

Regional Government Services Authority

*Basic Financial Statements and
Independent Auditors' Reports*

For the years ended June 30, 2018 and 2017

Regional Government Services Authority
Financial Statements
For the years ended June 30, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the enterprise fund and the aggregate remaining fund information of the Regional Government Services Authority (Authority), as of and for the year ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise fund and the aggregate remaining fund information of the Authority, as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

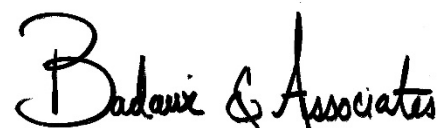
Required Supplementary Information

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

Other Information

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

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

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

Oakland, California
November 14, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Regional Government Services Authority (the "Authority" or "RGS") financial performance provides an overview of the Authority's financial activities for the fiscal year (FY) ended June 30, 2018. Please read it in conjunction with the Authority's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- In the fiscal year ended June 30, 2018, the Authority's net gain of \$7,283 is a \$113,267 increase from the prior fiscal year loss of \$105,984. Furthermore, the FY2018 profit is significantly better than the budgeted shortfall of \$162,900.
- Due to consistently replacing retiring client agreements, expanding new services (such as online training and planning), and long-term cost-recovery discipline, Regional Government Services Authority continues in a strong financial position. The Authority's largest client has been with RGS since 2009 and now has fifteen assigned employees and generates 27% of its revenue.
- As a result of actions by CalPERS RGS client revenue from LGS will cease fiscal year 2019. LGS and RGS have shared in the cost of administrative services, and thus LGS will not be able to continue reimbursing RGS for its portion of administrative costs. 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.
- As a result of CalPERS audits of several client partners, additional legal services costs were \$105,447 during the fiscal year. The Authority is undergoing a major risk mitigation review and has already taking a number of measures to better protect its relationship to clients as an independent contractor.

OPERATIONAL HIGHLIGHTS

- Having made significant enhancements in its operating infrastructure over the previous few years, RGS exercised fiscal discipline and made no significant capacity investments in FY18.
- The Authority now identifies its services by eight Service Groups: Finance, Human Resources, Outreach, Planning, Risk Management, Safety, Public Safety and Training. Internal tracking and reporting have been established to allow staff to better manage the revenue and costs of these services.
- In addition to the Service Group consultative services, the Authority is now offering to contract its back-office financial and administrative services to support other agencies. During the fiscal year RGS contracted to provide a complete support and administrative platform for the Salinas Valley Basin Groundwater Sustainability Agency (SVBGSA). The Authority is in position to offer this administrative support service to additional agencies.
- RGS provides all accounting, human resources and payroll functions for the Authority as well as for Local Government Services Authority, Municipal Services Authority, STARS and SVBGSA with a complement of a few full-time staff and the majority being part-time. The investments in JPA resources results in lower operating costs, improved reporting and controls, and increased capacity to take on addition client work and new client services.
- The Authority continues to review its remaining technology needs, including improving the cost model, enhancements to financial and time recording data gathering and reporting, and better utilization of social media platforms and customer relations management software.

USE OF FINANCIAL STATEMENTS TO ANALYZE THE AUTHORITY'S CONDITION

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

THE STATEMENT OF NET POSITION

The Statement of Net Position details the Authority's assets, liabilities and the difference between them, known as net position, at the end of the fiscal years, June 30, 2018, June 30, 2017, and June 30, 2016. 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 nominal interest earnings and client reimbursements. The changes in net position for the fiscal years shown in this report agree with the differences in net position shown at June 30, 2018, 2017, and 2016 in the below Statement of Net Position below.

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, 2018 totaled \$684,187 compared with \$676,904 at June 30, 2017 and \$782,888 at June 30, 2016. 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.

