



LOCAL GOVERNMENT SERVICES AUTHORITY

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

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2014 AND 2013**

**JAMES MARTA &
COMPANY LLP**

**CERTIFIED PUBLIC
ACCOUNTANTS**

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LOCAL GOVERNMENT SERVICES AUTHORITY

BOARD OF DIRECTORS

JUNE 30, 2014

Chair

Steven Rogers – Town of Yountville

Vice Chair

Ken Nordhoff – City of Walnut Creek

Board Members

Chris Foss – City of Dublin

Nancy Mackle – City of San Rafael

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, 2014 and 2013 and the related Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 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 financial position of Local Government Services Authority as of June 30, 2014 and 2013, and the changes in its net position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as systems prescribed by the State Controller's Office and state regulators governing special districts.

Other Matters

Required Supplementary Information

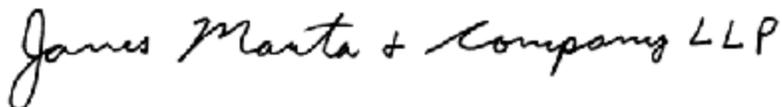
Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Schedule of Funding Progress for Other Postemployment Benefits be presented to supplement the basic financial statements. Such information, although not a part of the basic financial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

Restatement

As further discussed in note 11 to the financial statements, the June 30, 2013 financial statements have been restated to reflect the transfer and assumption of claims liabilities associated with the Authority's participation in a risk sharing pool to Municipal Services Authority.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2015 on our consideration of Local Government Services Authority's internal control over financial reporting and our tests of its compliance with provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



James Marta & Company LLP
Certified Public Accountants
Sacramento, California
April 9, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

LOCAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014 AND 2013

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, 2014. Please read it in conjunction with the Authority's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- In the fiscal year ended June 30, 2014, the Authority's net gain of \$58,178 is a significant improvement from the loss of \$662,063 in the prior fiscal year. This is primarily due to a \$292,000 reduction in OPEB liability, \$225,000 less in additional MSA reserve contributions, and growth in the number of agencies served.
- As a member of the Municipal Services Authority insurance pool, LGS contributed an additional \$375,000 to MSA reserves for claims expenses.
- 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.
- During the fiscal year the Authority restructured its post-employment medical benefit plan, offering a pay-as-you-go Health Retirement Account (HRA) to all employees as a replacement for a defined benefit plan. One employee elected to remain in the defined benefit plan and that OPEB liability is recognized for FY14 at \$85,844, releasing liability funding for vestment of eligible HRA accounts and to net equity. When combined with the related FY14 HRA liability of \$8,000 the Authority has reduced overall post-employment benefit liability by \$240,403.
- The Authority's long term liabilities were reduced by \$110,659 representing the FY13 Worker's Compensation and General Liability claims reserve. These liabilities were assumed by the Municipal Services Authority, as affirmed by the Board of Directors.

OPERATIONAL HIGHLIGHTS

- The Authority's administrative services provider, RGS, now staffs all accounting and payroll functions internally with a part-time Manager, two part-time Finance Technicians, one part-time Payroll Technician and one part-time HR Technician. The investments in JPA resources results in improved efficiency, 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.
- In FY2014 the Authority has been able to benefit from RGS' review of remaining technology needs, including updating the JPA website, cost model and investigating the need for customer relations management software to help internal communications regarding client contacts, contracts, billing information, Advisor availability and other business needs.

LOCAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014 AND 2013

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, 2014 and June 30, 2013. The level of net position is one way to measure the Authority's financial health. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. Other factors, such as shifting (i.e. contributing) assets and liabilities to the new insurance JPA, Municipal Services Authority, must also be considered in assessing 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 changes in net position for the fiscal years shown in this report agree with the differences in net position shown at June 30, 2014 and 2013 in the above mentioned Statement of Net Position.

THE STATEMENT OF CASH FLOWS

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

THE NOTES TO FINANCIAL STATEMENTS

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

LOCAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014 AND 2013

FINANCIAL ANALYSIS

NET POSITION

The Authority's net position at June 30, 2014 totaled \$917,649 compared with \$859,471 at June 30, 2013. 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.

