LOCAL GOVERNMENT SERVICES AUTHORITY

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEARS ENDED
JUNE 30, 2015 AND 2014

JAMES MARTA & COMPANY LLP

CERTIFIED PUBLIC ACCOUNTANTS

701 HOWE AVENUE, E3
SACRAMENTO, CA

(916) 993-9494
WWW.JPMCPA.COM

LOCAL GOVERNMENT SERVICES AUTHORITY

BOARD OF DIRECTORS

JUNE 30, 2015

Chair
Ken Nordhoff – City of Walnut Creek

Vice Chair
Dan Schwarz – City of Larkspur

Board Members
Chris Foss – City of Dublin
Herbert Pike – Association of Bay Area Governments
Steven Rogers – Town of Yountville

Executive Director
Richard Averett

LOCAL GOVERNMENT SERVICES AUTHORITY

TABLE OF CONTENTS

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, 2015 and 2014 and the related Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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.

701 Howe Avenue, Suite E3 Sacramento, CA 95825 (916) 993-9494 fax (916) 993-9489
www.jpmcpa.com dbecker@jpmcpa.com

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, 2015 and 2014, 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.

Change in Accounting Principle

As discussed in Notes 1 and 6 to the financial statements, the Authority adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, and GASB Statement No. 71, Pension Transition for Contribution Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68. The Authority has not restated the actual and pro forma effect of the Statements on the financial statements as of and for the year ended June 30, 2014. This data is not readily available due to an actuary study not being prepared in accordance with GASB 68 for measurement dates prior to June 30, 2014. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2015 on our consideration of 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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2015. Please read it in conjunction with the Authority's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- In the fiscal year ended June 30, 2015, the Authority's net profit of $141,810 is an improvement from the profit of $58,178 in the prior fiscal year. This is primarily due to the stability of the client base in FY15.
- In compliance with GASB 68 the JPA has recognized its unfunded accrued liability of $523,981. This amount is recorded as a prior period adjustment to its long term liabilities, and thereby reduces the JPA net position.
- As a member of the Municipal Services Authority insurance pool, LGS contributed an additional $317,649 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. While LGS's net position decreased this fiscal year due to the GASB 68 entry, the decline was partially offset by a net gain in FY2015 and is anticipated to be further offset by a net gain in FY2016. The Authority's investment in RGS administrative efficiencies, technical infrastructure, and internal processes should result in positive income growth within the next 12 months.
- During the 2014 fiscal year the Authority restructured is post-employment medical benefit plans, offering a pay-as-you-go Health Retirement Account (HRA) to all employees as a replacement for the defined benefit retiree medical plan. One employee elected to remain in the defined benefit plan. This actuarially determined liability has now been funded by the JPA, using an HRA. The JPA has fully funded its retiree medical liability for all employees eligible for the benefit and therefore there is no outstanding liability balance to be reported for fiscal year 2015.

OPERATIONAL HIGHLIGHTS

- During the fiscal year ended June 30, 2015, the Authority's administrative services provider, RGS, has continued to develop its technological and service capacities. The investments in JPA resources results in lower operating costs, improved reporting and controls, and increased capacity to take on additional client work and new client services.
- In FY2015 the Authority has been able to benefit from RGS' review of remaining technology needs, including a new JPA website, implementing a new technology support service and standardized its desktop software system.

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 STATEMENTOF NET POSITION

The Statement of Net Position details the Authority's assets, liabilities and the difference between them, known as net position, at the end of the fiscal years June 30, 2015 and June 30, 2014. The level of net position is one way to measure the Authority's financial health. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. Other factors, such as shifting (or contributing) additional assets and liabilities to the insurance JPA, Municipal Services Authority, must also be considered to assess the overall health of the Authority.

THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

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 Statement of Revenues, Expenses and Changes in Net Position, because they only account for transactions that result in cash receipts or disbursements. For example, the amount shown as receipts from customers on the first line of the statements represents cash received during the fiscal year, rather than revenue earned.

