LOCAL GOVERNMENT SERVICES AUTHORITY

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015

JAMES MARTA & COMPANY LLP

CERTIFIED PUBLIC ACCOUNTANTS

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LOCAL GOVERNMENT SERVICES AUTHORITY

BOARD OF DIRECTORS

JUNE 30, 2016

Chair
Steven Rogers – Town of Yountville

Vice Chair
Chris Foss – City of Dublin

Board Members
Dan Schwarz – City of Larkspur
Ken Nordhoff– City of Walnut Creek

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, 2016 and 2015 and the related Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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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, 2016 and 2015, 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, Schedule of Proportionate Share of the Net Pension Liability and Schedule of Pension Plan Contributions 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 further discussed in Notes 1 and 4 to the financial statements, the Authority adopted new accounting guidance for the year ended June 30, 2015, 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 9, 2016 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 9, 2016

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

FINANCIAL HIGHLIGHTS

- In the fiscal year ended June 30, 2016, the Authority's net profit of $190,758 is an improvement of $141,810 from the prior FY. This is entirely due to a $296,232 reduction in the Authority's Pension expense as calculated under GASB 68. Absent the Pension adjustment the JPA had a loss of $105,474.
- The Authority is heavily dependent on several major clients, but because of its purchase of admin services from Regional Government Services Authority ("RGS"), an agency that is growing its client base and service offerings, the Authority's share of central administrative costs is expected to decrease.
- The JPA has been under-going a pension benefit audit by California Public Employee Retirement System (CalPERS) for over three years, costing LGS over $200,000 in response costs in just the last seven months. In addition, as a result of a CalPERS audit of the Authority's largest client representing 60% of JPA revenue, LGS and the client ended their service relationship in late-FY2016.
- 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 FY2016.

OPERATIONAL HIGHLIGHTS

- During the fiscal year ended June 30, 2016, the Authority's administrative services provider, RGS, has continued to develop its technological and service capacities. The investments in JPA resources results in more operating efficiencies, improved reporting and controls, and upgraded desktop and security software.
- The JPA has pursued several strategies to minimize the impact of the CalPERS audit, including a prohibition on adding new clients or employees to the JPA, and supporting client migration out of the JPA.

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, 2016, 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 (i.e. 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. The Authority's cash activity is grouped in the following two categories: operations and investing. This statement differs from the Statements of Revenues, Expenses and Changes in Net Position, because it only accounts 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, 2016 totaled $726,236, compared to June 30, 2015 and 2014 balances of $535,478 and $917,649, respectively. 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.

	2014	2015	2016	Change	Percent Change
Current Assets	$ 2,421,542	$ 2,556,863	$ 2,317,671	$ (239,192)	-9%
Deferred Outflow of Pension Resources	-	405,765	669,082	$ 263,317	65%
Current Liabilities	1,278,933	1,467,744	1,371,933	(95,811)	-7%
Non-Current Liabilities	224,960	767,972	697,850	(70,122)	-9%
Total Liabilities	1,503,893	2,235,716	2,069,783	(165,933)	-7%
Deferred Inflow of Pension Resources	-	191,434	190,734	$ (700)	0%
Net Position Unrestricted	$ 917,649	$ 535,478	$ 726,236	$ 190,758	36%

The Authority contracts with RGS to invest surplus cash in the Investment Trust of California (CalTRUST), a public joint powers authority formed to pool and invest the funds of public agencies.

REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Authority reported an increase in net position of $190,758 for the year ended June 30, 2016. Net operating revenues were $4,741,114 for FY2016, compared to $5,180,503 in FY2015. The decrease in FY2016 revenue reflects the loss of the JPA's largest client in the last quarter of the fiscal year.

Operating expenses went down reflecting the drop in the employees in the JPA and administrative fees paid to RGS. This category includes all costs related to payroll and employee benefits, as well as general and administrative expenses.