	2016	2017	2018	Change	Percent Change
Current Assets	\$2,355,864	\$1,761,230	\$1,896,065	\$134,835	8%
Current Liabilities	1,290,343	954,466	1,088,132	133,666	14%
Non-Current Liabilities	282,633	129,860	123,746	-6,114	-5%
Total Liabilities	1,572,976	1,084,326	1,211,878	127,552	12%
Net Position					
Unrestricted	782,888	676,904	684,187	7,283	1%

The June 30, 2018 cash and cash equivalents balance decreased \$213,060 or 29% from the balance at the end of the prior year. Accounts receivable increased 37% from the prior year reflecting typical JPA billing cycle and client payment cycle variances and is not a reflection of clients' unwillingness or inability to pay. 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 an increase in net position of \$7,283 for the year ended June 30, 2018. Net operating revenues increased by \$201,233 or 2% as new client contracts slightly outpaced expiring ones.

Operating expenses increased slightly from the prior fiscal which tracks with the revenue growth. This category includes all costs related to payroll and employee benefits, as well as general and administrative expenses. Professional services decreased because of a drop in client pass through expenses.

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

	2016	2017	2018	Change	Percent Change
Operating Revenues:					
Charges for services	\$ 10,206,566	\$ 8,979,402	\$ 9,180,635	\$ 201,233	2%
Operating Expenses:					
Salaries and benefits	8,830,146	7,772,196	7,982,732	210,536	3%
Professional services	427,656	862,026	714,364	-147,662	-17%
Administration	966,816	461,154	484,117	22,963	5%
Total Operating Expenses	10,224,618	9,095,376	9,181,213	85,837	1%
Operating Income (Loss)	-18,052	-115,974	-578	115,396	-100%
 Non-Operating Revenues					
Investment income	59,130	9,990	7,861	-2,129	-21%
Change in net position	41,078	-105,984	7,283	113,267	-107%
Beginning Net Position	741,810	782,888	676,904	-105,984	-14%
Ending Net Position	782,888	676,904	684,187	7,283	1%

CAPITAL ASSETS

At June 30, 2018, the Authority had no capital assets, no depreciation expenses and no immediate plans to acquire capital assets in the future.

ECONOMIC FACTORS AND BUDGET

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

The Authority's governing body – its Board of Directors and committees – guide and ensure that the Authority stays current with its mission to serve local agencies in a fiscally sustainable manner. The Authority's growth over the last 16 years, from formation to now over 130 active clients over the course of the fiscal year 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 capacity. Fiscal year 2018 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 2019 fiscal year by expanding and improving its HR, Training, Financial and Communications Services offerings to local agencies; continuing its sponsorship of local agencies and professionals, and its outreach to agencies so more cities, special districts and joint powers authorities know of RGS' services and value; 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 FY2019 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 2019 financial performance is expected to be break even as the JPA continues to absorb legal and administrative costs associated with the CalPERS audit, and because sometime prior to January 1, 2019 LGS will be dissolved and its contributions to administrative overhead will cease. This break even status was achieved in the just-completed fiscal year, two years ahead of schedule. RGS is well poised to regain stronger growth within one or two years.

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

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

Regional Government Services Authority
Statement of Net Position
June 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and investments	\$ 525,142	\$ 738,202
Accounts receivables	1,323,128	964,608
Due from other agencies	36,322	34,922
Prepaid expenses	11,473	23,498
Total assets	1,896,065	1,761,230
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	379,492	354,401
Unearned revenue	24,752	18,664
Due to Municipal Services Authority	683,888	581,401
Total current liabilities	1,088,132	954,466
Noncurrent liabilities:		
Compensated absences	123,746	129,860
Total noncurrent liabilities	123,746	129,860
Total liabilities	1,211,878	1,084,326
NET POSITION		
Unrestricted	684,187	676,904
Total net position	\$ 684,187	\$ 676,904

See accompanying Notes to Basic Financial Statements.

Regional Government Services Authority
Statement of Revenues, Expenses and Changes in Fund Net Position
For the years ended June 30, 2018 and 2017

	2018	2017
OPERATING REVENUES:		
Charges for services:		
Service charges	\$ 9,180,635	\$ 8,979,402
Total operating revenues	9,180,635	8,979,402
OPERATING EXPENSES:		
Salaries and benefits	7,982,732	7,772,196
Professional services	484,117	461,154
Administration	714,364	862,026
Total operating expenses	9,181,213	9,095,376
OPERATING INCOME:	(578)	(115,974)
NONOPERATING REVENUES (EXPENSES):		
Investment income	7,861	9,990
Total nonoperating revenues	7,861	9,990
NET INCOME	7,283	(105,984)
NET POSITION:		
Beginning of year	676,904	782,888
End of year	\$ 684,187	\$ 676,904

See accompanying Notes to Basic Financial Statements.

