



LOCAL GOVERNMENT SERVICES AUTHORITY

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

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2013 AND 2012**

**JAMES MARTA &
COMPANY LLP**

**CERTIFIED PUBLIC
ACCOUNTANTS**

**701 HOWE AVENUE, E3
SACRAMENTO, CA**

**(916) 993-9494
WWW.JPMCPCPA.COM**

LOCAL GOVERNMENT SERVICES AUTHORITY

BOARD OF DIRECTORS

JUNE 30, 2013

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Vice Chair

Ken Nordhoff – City of Walnut Creek

Board Members

Nancy Mackle – City of San Rafael

Joni Pattillo – City of Dublin

Herbert Pike – Association of Bay Area Governments

Dan Schwarz – City of Larkspur

Executive Director

Richard Averett

LOCAL 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
Local Government Services Authority
Carmel Valley, California

Report on the Financial Statements

We have audited the accompanying Statement of Net Position of Local Government Services Authority (the Authority) as of June 30, 2013 and the related Statement of Revenues, Expenses and Changes in Net Position and Cash Flows for the year 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with 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, 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 consolidated 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 Local Government Services Authority as of June 30, 2013, and the respective changes in financial position and cash flows for the year 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.

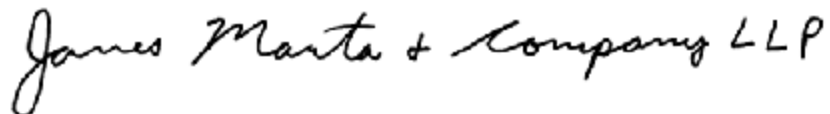
Other Matters

The financial statements of Local Government Services Authority as of and for the year ended June 30, 2012 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated February 6, 2013.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 - 7 and Schedule of Funding Progress for Other Postemployment Benefits on page 19 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 February 21, 2014 on our consideration of Local Government Services Authority 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 Local Government Services Authority internal control over financial reporting and compliance.



James Marta & Company LLP
Certified Public Accountants
February 21, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

LOCAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013 AND 2012

The following discussion and analysis of the financial performance of the Local Government Services Authority (the "Authority" or "LGS") provides an overview of the Authority's financial activities for the fiscal year (FY) ended June 30, 2013. Please read it in conjunction with the Authority's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- In the fiscal year ended June 30, 2013, the Authority's net position decreased \$772,722 from the prior fiscal year. This is primarily due to the four factors noted below.
- The Authority terminated its services agreement with Transbay Joint Powers Authority in December FY2012, resulting in decreases in revenue and expenditures compared to the prior fiscal year.
- The Authority joined the Municipal Services Authority insurance pool and contributed an additional \$600,000 mid-year to MSA reserves for claims expenses.
- At mid-year, the Authority incurred additional administrative cost allocation expenses due to Regional Government Services Authority's added one-time costs for bringing financial and payroll services in-house. RGS provides administrative services to the Authority.
- Due to restructuring and long term fiscal discipline, the Local Government Services Authority is in a strong financial position. The Authority is heavily dependent on several major clients, but because of its purchase of admin services from RGS, an agency that is growing its client base and service offerings, LGS will be a lessening portion of central administrative costs. Thus, future changes in client revenue will have less impact on LGS net position than they would otherwise have. While LGS's net position decreased this fiscal year and is budgeted to decrease slightly in FY2014, the Authority's investment in RGS administrative efficiencies, technical infrastructure, and internal processes should result in positive income growth within the next 12 months.
- The Authority has designated a portion (\$378,028) of the unrestricted net position for post-employment medical benefits and will convert to pay-as-you-go Health Retirement Accounts in the 2014 fiscal year. It is anticipated that moneys already set aside for the OPEB liability will be sufficient to fund prior service contributions.

OPERATIONAL HIGHLIGHTS

- During the fiscal year ended June 30, 2013, the Authority's administrative services provider, RGS, completed a transition of payroll and financial services from external consultant provision to RGS staff services, and payroll processing from ADP to Automatic Payroll Systems, Inc. (APS). The consultant contract assigned two full-time staff to perform RGS services and RGS assigned one Sr. Analyst to troubleshoot billing and payroll problems. RGS now staffs these services with a part-time Sr. Analyst and Finance Technician and two part-time Payroll Technicians. These 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. In turn, LGS has lessened its exposure to rapid changes in the level of client services not being proportionally matched by changes in administrative costs because part-time hourly staff can be scaled up or down more quickly than could contractual services.

LOCAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013 AND 2012

- As a result of this successful transition, in FY2014 the Authority will be able to benefit from RGS' review of remaining technology needs, including updating website, cost model and investigating the need for customer relations management software to help internal communications regarding client contacts, contracts, billing information and other business needs.

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, 2013 and June 30, 2012. The level of net position is one way to measure the Authority's financial health. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. Other factors, such as shifting (i.e. contributing) assets and liabilities to the new insurance JPA, Municipal Services Authority, must also be considered to assess the overall health of the Authority.

THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

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 accounting principles generally accepted in the United States of America that are not otherwise present in the financial statements.

LOCAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013 AND 2012

FINANCIAL ANALYSIS

NET POSITION

The Authority's net position at June 30, 2013 totaled \$748,812 compared with \$1,521,534 at June 30, 2012. The decrease represents decreased cash and investments due to decreased client revenues, as noted above, additional mid-year contributions to MSA, increased assessments from the Authority's prior insurance pool, and increased OPEP liability. 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>2011</u>	<u>2012</u>	<u>2013</u>	<u>Change</u>	<u>Percent Change</u>
Current Assets	<u>\$ 2,607,415</u>	<u>\$ 2,560,241</u>	<u>\$ 2,371,457</u>	<u>\$ (188,784)</u>	<u>-7.4%</u>
Current Liabilities	864,418	635,400	1,041,648	406,248	63.9%
Non-Current Liabilities	<u>665,637</u>	<u>403,307</u>	<u>580,997</u>	<u>177,690</u>	<u>44.1%</u>
Total Liabilities	<u>1,530,055</u>	<u>1,038,707</u>	<u>1,622,645</u>	<u>583,938</u>	<u>56.2%</u>
Net Position					
Unrestricted	<u>\$ 1,077,360</u>	<u>\$ 1,521,534</u>	<u>\$ 748,812</u>	<u>\$ (772,722)</u>	<u>-50.8%</u>

The June 30, 2013 cash and cash equivalents balance decreased \$68,727 from the balance at the end of the prior year. The Authority invests surplus cash in 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.

The unrestricted portion of net position has been designated by the Board of Directors based on potential contingencies and policy-based priorities. In prior years, the Authority has designated a portion of unrestricted net position and has collected \$378,028 through June 30, 2013, from its clients for post-employment medical benefits for eligible employees. This amount is now shown as a Non-Current Liability and thus not included in the Unrestricted Net Position. Additional information on the designation of unrestricted net position can be found in the notes to the financial statements.

REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Authority reported a decrease in net position of \$772,722 for the year ended June 30, 2013. Net operating revenues were significantly less than the prior year, due to the termination of services to a large client agency in the prior fiscal year. This service agreement was in place for seven years, and the agency's \$240,000 deposit was returned less charges owed.

Operating expenses also decreased significantly from the prior fiscal year for the same reason. This category includes all costs related to payroll and employee benefits, as well as general and administrative expenses, including an additional \$600,000 contribution to MSA claims reserves. The largest single line item decrease (\$1,578,208) represents personnel expenses, most of which was attributable to the aforementioned client termination.

LOCAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013 AND 2012

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

	2011	2012	2013	Change	Percent Change
Operating Revenues:					
Charges for services	\$ 7,286,067	\$ 6,892,026	\$ 4,817,793	\$ (2,074,233)	-30.1%
Operating Expenses:					
Salaries and benefits	5,914,003	5,625,962	4,047,754	(1,578,208)	-28.1%
Professional services	2,756	2,756	-	(2,756)	-100.0%
Administration	1,226,249	965,995	1,542,761	576,766	59.7%
Total Operating Expenses	7,143,008	6,594,713	5,590,515	(1,004,198)	-15.2%
Operating Income (Loss)	143,059	297,313	(772,722)	(1,070,035)	-359.9%
Beginning Net Position	934,301	1,224,221	1,521,534	297,313	24.3%
Ending Net Position	\$ 1,077,360	\$ 1,521,534	\$ 748,812	\$ (772,722)	-50.8%

CAPITAL ASSETS

At June 30, 2013, 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 local and regional government agencies. How we can be of value to local governments varies from agency to agency, but the Authority primarily offers on-going staffing and employment services. Agencies use our services when they determine it is in their best to do so. Because financial pressures on local governments are cyclical but ever increasing, the demand for LGS services is expected to vary but to generally increase over time as long as those services are relevant to the needs of and cost effective for public agencies.