THE NOTES TO FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS

NET POSITION

The Authority's net position at June 30, 2015 totaled $535,478 compared with $917,649 at June 30, 2014. A summary of the Authority's asset, liability and net position balances at the end of the current and prior fiscal years appears on the following chart.

	2013	2014	2015	Change	Percent Change
ASSETS					
Current Assets	$ 2,371,457	$ 2,421,542	$ 2,556,863	$ 135,321	6%
Deferred Outflow of Pension Resources	-	-	405,765	405,765	
LIABILITIES					
Current Liabilities	1,002,581	1,278,933	1,467,744	188,811	15%
Non-Current Liabilities	509,405	224,960	767,972	543,012	241%
Total Liabilities	1,511,986	1,503,893	2,235,716	731,823	49%
Deferred Inflow of Pension Resources	-	-	191,434	191,434	
Net Position					
Unrestricted	$ 859,471	$ 917,649	$ 535,478	$ (405,068)	-44%

The June 30, 2015 cash and cash equivalents balance increased $38,401 from the balance at the end of the prior year. The Authority contracts with RGS to invest 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.

REVENUES, EXPENSES AND CHANGES IN NET POSITION
The Authority reported a decrease in net position of $382,171 for the year ended June 30, 2015. The decrease reflects the first time recognition of unfunded accrued pension liabilities. Net operating revenues were $5,180,503 - a small increase from the FY14 total of $4,978,110 - and reflects the normal variances in headcount and billable hours within a stable client base.

Operating expenses remained constant reflecting the stable client and employee based of the JPA. This category includes all costs related to payroll and employee benefits, as well as general and administrative expenses, including an additional $317,649 contribution to MSA claims reserves.

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

	2013	2014	2015	Change	Percent Change
Operating Revenues:					
Charges for services	$ 4,817,793	$ 4,978,110	$ 5,180,503	$ 202,393	4%
Operating Expenses:					
Salaries and benefits	4,047,754	3,792,964	3,919,936	126,972	3%
Professional services	-	2,756	2,067	(689)	-25%
Administration	1,432,102	1,124,212	1,116,690	(7,522)	-1%
Total Operating Expenses	5,479,856	4,919,932	5,038,693	118,761	2%
Operating Income (Loss)	(662,063)	58,178	141,810	83,632	-144%
Prior Period Adjustment	-	-	(523,981)		
				-	
Beginning Net Position	1,521,534	859,471	917,649	58,178	7%
Ending Net Position	$ 859,471	$ 917,649	$ 535,478	(382,171)	-42%

CAPITAL ASSETS
At June 30, 2015, the Authority had no capital assets, no depreciation expenses and no immediate plans to acquire capital assets in the future.

ECONOMIC FACTORS AND BUDGET

The Authority is a unique government agency, in that it is 100% fee-for-service driven AND that it provides general and administrative services to local and regional government agencies. How LGS 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 LGS services when they determine it is in their best interest to do so. Because financial pressures on local governments are cyclical, 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 are 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 14 years is testament to the vision and practicality of that guidance. LGS began with no clients and no employees, and now has three active clients and over 35 employees. LGS initially had to borrow start-up funds, and now is debt-free and has nearly half million dollars in net equity. The Authority has decided to suspend taking on additional client partner agency work, pending resolution of issues raised during a CalPERS audit begun in fiscal year 2013. This process is expected to take years more to resolve, before adjustments, if any, can be made and new clients considered. Fiscal year 2015 was a year of focusing on improving its efficiency and services to existing client agencies.

The FY2015/2016 budget reflects continued operational efficiencies resulting in a projected $142,000 operating 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 need.