	2012	2013	2014	Change	Percent Change
Current Assets	<u>\$ 2,560,241</u>	<u>\$ 2,371,457</u>	<u>\$ 2,421,542</u>	<u>\$ 50,085</u>	<u>2%</u>
Current Liabilities	635,400	1,002,581	1,278,933	276,352	28%
Non-Current Liabilities	<u>403,307</u>	<u>509,405</u>	<u>224,960</u>	<u>(284,445)</u>	<u>-56%</u>
Total Liabilities	<u>1,038,707</u>	<u>1,511,986</u>	<u>1,503,893</u>	<u>(8,093)</u>	<u>-1%</u>
Net Position					
Unrestricted	<u>\$ 1,521,534</u>	<u>\$ 859,471</u>	<u>\$ 917,649</u>	<u>\$ 58,178</u>	<u>7%</u>

The June 30, 2014 cash and cash equivalents balance increased \$115,365 from the balance at the end of the prior year. The Authority's administrative agent, RGS, 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 \$85,884 through June 30, 2014, 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 an increase in net position of \$58,178 for the year ended June 30, 2014. Net operating revenues were \$4,978,110 a small increase from the FY13 total of \$4,817,793, and reflect the normal variances in headcount and billable hours within a stable client base

Operating expenses include all costs related to payroll and employee benefits, as well as general and administrative expenses, including a \$375,000 MSA claims reserves contribution (above normal Member dues). Administration charges decreased \$307,890 (21%) from the prior fiscal year largely due to a net decrease in additional contributions to the Authority's insurance JPA.

LOCAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014 AND 2013

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

	2012	2013	2014	Change	Percent Change
Operating Revenues:					
Charges for services	\$ 6,892,026	\$ 4,817,793	\$ 4,978,110	\$ 160,317	3%
Operating Expenses:					
Salaries and benefits	5,625,962	4,047,754	3,792,964	(254,790)	-6%
Professional services	2,756	-	2,756	2,756	100%
Administration	965,995	1,432,102	1,124,212	(307,890)	-21%
Total Operating Expenses	6,594,713	5,479,856	4,919,932	(559,924)	-10%
Operating Income (Loss)	297,313	(662,063)	58,178	720,241	109%
Beginning Net Position	1,224,221	1,521,534	859,471	(662,063)	-44%
Ending Net Position	\$ 1,521,534	\$ 859,471	\$ 917,649	58,178	7%

CAPITAL ASSETS

At June 30, 2014, the Authority had no capital assets, no depreciation expenses and no immediate plans to acquire capital assets.

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. However, the Authority has determined that services will not be offered to new clients, preferring to serve current clients in a financially sustainable manner and to utilize more flexible Joint Powers Authorities, such as RGS and MSA, for service offerings more suited to those agencies.

LOCAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014 AND 2013

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 13 years is testament to the vision and practicality of that guidance. LGS began with no clients and no employees, and now has four active clients and over 30 employees. LGS initially had to borrow start-up funds, and now is debt-free and has adequate 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 2014 was a year of focusing on improving its efficiency and services to existing client agencies. The 2014-2015 budget reflects continued operational efficiencies resulting in a projected \$51,000 net income.

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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets:		
Cash and investments	\$ 2,196,212	\$ 2,080,847
Accounts receivable	221,226	287,243
Prepaid expenses	4,104	3,367
Total Current Assets	<u>2,421,542</u>	<u>2,371,457</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	131,433	288,081
Employee benefits payable	8,000	-
Due To Other Governments	975,000	600,000
Unearned revenue	164,500	114,500
Total Current Liabilities	<u>1,278,933</u>	<u>1,002,581</u>
Non-Current Liabilities:		
Compensated absences	139,076	130,222
Unemployment claims payable	-	1,155
OPEB liability	85,884	378,028
Total Noncurrent Liabilities	<u>224,960</u>	<u>509,405</u>
Total Liabilities	<u>1,503,893</u>	<u>1,511,986</u>
NET POSITION		
Unrestricted	<u>\$ 917,649</u>	<u>\$ 859,471</u>

LOCAL GOVERNMENT SERVICES AUTHORITY

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

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Charges for services	<u>\$ 4,978,110</u>	<u>\$ 4,817,793</u>
Operating Expenses:		
Salaries and benefits	3,792,964	4,047,754
Professional services	2,756	-
Administration	<u>1,124,212</u>	<u>1,432,102</u>
Total Operating Expenses	<u>4,919,932</u>	<u>5,479,856</u>
Operating Income (Loss)	58,178	(662,063)
Beginning Net Position	<u>859,471</u>	<u>1,521,534</u>
Ending Net Position	<u><u>\$ 917,649</u></u>	<u><u>\$ 859,471</u></u>