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. LGS growth over the last 12 years is testament to the vision and practicality of that guidance. LGS began with no clients and no employees, and now has five active clients and over 30 employees. LGS initially had to borrow start-up funds, and now debt-free and has three-quarters of a million dollars (not including insurance reserves in MSA) in net equity. There have been and will be 'bumps' along the way that require adjustments and investments in the Authority's plans and capacity. Fiscal year 2013 was a year of adjustments and investments. LGS adjusted to a major client leaving by focusing improving its efficiency and services to existing client agencies.

LOCAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013 AND 2012

The 2013-2014 budget reflects the loss of this major client and the investment in capacity. A small deficit is anticipated as the Authority retools itself for these initiatives. By the end of the fiscal year, if not before, it is expected that monthly financial performance will again be positive.

The Local 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:

Local Government Services is a California joint powers authority that provides high-quality staffing and support services to meet local government needs.

BASIC FINANCIAL STATEMENTS

LOCAL GOVERNMENT SERVICES AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets:		
Cash and investments	\$ 2,080,847	\$ 2,012,120
Accounts receivable	287,243	473,153
Prepaid expenses	3,367	30,907
CJPIA Deposits	-	44,061
Total Current Assets	<u>2,371,457</u>	<u>2,560,241</u>
 Total Assets	 <u>2,371,457</u>	 <u>2,560,241</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	288,081	166,082
Due To Other Governments	600,000	-
Unearned revenue	114,500	179,500
Client deposits	-	240,403
Compensated absences - (current portion)	39,067	49,415
Total Current Liabilities	<u>1,041,648</u>	<u>635,400</u>
Non-Current Liabilities:		
Compensated absences (long term portion)	91,155	115,303
CJPIA Assessments	110,659	-
Unemployment claims payable	1,155	-
OPEB liability	378,028	288,004
Total Noncurrent Liabilities	<u>580,997</u>	<u>403,307</u>
 Total Liabilities	 <u>1,622,645</u>	 <u>1,038,707</u>
NET POSITION		
Net Position		
Unrestricted	<u>\$ 748,812</u>	<u>\$ 1,521,534</u>

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

LOCAL GOVERNMENT SERVICES AUTHORITY

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

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Operating Revenues:		
Charges for services	\$ 4,817,793	\$ 6,892,026
Total Operating Revenues	<u>4,817,793</u>	<u>6,892,026</u>
Operating Expenses:		
Salaries and benefits	4,047,754	5,625,962
Professional services	-	2,756
Administration	<u>1,542,761</u>	<u>965,995</u>
Total Operating Expenses	<u>5,590,515</u>	<u>6,594,713</u>
Operating Income (Loss)	(772,722)	297,313
Beginning Net Position	<u>1,521,534</u>	<u>1,224,221</u>
Ending Net Position	<u>\$ 748,812</u>	<u>\$ 1,521,534</u>

LOCAL GOVERNMENT SERVICES AUTHORITY

STATEMENTS OF CASH FLOWS

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2013 AND 2012**

	2013	2012
Cash flows from operating activities:		
Cash received for services	\$ 4,698,300	\$ 7,570,995
Cash paid to suppliers for goods and services	(637,347)	(983,234)
Cash paid to employees for services	(3,992,226)	(5,734,427)
Net cash provided (used) by operating activities	68,727	853,334
Cash and cash equivalents, beginning of year	2,012,120	1,158,786
Cash and cash equivalents, end of year	\$ 2,080,847	\$ 2,012,120
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (772,722)	\$ 297,313
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Decrease (increase) in:		
Accounts receivable	185,910	408,094
Due from other governments	-	305,875
Prepaid expenses	27,540	13,574
CJPIA deposits	44,061	(7,789)
Increase (decrease) in:		
Accounts payable	121,999	(63,194)
Unearned revenue	(65,000)	(35,000)
Client deposits	(240,403)	-
Due to other governments	600,000	-
Compensated absences	(34,496)	(108,465)
CJPIA assessments	110,659	-
Claims payable	1,155	(64,078)
OPEB liability	90,024	107,004
Net cash provided (used) by operating activities	\$ 68,727	\$ 853,334

LOCAL GOVERNMENT SERVICES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

Local 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 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 currently include the City of San Rafael, City of Larkspur, the Association of Bay Area Governments (ABAG), the Town of Yountville, the City of Dublin and the City of Walnut Creek. A six 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 Authorities' 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 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 include 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.

C. CASH AND CASH EQUIVALENTS

Local 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. RECLASSIFICATIONS

Certain reclassifications have been made to the prior year balances to conform to the current year presentation.

LOCAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

F. UNEARNED REVENUE

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.

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 Revenue and Taxation Code. Accordingly, no provision for federal or state income taxes has been made in the accompanying financial statements.

I. USE OF ESTIMATES

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

2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2013 and 2012 consisted of CalTRUST Funds in the amount of \$2,080,847 and \$2,012,120, respectively. The cash and investments are held by Regional Government Services Authority as a fiduciary on behalf of the Authority (See Note 8 – Related Party Transactions).

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.

LOCAL GOVERNMENT SERVICES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

2. CASH AND INVESTMENTS (CONTINUED)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that an agency 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 investment pool is 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 Local 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, 2013.

Custodial Credit Risk

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

3. LONG TERM LIABILITIES

The following is a schedule of changes in long-term liabilities for the year ended June 30, 2013:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013	Current Portion
Compensated absences	\$ 164,718	\$ -	\$ 34,496	\$ 130,222	\$ 39,067
CJPIA Assessments	-	110,659	-	110,659	-
OPEB liability	288,004	90,024	-	378,028	-
Total	<u>\$ 452,722</u>	<u>\$ 200,683</u>	<u>\$ 34,496</u>	<u>\$ 618,909</u>	<u>\$ 39,067</u>

LOCAL GOVERNMENT SERVICES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

4. EMPLOYEE RETIREMENT PLAN

A. PLAN DESCRIPTION

The Authority contributes to the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

B. FUNDING POLICY

Active plan members are required to contribute 7% of their salary, and the Authority is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012-2013 was 11.42% of annual payroll. The contribution requirements of the plan members are established by state statute. The Authority's contributions to CalPERS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$389,697, \$684,110, and \$707,131, respectively, and equal 100% of the required contributions for each year.

5. DEFINED CONTRIBUTION 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 December 31, 2013 and 2012 were \$171,910 and \$163,572, 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 all of its deferred compensation plans to provide protection from the claims of the employer's general creditors. Accordingly deferred compensation assets placed in the trust are not reflected in these financial statements.

LOCAL GOVERNMENT SERVICES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

5. DEFINED CONTRIBUTION PLANS (CONTINUED)

Other Defined Contribution Plan

The Authority has also established a defined contribution plan in accordance with Internal Revenue Code Section 401(a). The employer may contribute up to 5% on behalf of the employee subject to individual employment agreement. Plan assets are invested in each individual's name with the defined contribution plan provider. Distributions are made upon the participant's termination, retirement, death or total disability, and in a manner in accordance with the election made by the participant. Contributions to the plan for the year ended December 31, 2013 and 2012 totaled \$1,374 and \$879, 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.

6. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Plan Description

Certain employees who retire from the Authority with 10 years of service are eligible to receive health care benefits covering themselves and any qualified members. For those employees with employment agreements stipulating this benefit, the Authority pays 100% of the single rate premium charged to active employees under a health benefit plan administered by the Public Employee's Retirement System (PERS) in which the individual is able to select, on an annual basis, an insurance carrier from a number of insurance carriers. All other retirees are eligible for the PERS mandated benefit coverage, under which the Authority currently would pay up to \$112 per month for any health coverage, subject to the PERS vesting schedule.

B. Funding Policy

The Authority has not elected to participate in the CalPERS OPEB Trust, form its own trust, or participate in another OPEB Trust because it does not intend to remain in CalPERS Medical Plan indefinitely. The Authority is pursuing other pay-as-you-go retiree medical benefit plans that are more consistent with its business plan of servicing public and nonprofit agencies.

LOCAL GOVERNMENT SERVICES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

C. Annual OPEB Cost and Net OPEB Obligation

The Authority’s annual other postemployment benefit (OPEB) expense is calculated based on the annual required contributions (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Authority's Annual OPEB Cost for the fiscal year ended June 30, 2013, the amount actually contributed to the plan, and changes in the Authority’s Net OPEB Obligation:

Annual Required Contribution (ARC)	\$	95,159
Interest on Net OPEB Obligation		11,520
Adjustment to annual required contribution		<u>(16,655)</u>
Annual OPEB cost		90,024
Contributions made		<u>-</u>
Change in Net OPEB obligation		90,024
Net OPEB obligation - beginning of year		<u>288,004</u>
Net OPEB obligation - end of year	\$	<u><u>378,028</u></u>