BASIC FINANCIAL STATEMENTS

LOCAL GOVERNMENT SERVICES AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
Current Assets:		
Cash and investments	$ 2,234,613	$ 2,196,212
Accounts receivable	321,027	221,226
Prepaid expenses	1,223	4,104
Total Current Assets	2,556,863	2,421,542
Deferred Outflows of Resources:		
Pension related	405,765	-
LIABILITIES		
Current Liabilities:		
Accounts payable	160,595	131,433
Employee benefits payable	-	8,000
Due To Other Governments	1,292,649	975,000
Unearned revenue	14,500	164,500
Total Current Liabilities	1,467,744	1,278,933
Non-Current Liabilities:		
Compensated absences	166,723	139,076
Unemployment claims payable	8,391	-
OPEB liability	-	85,884
Net pension liability	592,858	-
Total Noncurrent Liabilities	767,972	224,960
Total Liabilities	2,235,716	1,503,893
Deferred Inflows of Resources:		
Pension related	191,434	-
NET POSITION		
Unrestricted	$ 535,478	$ 917,649

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, 2015 AND 2014

	2015	2014
Operating Revenues:		
Charges for services	$ 5,180,503	$ 4,978,110
Operating Expenses:		
Salaries and benefits	3,919,936	3,792,964
Professional services	2,067	2,756
Administration	1,116,690	1,124,212
Total Operating Expenses	5,038,693	4,919,932
Operating Income (Loss)	141,810	58,178
Beginning Net Position, As originally reported	917,649	859,471
Prior period adjustment	(523,981)	-
Beginning Net Position, As restated	393,668	859,471
Ending Net Position	$ 535,478	$ 917,649

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

LOCAL GOVERNMENT SERVICES AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEARS ENDED
JUNE 30, 2015 AND 2014

	2015	2014
Cash flows from operating activities:		
Cash received for services	$ 4,930,702	$ 5,094,127
Cash paid to suppliers for goods and services	(760,674)	(910,508)
Cash paid to employees for services	(4,131,627)	(4,068,254)
Net cash provided (used) by operating activities	38,401	115,365
Cash and cash equivalents, beginning of year	2,196,212	2,080,847
Cash and cash equivalents, end of year	$ 2,234,613	$ 2,196,212

	2015	2014
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$ 141,810	$ 58,178
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Decrease (increase) in:		
Accounts receivable	(99,801)	66,017
Prepaid expenses	2,881	(737)
Deferred outflows	(405,765)	-
Increase (decrease) in:		
Accounts payable	29,162	(156,648)
Employee benefits payable	(8,000)	8,000
Unearned revenue	(150,000)	50,000
Client deposits	-	-
Due to other governments	317,649	375,000
Compensated absences	27,647	8,854
Unemployment claims payable	8,391	(1,155)
OPEB liability	(85,884)	(292,144)
Net pension liability	68,877	-
Deferred inflows	191,434	-
Net cash provided by operating activities	$ 38,401	$ 115,365

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 include the City of San Rafael, City of Larkspur, the Association of Bay Area Governments (ABAG), the Town of Yountville, the City of Dublin and the City of Walnut Creek. The City of San Rafael was a member agency until September 2014, when it resigned its position on the Authority’s governing board. A five member board consisting of one representative from each member controls the Authority. None of the member entities exercise specific control over budgeting and financing of the 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 are fees for services. Operating expenses of the Authority include the cost of personnel providing the services, administrative expenses and other professional services. All revenues and expenses not meeting this definition are reported as non-operating revenue and expense.

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.

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. PENSION PLANS

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Government Services Authority's California Public Employees' Retirement System (CalPERS) plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

I. CHANGE IN ACCOUNTING PRINCIPLE

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

I. CHANGE IN ACCOUNTING PRINCIPLE - CONTINUED

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics: contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable; pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms; and pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

For defined benefit pensions, this Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position.

As of June 30, 2015, according to GASB 68, the Authority's total pension liability must be recognized. Therefore, the previous pension liability as of June 30, 2014 in the amount of $523,981 has been shown as a restatement of net position on the Statement of Activities as a separate line item.

