

LGS EXECUTIVE COMMITTEE AGENDA

Agenda materials may be viewed on the Agency's web site or by contacting the Executive Director prior to the meeting.

REGULAR MEETING

November 17, 2016

10:45 a.m. or immediately following the preceeding meeting,
whichever is earlier

Yountville Community Center

Art Room

6516 Washington Street
Yountville, CA 94599

1. CALL TO ORDER / ROLL CALL

2. PUBLIC COMMENT

Each speaker is limited to two minutes. If you are addressing the Executive Committee (EC) on a non-agenda item, the EC may briefly respond to statements made or questions posed as allowed by the Brown Act (Government Code Section 54954.2). However, the EC's general policy is to refer items to staff for attention, or have a matter placed on a future EC agenda for a more comprehensive action or report.

3. APPROVAL OF CONSENT AGENDA

Consent agenda items are considered to be routine and will be enacted by one motion. There will be no separate discussion on these items unless members of the Executive Committee, staff or public request specific items to be removed for separate action.

- A. Approval of **September 15, 2016** Minutes *Action*
- B. Acceptance of LGS Position Listings
- C. Approval of Regularly Scheduled Meetings Calendar
- D. Approval of Payments and Deposits made September 2016 through October 2016

4. TREASURER'S REPORT

- A. Review of Preliminary Fiscal-Year-To-Date Financial Reports through September 2016 *Information*
- B. Approval of Independently Audited FY2016 Audited Financial Statements *Action*

5. OLD BUSINESS

Recess to Closed Session

1. CONFERENCE WITH LEGAL COUNSEL--ANTICIPATED LITIGATION

Initiation of litigation pursuant to Government Code Section 54956.9(d)(4): One potential case.

Reconvene Regular Meeting

- A. Report from Closed Session *Information*

6. NEW BUSINESS

- A. Approval of Auditor RFP and Authorization to Issue RFP *Action*

7. EXECUTIVE DIRECTOR AND MEMBER REPORTS

- A. Executive Director: long-term JPA functioning model
- B. Members:

7. ADJOURN

The next Regular Meeting will take place on February 16, 2017 at 1:00 p.m. in Dublin.

Americans with Disabilities Act

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact Richard Averett at (650) 587-7301. Notification in advance of the meeting will enable Agency to make reasonable arrangements to ensure accessibility.

**LOCAL GOVERNMENT SERVICES AUTHORITY
EXECUTIVE COMMITTEE MINUTES
SEPTEMBER 15, 2016**

The Local Government Services Authority held a regular meeting of the Executive Committee on September 15, 2016 at the Leshner Center for the Arts Encore Room. The meeting was called to order at 1:20 p.m.

1. CALL TO ORDER

Members Present: Steve Rogers, Chair
Mike Garvey, Member
Ken Nordhoff, Member
Dan Schwarz, Member
Julie Carter, Alternate Member

Other Attendees: Richard Averett, Executive Director
Jennifer Bower, Director of Administrative Services
Briana Overgaard, Keenan and Associates
Peter McNamara, Keenan and Associates
Sky Woodruff, JPA General Counsel
Scott Kivel, JPA Special Counsel

2. PUBLIC COMMENT – None

3. APPROVAL OF CONSENT AGENDA

- A. Approval of **May 19, 2016** Minutes
- B. Acceptance of LGS Position Listings
- C. Approval of Payments and Deposits made April 2016 through August 2016
 - Action:** Moved and seconded (Garvey/Nordhoff) to approve consent agenda.
 - AYES:** Rogers, Garvey, Nordhoff, Schwarz, Carter
 - NOES:** None
 - ABSTAIN:** None

4. TREASURER’S REPORT

- A. Review of Preliminary Fiscal-Year-To-Date Financial Reports through June 2016
Executive Director Averett reviewed the preliminary year-to-date financial reports, noting that the JPA’s negative financial performance was better than expected, considering the impact that CalPERS is having on legal, staff and other costs, as well as lost revenue. The full impact of lost revenue (with staff being down approximately 71%) will be realized in this fiscal year. This is an information item and no action was taken.

5. OLD BUSINESS – None

6. NEW BUSINESS – None

7. ADJOURNMENT – The meeting adjourned at 1:28 p.m. The next regular meeting is scheduled for November 17, 2016 at 10:00 a.m. in Yountville.