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

	2014	2015	2016	Change	Percent Change
Operating Revenues:					
Charges for services	$ 4,978,110	$ 5,180,503	$ 4,741,114	$ (439,389)	-8%
Operating Expenses:					
Salaries and benefits	3,792,964	3,919,936	3,685,510	(234,426)	-6%
Administration	1,126,968	1,118,757	864,846	(253,911)	-23%
Total Operating Expenses	4,919,932	5,038,693	4,550,356	(488,337)	-10%
Operating Income (Loss)	58,178	141,810	190,758	48,948	35%
Prior Period Adjustment	-	(523,981)	-	523,981	-100%
Beginning Net Position	859,471	917,649	535,478	(382,171)	-42%
Ending Net Position	$ 917,649	$ 535,478	$ 726,236	$ 190,758	36%

CAPITAL ASSETS

At June 30, 2016, the Authority had no capital assets, no depreciation expenses and no immediate plans to acquire capital assets in the future.

ECONOMIC FACTORS AND BUDGET

The Authority is a unique government agency, in that it is 100% fee-for-service driven AND that it provides general and administrative services to 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.

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 began with no clients and no employees, and has since served 12 client agencies. Prior year revenues exceeded $5 million and staffing reached 50 employees. In the current year, due to CalPERS actions, the Authority has two active clients and 10 employees. LGS initially had to borrow start-up funds, and now has approximately $808,531 in net equity from operations before GASB 68 adjustments. The Authority decided to suspend taking on additional client partner agency work, pending resolution of issues raised during a CalPERS audit begun in December 2012. This process is expected to take years more to resolve, before adjustments, if any, can be made and new clients considered. FY2016 was a year of focusing on improving its efficiency and services to existing client agencies.

The FY2017 budget reflects continued CalPERS audit costs, client revenue reduction, and a projected $42,000 operating loss.

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

BASIC FINANCIAL STATEMENTS

LOCAL GOVERNMENT SERVICES AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Current Assets:		
Cash and investments	$ 2,133,840	$ 2,234,613
Accounts receivable	180,485	321,027
Prepaid expenses	3,346	1,223
Total Current Assets	2,317,671	2,556,863
Deferred Outflows of Resources:		
Pension related	669,082	405,765
LIABILITIES		
Current Liabilities:		
Accounts payable	64,784	160,595
Due To Other Governments	1,292,649	1,292,649
Unearned revenue	14,500	14,500
Total Current Liabilities	1,371,933	1,467,744
Non-Current Liabilities:		
Compensated absences	137,207	166,723
Unemployment claims payable	-	8,391
Net pension liability	560,643	592,858
Total Noncurrent Liabilities	697,850	767,972
Total Liabilities	2,069,783	2,235,716
Deferred Inflows of Resources:		
Pension related	190,734	191,434
NET POSITION		
Unrestricted	$ 726,236	$ 535,478

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, 2016 AND 2015

	2016	2015
Operating Revenues:		
Charges for services	$ 4,741,114	$ 5,180,503
Operating Expenses:		
Salaries and benefits	3,685,510	3,919,936
Administration	864,846	1,118,757
Total Operating Expenses	4,550,356	5,038,693
Operating Income (Loss)	190,758	141,810
Beginning Net Position, As originally reported	535,478	917,649
Prior period adjustment	-	(523,981)
Beginning Net Position, As restated	535,478	393,668
Ending Net Position	$ 726,236	$ 535,478

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, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Cash received for services	$ 4,881,656	$ 4,930,702
Cash paid to suppliers for goods and services	(971,171)	(760,674)
Cash paid for employees services	(4,011,258)	(4,131,627)
Net cash provided (used) by operating activities	(100,773)	38,401
Cash and cash equivalents, beginning of year	2,234,613	2,196,212
Cash and cash equivalents, end of year	$ 2,133,840	$ 2,234,613