Regional Government Services Authority
Statement of Cash Flows
For the years ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for services	\$ 8,826,803	\$ 9,733,569
Cash paid to supplies for goods and services	(1,058,878)	(1,620,996)
Cash paid to employees for services	(7,988,846)	(7,924,969)
Net cash provided by operating activities	(220,921)	187,604
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income received	7,861	9,990
Net cash provided by investing activities	7,861	9,990
NET INCREASE IN CASH AND CASH EQUIVALENTS	(213,060)	197,594
CASH AND CASH EQUIVALENTS:		
Beginning of year	738,202	540,608
End of year	<u>\$ 525,142</u>	<u>\$ 738,202</u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ (578)	\$ (115,974)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Changes in assets and liabilities:		
Accounts receivable	(359,920)	768,044
Prepaid expenses	12,025	24,184
Accounts payable	25,091	(32,639)
Unearned revenue	6,088	(13,877)
Due to other government	102,487	(289,361)
Compensated absences	(6,114)	(152,773)
Net cash provided by operating activities	\$ (220,921)	\$ 187,604

See accompanying Notes to Basic Financial Statements.

Regional Government Services Authority
Statement of Fiduciary Net Position
Agency Fund
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets:		
Cash and investments	\$ 1,773,150	\$ 2,915,386
Total assets	<u>\$ 1,773,150</u>	<u>\$ 2,915,386</u>
Liabilities:		
Deposits and Advances	\$ 1,773,150	\$ 2,915,386
Total liabilities	<u>\$ 1,773,150</u>	<u>\$ 2,915,386</u>

See accompanying Notes to Basic Financial Statements.

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NOTES TO BASIC FINANCIAL STATEMENTS

Regional Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

B. Basis of Accounting

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

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

Fiduciary Fund

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

Regional Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash and Cash Equivalents

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

D. Accounts Receivable

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

E. Investments

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

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

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

F. Unearned Revenue

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

Regional Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Use of Estimates

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

H. Net Position

Financial Statements

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

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

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

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

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

I. New Pronouncements

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

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - The objective of this statement is to address reporting by governments that provide other postemployment benefits (OPEB) to their employees and for governments that finance OPEB for employees of other governments. The requirements of this statement did not apply to the Authority for the current fiscal year.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements* - The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement did not apply to the Authority for the current fiscal year.

Regional Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. New Pronouncements, Continued

- GASB Statement No. 85, *Omnibus 2017* – The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and other postemployment benefits (OPEB). There was no effect on net position as a result of implementation of this statement.

- GASB Statement No. 86, *Certain Debt Extinguishment Issues* – The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. There was no effect on net position as a result of implementation of this statement.

2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2018 and 2017 consisted of the following:

	2018	2017
Cash on hand and in the banks	\$ 7,572	\$ 20,180
Money Market Account	400,282	503,704
CalTrust Funds	1,889,243	3,128,523
Local Agency Investment Fund	1,195	1,181
Total Cash and Investments	\$ 2,298,292	\$ 3,653,588
Enterprise Fund	\$ 525,142	\$ 738,202
Agency	1,773,150	2,915,386
Total Cash and Investments	\$ 2,298,292	\$ 3,653,588

The Authority is holding cash and investments on behalf of Local Government Services Authority and Municipal Services Authority totaling \$1,773,150 and \$2,915,386 for the years ending June 30, 2018 and 2017, respectively (see Note 7 – Related Party Transactions).

Regional Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2018 and 2017

2. CASH AND INVESTMENTS, Continued

A. Cash in Bank

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

B. Local Agency Investment Fund

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

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

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

As of June 30, 2018 and 2017, the Authority had \$1,195 and \$1,181 invested in LAIF respectively, which had invested 2.67% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 2.89% in the previous year. The LAIF fair value factor of 0.998126869 was used to calculate the fair value of the investments in LAIF.

