year	<u>483,124</u>	<u>721,241</u>
Cash and cash equivalents, end of year	<u>\$ 540,608</u>	<u>\$ 483,124</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (18,052)	\$ (245,339)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Decrease (increase) in:		
Accounts receivable	(882,572)	(38,895)
Prepaid expenses	(38,422)	42,031
Increase (decrease) in:		
Accounts payable	45,282	45,367
Unearned revenue	3,712	19,277
Due to other governments	870,762	(97,794)
Compensated absences	17,644	18,891
Unemployment claims payable	-	(4,386)
Employee benefits payable	<u>-</u>	<u>(6,750)</u>
Net cash provided (used) by operating activities	<u>\$ (1,646)</u>	<u>\$ (267,598)</u>
Supplemental Information: Noncash investing activities		
Unrealized gains (losses)	\$ 23,670	\$ (11,148)

REGIONAL GOVERNMENT SERVICES AUTHORITY

STATEMENT OF FIDUCIARY NET POSITION

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash and investments	<u>\$ 3,058,913</u>	<u>\$ 3,591,931</u>
LIABILITIES		
Current Liabilities:		
Due to other governments	<u>\$ 3,058,913</u>	<u>\$ 3,591,931</u>

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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 Larkspur, the Association of Bay Area Governments (ABAG), 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

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, 2016 AND 2015

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, 2016 is currently being disputed by the Authority and a former client. See note 8 for further detail.

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

H. INCOME TAXES

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

I. USE OF ESTIMATES

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

J. RECLASSIFICATIONS

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Cash on hand and in banks	\$ 20,515	\$ 210,841
Money Market Account	268,154	301,684
CaITRUST Funds	3,309,679	3,561,361
Local Agency Investment Fund	<u>1,173</u>	<u>1,169</u>
Total Cash and Investments	3,599,521	4,075,055
Cash and investments held in fiduciary capacity	<u>(3,058,913)</u>	<u>(3,591,931)</u>
Net Cash and Investments	<u>\$ 540,608</u>	<u>\$ 483,124</u>

The Authority is holding cash and investments on behalf of Local Government Services Authority and Municipal Services Authority totaling \$3,058,913 and \$3,591,931 for the years ended June 30, 2016 and 2015, respectively (see Note 7 – Related Party Transactions).

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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 .55% interest annually. It is also not rated as to credit risk by a nationally recognized statistical rating organization and has an average life of 167 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.

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. Investments' fair value measurements at June 30, 2016 are as shown on the following page.

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

2. CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurements (Continued)

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
US Agency, Treasury & Municipal Notes (USATM):				
US Agency Notes:	\$ 121,571	\$ -	\$ -	\$ 121,571
Notes/Discount Notes FFCB	281,916	-	-	281,916
Notes/Discount Notes FHLB	136,816	-	-	136,816
Notes/Discount Notes FNMA	100,783	-	-	100,783
Notes/Discount Notes FHLMC	529,311	-	-	529,311
US Treasury Notes:	363,808	-	-	363,808
Corporate Bonds	1,214,778	-	-	1,214,778
Asset Back Securities	-	368,796	-	368,796
LAIF	692	481	-	1,173
Money Market Accounts	268,154	191,900	-	460,054
Total	<u>\$ 3,017,830</u>	<u>\$ 561,176</u>	<u>\$ -</u>	<u>\$ 3,579,006</u>

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.

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, 2016 and 2015.

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.

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

3. LONG TERM LIABILITIES

The Authority has long-term liabilities for compensated absences in the amount of \$282,633 and \$264,989 as of June 30, 2016 and 2015.

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, 2016 and 2015 were \$128,446 and \$293,170, 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, 2016 and 2015 totaled \$750,172 and \$615,314, 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, 2016 AND 2015

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 Authority had no liability for payments to the health reimbursement account and all funding requirements had been met at June 30, 2016 and 2015.

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, 2016 AND 2015

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, 2015 were \$903,816, \$468,816 was deposited to reserves and \$435,000 was to support general liability and workers compensation coverage. Payments to MSA for the year ended June 30, 2016 were \$657,000, \$200,000 went to reserves and \$457,000 was to support coverage for programs. Full financial statements are available separately from MSA. Condensed financial information for the year ended June 30, 2016 is as follows:

Total Assets	\$ 3,089,914
Total Liabilities	<u>954,932</u>
Net Position	<u>\$ 2,134,982</u>
Revenues	\$ 657,000
Expenses	<u>212,846</u>
Change in Net Postion	<u>\$ 444,154</u>

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

REGIONAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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, 2016 and 2015 were \$744,722 and \$776,111, respectively for LGSA, and \$40,000 annually for MSA for the years ended June 30, 2016 and 2015. RGSA also holds cash and investments on behalf of LGSA and MSA. At June 30, 2016, the amount held on behalf of LGSA is \$2,133,840 and MSA is \$925,073. At June 30, 2015, the amount held on behalf of LGSA was \$2,234,613 and MSA is \$1,357,318.

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, 2016 and 2015, 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 as of June 30, 2016 and 2015. GCHP has not contacted RGSA regarding the liability. In addition, GCHP owes the Authority \$32,626 as of June 30, 2016 and 2015.

Local Government Services Authority (LGSA) is currently under audit review by the California Public Employees' Retirement System (CalPERS). During the year ended June 30, 2016, CalPERS learned that LGSA and the Authority share administrative staff, who are employees of the Authority, and expanded the investigation to include these Authority employees. The final audit has yet to be provided, but the Authority has retained special legal counsel should the final audit report be adverse to the Authority's best interest.

9. SUBSEQUENT EVENTS

Regional Government Services Authority management evaluated its June 30, 2016 financial statements for subsequent events through November 9, 2016, 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, 2016 and 2015, 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 9, 2016.

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.

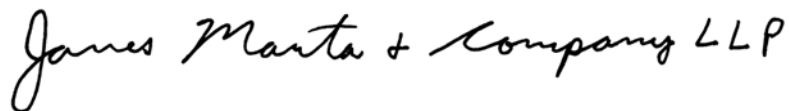
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 9, 2016