	2016	2015
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$ 190,758	$ 141,810
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Decrease (increase) in:		
Accounts receivable	140,542	(99,801)
Prepaid expenses	(2,123)	2,881
Deferred outflows	(263,317)	(405,765)
Increase (decrease) in:		
Accounts payable	(95,811)	29,162
Employee benefits payable	-	(8,000)
Unearned revenue	-	(150,000)
Due to other governments	-	317,649
Compensated absences	(29,516)	27,647
Unemployment claims payable	(8,391)	8,391
OPEB liability	-	(85,884)
Net pension liability	(32,215)	68,877
Deferred inflows	(700)	191,434
Net cash provided by operating activities	$ (100,773)	$ 38,401

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

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 Larkspur, the Association of Bay Area Governments (ABAG), the Town of Yountville, the City of Dublin and the City of Walnut Creek. A four member board consisting of one representative from each member controls the Authority. None of the member entities exercise specific control over budgeting and financing of the 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.

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, 2016 and 2015 consisted of CalTRUST Funds in the amount of $2,133,840 and $2,234,613, respectively. The cash and investments are held by Regional Government Services Authority as a fiduciary on behalf of the Authority (See Note 8 – Related Party Transactions).

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

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements at June 30, 2016 are as follows:

Description	Level 1	Level 2	Level 3	Total
US Agency, Treasury & Municipal Notes (USATM):				
US Agency Notes:	$ 25,265	$ -	$ -	$ 25,265
Notes/Discount Notes FFCB	161,962	-	-	161,962
Notes/Discount Notes FHLB	134,569	-	-	134,569
Notes/Discount Notes FNMA	46,881	-	-	46,881
Notes/Discount Notes FHLMC	525,807	-	-	525,807
US Treasury Notes:	265,673	-	-	265,673
Corporate Bonds	740,367	-	-	740,367
Asset Back Securities	-	231,296	-	231,296
Money Market Accounts	-	2,019	-	2,019
Total	$ 1,900,524	$ 233,316	$ -	$ 2,133,840

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, 2016.

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, 2016:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Compensated absences	$ 166,723	$ -	$ 29,516	$ 137,207
Unemployment claims	8,391	-	8,391	-
Net Pension Liability	592,858	-	32,215	560,643
Total	$ 767,972	$ -	$ 70,122	$ 697,850

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.

The Plan’s provisions and benefits in effect at June 30, 2016, 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%	2%
Required employee contribution rates	7%	6%
Required employer contribution rates	8.512%	6.237%

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, 2016, the contributions recognized as part of pension expense for the Plan were $209,195.

4. EMPLOYEE RETIREMENT PLAN (CONTINUED)

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

As of June 30, 2016, Local Government Services Authority reported net pension liabilities for its proportionate share of the net pension liability of the Plans' of $560,643.

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, 2015, 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, 2014 rolled forward to June 30, 2015 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 Authority's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

Proportion - June 30, 2014	0.00953%
Proportion - June 30, 2015	0.03396%
Change - Increase (Decrease)	0.02443%

For the year ended June 30, 2016, the Authority recognized pension expense of $79,371. At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 209,195	$ -
Changes in assumptions	-	(172,315)
Differences between expected and actual experiences	18,213	-
Change in employer's proportion and differences between proportionate share of contributions	-	509,639
Net differences between projected and actual earnings on plan investments	441,674	(528,058)
Total	$ 669,082	$ (190,734)

4. EMPLOYEE RETIREMENT PLAN (CONTINUED)

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, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Deferred Outflows/(Inflows) of Resources	
2017	$	76,286
2018	$	76,286
2019	$	76,286
2020	$	57,573
2021	$	(17,277)
Thereafter		-

Actuarial Assumptions

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.50% (2)
Mortality	(3)

(1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses and administrative expenses, including inflation
(3) Derived using CalPERS' Membership Data for all Funds

4. EMPLOYEE RETIREMENT PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.65% 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 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 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.