The Local Government Services Authority Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the plan, and the Net OPEB Obligation are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed	Net Ending OPEB Obligation
June 30, 2011	\$ 100,000	0.0%	\$ 181,000
June 30, 2012	\$ 107,004	0.0%	\$ 288,004
June 30, 2013	\$ 90,024	0.0%	\$ 378,028

LOCAL GOVERNMENT SERVICES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

D. Funding Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the Annual Required Contributions of the Local and Regional Government Services Authorities are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The plan's most recent actuarial valuation was performed as of July 1, 2012. In that valuation, the Entry Age Normal Cost Method was used. The actuarial assumptions included a 4.0% discount rate, and a medical trend assumption of 8.0% graded down by 1.0% per year to an ultimate rate of 5.0% after three years. These assumptions reflect an implicit 4.0% general inflation assumption. The Local Government Services Authority unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over 30 years.

LOCAL GOVERNMENT SERVICES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

7. JOINTLY GOVERNED ORGANIZATIONS

Effective July 1, 2012, 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, 2013 were \$600,000 in response MSA requests to build reserves, as well as an allocated share of monthly payments paid by Regional Government Services to support general liability and workers compensation coverage. Full financial statements are available separately from MSA. Condensed financial information for the year ended June 30, 2013 is as follows:

Total Assets	\$ 1,016,565
Total Liabilities	<u>197,042</u>
Net Position	<u><u>\$ 819,523</u></u>
Revenues	\$ 1,235,000
Expenses	<u>415,477</u>
Change in Net Postion	<u><u>\$ 819,523</u></u>

8. PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2012, the Authority restated the beginning net position to reduce the compensated absences for sick and admin leave that would not be paid out upon termination in the amount of \$146,861. Net position at July 1, 2011 was originally reported at \$1,077,360 and was restated at \$1,224,221.

9. RELATED PARTY TRANSACTIONS

Regional Government Services Authority (RGSA) provides administration for Local Government Services Authority and allocates a share of its administrative overhead to LGSA each month based on revenues to date. The amounts charged for the years ended June 30, 2013 and 2012 were \$772,102 and \$958,131, respectively. RGSA also holds cash and investments on behalf of the Authority. At June 30, 2013 and 2012, the amounts held on behalf of the Authority were \$2,080,847 and \$2,012,120, respectively.

LOCAL GOVERNMENT SERVICES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

10. SUBSEQUENT EVENTS

Local Government Services Authority’s management evaluated its June 30, 2013 financial statements for subsequent events through February 21, 2014, 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.

REQUIRED SUPPLEMENTARY INFORMATION

LOCAL GOVERNMENT SERVICES AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF FUNDING PROGRESS –
OTHER POSTEMPLOYMENT BENEFITS**

JUNE 30, 2013

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarially Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>Funded Ratio ((b-a)/c)</u>
6/30/2010	\$ -	\$ 205,000	\$ 205,000	0%	\$ 3,217,000	6.37%
7/1/2012	\$ -	\$ 338,400	\$ 338,400	0%	\$ 3,100,396	10.91%

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
Local Government Services Authority
Carmel Valley, California

We have audited the basic financial statements of Local Government Services Authority (the "Authority"), as of and for the year ended June 30, 2013. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

Management of Local 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.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2013-1 that we consider to be a significant deficiency in internal control over financial reporting. 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.

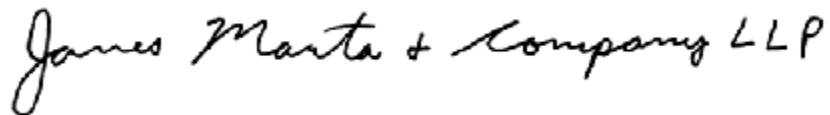
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Local 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*.

Local Government Services Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Local Government Services Authority's response and, accordingly, we express no opinion on it.

We noted certain other matters that we reported to management of the Authority in a separate letter dated February 21, 2014.

This report is intended solely for the information and use of management, the board of directors, others within the entity, and the California State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "James Marta & Company LLP".

James Marta & Company LLP
Certified Public Accountants
February 21, 2014

LOCAL GOVERNMENT SERVICES AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2013

2013-01 Monthly Accounting

Observation:

There were several accounts identified with balances that were either incorrect or the details and nature of the balance were unknown to management.

Recommendations:

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

Corrective Action Plan:

The Auditor's Recommendation has been implemented effective with November 2013 preliminary results. All balance sheet accounts are now reviewed and reconciled on a monthly basis. Unknown balances are investigated and corrected in a timely manner to ensure that the financial statements presented to the Board are accurate. If an account is still under investigation, that is disclosed in the presentation of the monthly financial statements.