LGS Position Listings

Job Title	Base Department	Status Fulltime
Advisor	6040-000 - TAM-General Hours	1
Advisor	6040-000 - TAM-General Hours	1
Program Advisor	6040-000 - TAM-General Hours	1
Administrative Support	6040-000 - TAM-General Hours	1
Advisor	6040-000 - TAM-General Hours	1
CEO - Urban	6040-000 - TAM-General Hours	1
Advisor	6040-000 - TAM-General Hours	1
Advisor	6040-000 - TAM-General Hours	1
Technical Assistant	6040-000 - TAM-General Hours	1
	FTE	9
	Employee Count	9

TO: EXECUTIVE COMMITTEE **EC Meeting: 11-17-2016**
FROM: TIFFANY BURAGLIO, Executive Assistant **Item: 3C**
SUBJECT: EXECUTIVE COMMITTEE AND BOARD OF DIRECTORS MEETINGS

Meeting Schedule

The following are regularly scheduled meetings for the upcoming years, along with special topics to be discussed. Quarterly meetings are conducted in person at a Member Agency site on the third Thursday of the month, starting at 1:00 p.m. unless noted below.

Date	EXEC COMM	BOARD	Special Topics	Location	Notes
2016					
November 17-18 (Thursday)	RGS LGS	MSA	FY16 Audited Financial Statements; Workshop: Strategic Planning and Agency 5-Year Goals	Yountville	10:00am 11/17 – 1:00pm 11/18
2017					
February 16 (Thursday)	RGS LGS	MSA	Personnel Rules, Regulations & Policies	Dublin	
May 18 (Thursday)	RGS LGS	MSA	FY18 Budget & MSA rates; Admin & Financial Policies, Conflict of Interest (even years), Executive Director Compensation Committee	Larkspur	
August 17 (Thursday)	RGS LGS	RGS LGS MSA	Election of Officers (all)	Walnut Creek	
November 16 (Thursday)	RGS LGS	MSA	FY17 Audited Financial Statements; Strategic Planning and Agency 5- Year Goals	Yountville	
2018					
February 15 (Thursday)	RGS LGS	MSA	Personnel Rules, Regulations & Policies	Dublin	
May 17 (Thursday)	RGS LGS	MSA	FY19 Budget & MSA rates; Admin & Financial Policies, Conflict of Interest (even years), Executive Director Compensation Committee	Larkspur	
August 16 (Thursday)	RGS LGS	MSA	Election of Officers (all)	Walnut Creek	
November 15 (Thursday)	RGS LGS	MSA	FY18 Audited Financial Statements; Strategic Planning and Agency 5- Year Goals	Yountville	

TO: EXECUTIVE COMMITTEE **EC Meeting: 11-17-2016**
FROM: Richard Averett, CFO **Item: 3D**
SUBJECT: PAYMENTS AND DEPOSITS – SEPTEMBER 2016 THROUGH OCTOBER 2016

RECOMMENDATION

Review and approve expenditures made by the JPA for the period indicated.

BACKGROUND

The Executive Committee reviews and approves expenditures made by the JPA on a quarterly basis. This approval process is a component of JPA internal controls. Deposit history is also included in the list.

The following procedures are being implemented to maintain effective internal controls.

1. Invoices are received by staff.
2. JPA staff review invoices for accuracy and assignment to correct general ledger accounts.
3. The Executive Director or designee reviews, prints and signs/authorizes checks. All payments, including electronic payments, are reviewed by the Executive Director in a weekly disbursement report submitted by the Finance Department. This report contains all disbursements from the previous week. Information provided includes: date of transaction, amount, vendor or recipient, method of payment, identity of first and second staff approvers, and check or journal number.
4. All payments are brought to the next regular meeting of Executive Committee (or Board of Directors) meeting for review and approval.

FISCAL IMPACT

The net impact of all payments and deposits made this period maintains a minimal bank cash balance consistent with meeting funding obligations, while maximizing interest earnings in the Rabobank money market account, in the Local Agency Investment Fund (LAIF) investment pool and in the CalTrust medium term and short term investment pools. Staff seeks to minimize bank charges at all times.

The fiscal impact of approving the attached list of expenditures is included in the approved budget or in subsequently approved action by the Board/Executive Committee.