C. CalTRUST Investment Pool

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

Regional Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2018 and 2017

2. CASH AND INVESTMENTS, Continued

D. Fair Value Measurements

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

E. Risk Disclosures

Interest Rate Risk

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

2018

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

2017

Investment Type	Fair Value	Investment Maturities (in years)				
		1 year or Less	2 years	3 years	4 years	5 years or More
Money Market Account	\$ 503,704	\$ 503,704	\$ -	\$ -	\$ -	\$ -
CalTrust Funds	3,128,523	3,128,523	-	-	-	-
Local Agency Investment Fund	1,181	1,181	-	-	-	-
Total	\$3,633,408	\$3,633,408	\$ -	\$ -	\$ -	\$ -

Regional Government Services Authority
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For the years ended June 30, 2018 and 2017

2. CASH AND INVESTMENTS, Continued

E. Risk Disclosures, Continued

Credit Risk

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

Concentration of Credit Risk

The investment policy of Regional Government Services Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total Authority investments for the year ended June 30, 2018 and 2017.

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 Authority has long term liabilities for compensated absences in the amount of \$123,746 and \$129,860 as of June 30, 2018 and 2017.

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

	Balance July 1, 2016	2017		Balance June 30, 2017
		Additions	Reductions	
Compensated absences	\$ 282,633	\$ -	\$ (152,773)	\$ 129,860

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4. EMPLOYEE RETIREMENT PLANS

A. *Deferred Compensation Plan*

The Authority has established a deferred compensation plan in accordance with Internal Revenue Code Section 457(b), whereby employees may elect to defer portions of their compensation in a self-directed investment plan for retirement. Plan assets are invested in each individual's name with a deferred compensation plan provider. Distributions are made upon the participant's termination, retirement, death or total disability, and in a manner in accordance with the election made by the participant. All employees are eligible for plan participation. Employee contributions to the plan for the years ended June 30, 2018 and 2017 were \$355,351 and \$380,703, respectively.

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

B. *Other Defined Contribution Plan*

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

Distributions are made upon the participant's termination, retirement, death or total disability, and in a manner in accordance with the election made by the participant. Contributions to the plan for the year ended June 30, 2018 and 2017 totaled \$678,764 and \$673,746, 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
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For the years ended June 30, 2018 and 2017

5. OTHER POSTEMPLOYMENT BENEFITS

A. Plan Description

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

As of June 30, 2013, certain employees who retired from the Authority with 10 years of service were eligible to receive health care premium coverage under which the Authority would pay 100% of the employer contribution for active employees' single coverage under a health benefit plan administered by the Public Employee's Retirement System (PERS). All other retirees were eligible for the PERS mandated benefit coverage, under which the Authority currently would pay up to \$122 per month for any health coverage, subject to the PERS vesting schedule. As of June 30, 2014, the Authority no longer participates in this health benefit plan, and all eligible employees now participate in a Health Reimbursement Account plan. The Authority had no liability for payments to the health reimbursement account and all funding requirements had been met at June 30, 2018 and 2017.

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.

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, 2018 were \$396,000 to support general liability and workers compensation coverage; there were no supplemental contributions beyond net operating proceeds. Payments to MSA for the year ended June 30, 2017 were \$457,000 to support general liability and workers compensation coverage; there were no supplemental contributions beyond net operating proceeds. Full financial statements are available separately from MSA.

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6. JOINTLY GOVERNED ORGANIZATIONS, Continued

Condensed financial information for the year ended June 30, 2018 and 2017 is as follows:

	2018	2017
Total Assets	\$ 3,063,663	\$ 3,253,913
Total Liabilities	877,681	1,161,825
Net Position	<u>\$ 2,185,982</u>	<u>\$ 2,092,088</u>
Revenues	\$ 396,000	\$ 457,000
Expenses	<u>302,106</u>	<u>499,894</u>
Change in Net Position	<u>\$ 93,894</u>	<u>\$ (42,894)</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.

7. RELATED PARTY TRANSACTIONS

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

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

The amounts charged for the year ended June 30, 2017 were \$585,509 for LGSA and \$40,000 for MSA. RGSA also holds cash and investments on behalf of LGSA and MSA. At June 30, 2017, the amount held on behalf of LGSA is \$1,539,523 and MSA is \$1,375,863.