LOCAL GOVERNMENT SERVICES AUTHORITY

STATEMENT OF CASH FLOWS

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2014 AND 2013**

	2014	2013
Cash flows from operating activities:		
Cash received for services	\$ 5,094,127	\$ 4,698,300
Cash paid to suppliers for goods and services	(910,508)	(637,347)
Cash paid to employees for services	(4,068,254)	(3,992,226)
Net cash provided (used) by operating activities	115,365	68,727
Cash and cash equivalents, beginning of year	2,080,847	2,012,120
Cash and cash equivalents, end of year	\$ 2,196,212	\$ 2,080,847
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 58,178	\$ (662,063)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Decrease (increase) in:		
Accounts receivable	66,017	185,910
Prepaid expenses	(737)	27,540
CJPIA deposits	-	44,061
Increase (decrease) in:		
Accounts payable	(156,648)	121,999
Employee benefits payable	8,000	-
Unearned revenue	50,000	(65,000)
Client deposits	-	(240,403)
Due to other governments	375,000	600,000
Compensated absences	8,854	(34,496)
Unemployment claims payable	(1,155)	1,155
OPEB liability	(292,144)	90,024
Net cash provided by operating activities	\$ 115,365	\$ 68,727

LOCAL GOVERNMENT SERVICES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

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

Members of the Authority 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.

LOCAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

F. UNEARNED REVENUE

When the Authority collects 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, 2014 and 2013 consisted of CalTRUST Funds in the amount of \$2,196,212 and \$2,080,847, respectively. The cash and investments are held by Regional Government Services Authority as a fiduciary on behalf of the Authority (See Note 9 – 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, 2014 AND 2013

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

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The monies held in the CalTRUST 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, 2014.

Custodial Credit Risk

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

3. LONG TERM LIABILITIES

The following is a schedule of changes in long-term liabilities for the year ended June 30, 2014:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Compensated absences	\$ 130,222	\$ 8,854	\$ -	\$ 139,076
Unemployment claims	1,155	-	1,155	-
OPEB liability	378,028	12,235	304,379	85,884
Total	<u>\$ 509,405</u>	<u>\$ 21,089</u>	<u>\$ 305,534</u>	<u>\$ 224,960</u>

LOCAL GOVERNMENT SERVICES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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. The Authority is currently under audit review by CalPERS. For further detail, see note 10.

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 2013-2014 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, 2014, 2013, and 2012 were \$412,715, \$389,697, and \$684,110, 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, 2014 and 2013 were \$160,489 and \$171,910, 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, 2014 AND 2013

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. There were no contributions by the authority to the plan for the year ended December 31, 2014. For the year ended December 31, 2013 The Authority's contributions to the plan totaled \$1,374.

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

As of June 30, 2013 certain employees who retired 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. As of June 30, 2014, all employees under the Authority enrolled in the Health Reimbursement Account plan for health care benefits (see note 7), with the exception of one employee. The one employee elected to continue with the terms of her employment agreement under which the Authority committed to pay towards retiree health premiums an amount equal to the single rate premium of a health benefit plan administered by the Public Employees' Retirement System (PERS). The one employee opted to continue under a contractual OPEB plan. Adjustments were made as necessary between the previous OPEB balance, the new Employee Benefits Payable, and the new OPEB plan.

B. Funding Policy

The Authority has not elected to form its own trust, or participate in another OPEB Trust because the plan only has one participant. The Authority has pursued 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, 2014 AND 2013

6. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

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, 2014, the amount actually contributed to the plan, and changes in the Authority's Net OPEB Obligation under the new plan:

Annual Required Contribution (ARC)	\$	12,179
Interest on Net OPEB Obligation		2,946
Adjustment to annual required contribution		(2,890)
Other adjustments*		<u>(304,379)</u>
 Annual OPEB cost		 (292,144)
 Contributions made		 <u>-</u>
 Change in Net OPEB obligation		 (292,144)
 Net OPEB obligation - beginning of year		 <u>378,028</u>
 Net OPEB obligation - end of year	<u>\$</u>	 <u>85,884</u>

*The other adjustments represents a decrease in the liability for all but one employee opting out of the PERS OPEB plan and electing to participate in the Health Reimbursement Account (note 7).