In the current year the Authority had deferred outflows of $405,765 and deferred inflows of $191,434 resulting from the implementation of GASB 68.

J. 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.

K. 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, 2015 and 2014 consisted of CalTRUST Funds in the amount of $2,234,613 and $2,196,212, 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).

<u>CalTRUST Investment Pool</u>
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.

<u>Interest Rate Risk</u>
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.

<u>Credit Risk</u>
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.

<u>Concentration of Credit Risk</u>
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, 2015.

2. CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

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

3. LONG TERM LIABILITIES

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

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Compensated absences	$ 139,076	$ 27,647	$ -	$ 166,723
Unemployment claims	-	8,391	-	8,391
OPEB liability	85,884	-	85,884	-
Net Pension Liability	-	592,858	-	592,858
Total	$ 224,960	$ 628,896	$ 85,884	$ 767,972

4. EMPLOYEE RETIREMENT PLAN

Qualified employees are covered under a multiple-employer defined benefit pension plan maintained by the State of California Public Employees' Retirement System (CalPERS).

Plan Description

The Authority contributes to the School Employer Pool under 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.

4. EMPLOYEE RETIREMENT PLAN (CONTINUED)

The Plan's provisions and benefits in effect at June 30, 2015, are summarized as follows:

Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 60
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	55	60
Monthly benefits, as a % of eligible compensation	2.00%	2.00%
Required employee contribution rates	7%	6%
Required employer contribution rates	11.772%	11.772%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Local Government Services Authority is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for the Plan were $405,765.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, Local Government Services Authority reported net pension liabilities for its proportionate share of the net pension liability of the Plans' of $592,858.

Local Government Services Authority's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. Local Government Services Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2014 was 0.00951%.

4. EMPLOYEE RETIREMENT PLAN (CONTINUED)

For the year ended June 30, 2015, the Authority recognized pension expense of $260,311. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
Pension contributions subsequent to measurement date	$ 405,765	
Net differences between projected and actual earnings on plan investments		$ 198,611
Adjustement due to differences in proportions		(7,177)
	$ 405,765	$ 191,434

The amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30:	Deferred Inflows of Resources
2016	$ 57,430
2017	$ 57,430
2018	$ 47,858
2019	$ 28,715

4. EMPLOYEE RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions

The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost
Actuarial Assumptions	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth Rate	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return (1)	7.50%
Mortality	Derived using CalPERS' Membership Data for all Funds

(1) Net of pension plan investment expenses, including inflation

Discount Rate

The discount rate used to measure the total pension liability was 7.50% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained from the CalPERS website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

4. EMPLOYEE RETIREMENT PLAN (CONTINUED)

Discount Rate

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

4. EMPLOYEE RETIREMENT PLAN (CONTINUED)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
	100.0%		

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
Plan's Net Pension Liability	$ 1,055,097	$ 592,858	$ 209,244

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued CalPERS financial report.

Payable to the Pension Plan

At June 30, 2015, the Authority had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

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 June 30, 2015 and 2014 were $160,405 and $160,489, respectively.

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

Other Defined Contribution Plan

The Authority has also established a defined contribution plan in accordance with Internal Revenue Code Section 401(a). The employer 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 years ended June 30, 2015 and 2014.

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, 2014, all employees of 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. As of June 30, 2015, all employees are now enrolled in the Health Reimbursement Account plan.

6. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

B. Funding Policy

The Authority has not elected to form its own trust, but used MidAmerica as trustee because the plan only had one participant for the year ended June 30, 2014. 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.

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*		(304,379)
Annual OPEB cost		(292,144)
Contributions made		-
Change in Net OPEB obligation		(292,144)
Net OPEB obligation - beginning of year		378,028
Net OPEB obligation - end of year	$	85,884

*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).

6. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

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

As of June 30, 2015, the one remaining employee in the OPEB plan opted out of the CalPERS plan and enrolled in the Health Reimbursement Account plan and the prior liability was fully funded.

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.

6. 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.

7. JOINTLY GOVERNED ORGANIZATIONS

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

MSA is governed by a Board consisting of representatives from its two member agencies. The Board controls the operations, including selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the Board. Each member agency pays a contribution or assessment commensurate with the level of coverage and services requested and shares surpluses and deficits proportionate to their participation in the joint powers authority. Payments to MSA for the year ended June 30, 2015 and 2014 were $317,649 and $375,000, respectively, 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, 2015 is as follows:

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

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, 2015 and 2014 were $776,111 and $727,024, respectively. RGSA also holds cash and investments on behalf of the Authority. At June 30, 2015 and 2014, the amounts held on behalf of the Authority were $2,234,613 and $2,196,212, respectively.

10. CONTINGENCIES

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

11. SUBSEQUENT EVENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

LOCAL GOVERNMENT SERVICES AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS –
OTHER POSTEMPLOYMENT BENEFITS

JUNE 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarailly Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Funded Ratio ((b-a)/c)
7/1/2014	$ -	$ 85,884	$ 85,884	0%	$ -	0%

The plan was fully funded as of June 30, 2015.

LOCAL GOVERNMENT SERVICES AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

JUNE 30, 2015

Classic Plan	**June 30, 2014** [1]
Proportion of the net pension liability	0.00951%
Proportionate share of the net pension liability	$ 591,885
Covered-employee payroll (2)	$ 2,518,450
Proportionate Share of the net pension liability as percentage of covered-employee payroll	23.50%
Plan's fiduciary net position as a percentage of the total pension liability	82.98%
Proportionate share of aggregate employer contributions (3)	$ 78,061

PEPRA Plan	
Proportion of the net pension liability	0.00002%
Proportionate share of the net pension liability	$ 973
Covered-employee payroll (2)	$ 386,061
Proportionate Share of the net pension liability as percentage of covered-employee payroll	0.25%
Plan's fiduciary net position as a percentage of the total pension liability	83.03%
Proportionate share of aggregate employer contributions (3)	$ 129

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer.

(3) The plan's proportionate share of aggregate contributions may not match the actual contribtions made by the employer during the measurement period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

LOCAL GOVERNMENT SERVICES AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS

JUNE 30, 2015

Classic Plan		**Fiscal Year 2013-14** [1]
Actuarially Determined Contribution (2)	$	236,486
Contributions in relation to the actuarially determined contributions (2)		(236,486)
Contribution deficiencey (excess)	$	-
Covered-employee payroll (3,4)	$	2,518,450
Contributions as a percentage of covered-employee payroll (3)		9.39%

PEPRA Plan		
Actuarially Determined Contribution (2)	$	48,814
Contributions in relation to the actuarially determined contributions (2)		(48,814)
Contribution deficiencey (excess)	$	-
Covered-employee payroll (3,4)	$	386,061
Contributions as a percentage of covered-employee payroll (3)		12.64%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side fund or their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" do not conform to the circumstances described in paragraph 120 of GASB 68, therefore are not considered separately financed specific liabilities.

(3) Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer.

(4) Payroll from prior year ($1,144,064) was assumed to increase by the 3.00 percent payroll growth assumption.

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, 2015 and 2014, 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 November 16, 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, material weaknesses may exist that have not been identified.

701 Howe Avenue, Suite E3 Sacramento, CA 95825 (916) 993-9494 fax (916) 993-9489
www.jpmcpa.com dbecker@jpmcpa.com

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*.

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.

James Marta & Company LLP

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

LOCAL GOVERNMENT SERVICES AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2015

No matters were reported.

LOCAL GOVERNMENT SERVICES AUTHORITY

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2015

2014-01 Monthly Accounting

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

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

Current Status:
Implemented.