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%
Total	100%		

(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	$ 940,237	$ 560,643	$ 247,244

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, 2016, the Authority had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

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, 2016 and 2015 were $146,732 and $160,405, 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. Contributions by the Authority to the plan for the years ended June 30, 2016 and 2015 were $1,145 and $0, 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 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. EMPLOYEE BENEFITS PAYABLE

Effective January 1, 2014, the Authority implemented a Health Reimbursement Account (HRA) plan. All employees in the Authority’s previously offered Other Postemployment Benefits (OPEB) plan have opted out and are now enrolled in the HRA plan. During the year ended June 30, 2015, the last remaining employee in the OPEB plan opted out. 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.

6. EMPLOYEE BENEFITS PAYABLE (CONTINUED)

The Authority contracts with MidAmerica Administrative and Retirement Solutions to administer its HRA plan. The Authority funds the Plan fully each year, as vesting and subsequent years of service requirements are met. The Authority had no liability for payments to the health reimbursement account and all funding requirements had been met at June 30, 2016 and 2015.

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, 2016 and 2015 were $0 and $317,649, respectively, in response to 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, 2016 is as follows:

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

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.

8. 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, 2016 and 2015 were $744,722 and $776,111, respectively. RGSA also holds cash and investments on behalf of the Authority. At June 30, 2016 and 2015, the amounts held on behalf of the Authority were $2,133,840 and $2,234,613, respectively.

9. 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.

10. SUBSEQUENT EVENTS

Local Government Services Authority's management evaluated its June 30, 2016 financial statements for subsequent events through November 9, 2016, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

LOCAL GOVERNMENT SERVICES AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

JUNE 30, 2016

Classic Plan

	June 30, 2014 (1)	June 30, 2015 (1)
Proportion of the net pension liability	0.00951%	0.00092%
Proportionate share of the net pension liability (asset)	$ 591,885	$ 564,960
Covered-employee payroll (2)	$ 2,518,450	$ 1,818,218
Proportionate Share of the net pension liability as percentage of covered-employee payroll	23.50%	31.07%
Plans fiduciary net position as a percentage of the total pension liability	82.98%	79.89%
Proportionate share of aggregate employer contributions (3, 4)	$ 78,061	$ 106,519

PEPRA Plan

	June 30, 2014 (1)	June 30, 2015 (1)
Proportion of the net pension liability	0.00002%	0.03304%
Proportionate share of the net pension liability (asset)	$ 973	$ (4,317)
Covered-employee payroll (2)	$ 386,061	$ 595,750
Proportionate Share of the net pension liability as percentage of covered-employee payroll	0.25%	-0.72%
Plans fiduciary net position as a percentage of the total pension liability	83.03%	79.89%
Proportionate share of aggregate employer contributions (3, 4)	$ 129	$ 3,489

(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. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the discolsure footnotes the payroll based on total earnings for the covered group and recalculated the required payroll-related ratios.

(3) The plan's proportionate share of aggregate contributions may not match the actual contributions 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

(4) This data is not required to be displayed by GASB 68 for employers participating in cost-sharing plans, but it is being shown here because it is used in the calculation of the Plan's pension expense.

LOCAL GOVERNMENT SERVICES AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS

JUNE 30, 2016

Classic Plan

	Fiscal Year 2013-14 [1]	Fiscal Year 2014-15 [1]
Actuarially Determined Contribution (2)	$ 236,486	$ 214,041
Contributions in relation to the actuarially determined contributions	(236,486)	(214,041)
Contribution deficiencey (excess)	$ -	$ -
Covered-employee payroll (3)	$ 2,518,450	$ 1,818,218
Contributions as a percentage of covered-employee payroll (3)	9.39%	11.772%

PEPRA Plan

	Fiscal Year 2013-14 [1]	Fiscal Year 2014-15 [1]
Actuarially Determined Contribution (2)	$ 48,814	$ 70,132
Contributions in relation to the actuarially determined contributions	(48,814)	(70,132)
Contribution deficiencey (excess)	$ -	$ -
Covered-employee payroll (3)	$ 386,061	$ 595,750
Contributions as a percentage of covered-employee payroll (3)	12.64%	11.772%

(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) GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

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, 2016 and 2015, 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 9, 2016.

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.

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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 9, 2016