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

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed	Net Ending OPEB Obligation
June 30, 2012	\$ 107,004	0.0%	\$ 181,000
June 30, 2013	\$ 90,024	0.0%	\$ 288,004
June 30, 2014	\$ (292,144)	0.0%	\$ 85,884

LOCAL GOVERNMENT SERVICES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

6. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

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 Government Services Authority 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 June 30, 2014. 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 7.5% graded down by 0.5% per year to an ultimate rate of 5.0% after three years. These assumptions reflect an implicit 2.75% 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, 2014 AND 2013

7. EMPLOYEE BENEFITS PAYABLE

Effective January 1, 2014, the Authority implemented a Health Reimbursement Account (HRA) plan. All employees, but one, under the Other Postemployment Benefits plan (mentioned above in note 6) are now enrolled in the HRA plan instead. 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 received an additional contribution of \$2,500 per year that vests after five years of service and the second tier receives an additional contribution of \$10,000 per year that vests after ten years of service.

8. JOINTLY GOVERNED ORGANIZATIONS

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

MSA is governed by a Board consisting of representatives from its two member agencies. The Board controls the operations, including selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the Board. Each member agency pays a contribution or assessment commensurate with the level of coverage and services requested and shares surpluses and deficits proportionate to their participation in the joint powers authority. Payments to MSA for the year ended June 30, 2014 were \$375,000 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, 2014 is as follows:

Total Assets	\$ 1,619,594
Total Liabilities	<u>1,245,260</u>
Net Position	<u>\$ 374,334</u>
Revenues	\$ 834,993
Expenses	<u>810,047</u>
Change in Net Postion	<u>\$ 24,946</u>

LOCAL GOVERNMENT SERVICES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

8. JOINTLY GOVERNED ORGANIZATIONS (CONTINUED)

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

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, 2014 and 2013 were \$772,102 and \$958,131, respectively. RGSA also holds cash and investments on behalf of the Authority. At June 30, 2014 and 2013, the amounts held on behalf of the Authority were \$2,196,212 and \$2,080,847, respectively.

10. CONTINGENCIES

Local Government Services Authority is currently under audit review by the California Public Employees' Retirement System (CalPERS). The draft audit has yet to be provided, but the Authority has retained special legal counsel should the draft audit report be adverse to the Authority's best interest. As of right now there is no current or anticipated litigation or claims made against the Authority.

11. RESTATEMENT

The financial statements for the year ended June 30, 2013 have been restated to reflect the assumption of the claims liabilities related to the Authority's participation in CJPIA (Note 8). At June 30, 2013 the amounts assumed by Municipal Services Authority for the workers' compensation and liability programs were \$29,739 and \$80,920 respectively.

12. SUBSEQUENT EVENTS

Local Government Services Authority's management evaluated its June 30, 2014 financial statements for subsequent events through April 9, 2015, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

LOCAL GOVERNMENT SERVICES AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

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

JUNE 30, 2014

<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>
7/1/2014	\$ -	\$ 85,884	\$ 85,884	0%	\$ -	0%

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Local Government Services Authority (the Authority), as of and for the year ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Local Government Services Authority's basic financial statements, and have issued our report thereon dated April 9, 2015.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. Given these limitations, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2014-1 that we consider to be a significant deficiency in internal control over financial reporting.

Compliance and Other Matters

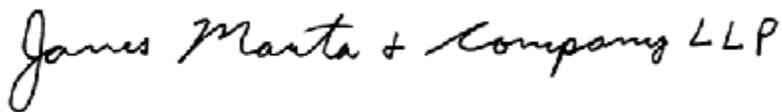
As part of obtaining reasonable assurance about whether Local Government Services Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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*.

Management's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the 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 April 9, 2015.

Purpose of this Report

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

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

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
April 9, 2015

LOCAL GOVERNMENT SERVICES AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2014

2014-01 Monthly Accounting

Observation:

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

Recommendations:

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

Corrective Action Plan:

Management is in the process of implementing these recommendations. The balance sheet accounts are reviewed and reconciled on a monthly basis, however certain accounts were still being investigated when the independent audit began and were corrected during the audit process.

LOCAL GOVERNMENT SERVICES AUTHORITY

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2014

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.

Current Status:

In process.