Local Government Services
 Transaction Detail by Account
 September through October 2016

	Type	Date	Num	Name	Memo	Amount	Balance
110060 - Rabobank Checking							
	General Journal	09/07/2016	1169		8/31/16 net pay	-39,533.94	-39,533.94
	Transfer	09/07/2016			Funds Transfer	39,533.94	0.00
	General Journal	09/08/2016	1170		8/31/16 payroll taxes & fees	-13,500.52	-13,500.52
	Check	09/08/2016	153	California State Disbursement Unit		-336.00	-13,836.52
	Transfer	09/08/2016			Funds Transfer	13,500.52	-336.00
	General Journal	09/12/2016	1171		8/31/16 UTC 401a contributions	-14.58	-350.58
	General Journal	09/12/2016	1171		8/31/16 UTC 457 contributions	-5,880.07	-6,230.65
	Transfer	09/13/2016			Funds Transfer	5,894.65	-336.00
	General Journal	09/15/2016	1195		Calpers Payment 2016-08	-9,216.36	-9,552.36
	Transfer	09/16/2016			Funds Transfer	9,216.36	-336.00
	Transfer	09/20/2016			Funds Transfer	336.00	0.00
	General Journal	09/21/2016	1191		9/15/16 net pay	-39,535.01	-39,535.01
	Transfer	09/21/2016			Funds Transfer	39,535.01	0.00
	General Journal	09/22/2016	1192		9/15/16 payroll taxes & fees	-13,508.31	-13,508.31
	Check	09/22/2016	154	California State Disbursement Unit		-336.00	-13,844.31
	Transfer	09/22/2016			Funds Transfer	13,508.31	-336.00
	General Journal	09/27/2016	1193		9/15/16 UTC 401a contributions	-14.58	-350.58
	General Journal	09/27/2016	1193		9/15/16 UTC 457 contributions	-5,903.07	-6,253.65
	Transfer	09/27/2016			Funds Transfer	5,917.65	-336.00
	General Journal	09/28/2016	1202		GASB 68 FY16-17 Calpers	-1,300.00	-1,636.00
	General Journal	09/29/2016	1200		9/15/16 PERS R Classic contribution Confirm #1000760823	-9,433.84	-11,069.84
	Transfer	09/29/2016			Funds Transfer	1,300.00	-9,769.84
	Transfer	09/30/2016			Funds Transfer	9,769.84	0.00
	General Journal	10/06/2016	1211		9/30/16 net pay	-38,764.23	-38,764.23
	General Journal	10/07/2016	1212		9/30/16 payroll taxes & fees	-12,507.09	-51,271.32
	General Journal	10/12/2016	1229		9/30/16 UTC 457 contributions	-5,884.66	-57,155.98
	General Journal	10/12/2016	1229		9/30/16 UTC 401a contributions	-14.58	-57,170.56
	General Journal	10/17/2016	1232		9/30/16 PERS R Classic contribution Confirm #1000768971	-8,960.69	-66,131.25
	General Journal	10/20/2016	1230		10/15/16 net pay	-50,173.72	-116,304.97
	General Journal	10/21/2016	1231		10/15/16 payroll taxes & fees	-21,784.87	-138,089.84
	General Journal	10/25/2016	1245		10/15/16 UTC 457 contributions	-4,944.70	-143,034.54
	General Journal	10/25/2016	1245		10/15/16 UTC 401a contributions	-14.58	-143,049.12
	General Journal	10/31/2016	1248		10/15/16 PERS R Classic contribution Confirm #1000773454	-9,639.66	-152,688.78
Total 110060 - Rabobank Checking						<u>-152,688.78</u>	<u>-152,688.78</u>
TOTAL						<u>-152,688.78</u>	<u>-152,688.78</u>

TO: EXECUTIVE COMMITTEE
FROM: Jefferson Kise, Finance Manager
SUBJECT: FINANCIAL REPORT ANALYSIS

EC Meeting: 11-17-2016
Item: 4A

RECOMMENDATION

No action is required of the Executive Committee. These are informational, preliminary financial reports through September 2016, and are attached for review.

ANALYSIS

All reports are draft and unaudited. Accruals for earned but not paid leave time are posted to the financials monthly. When cash is received on an advanced billing, it is posted to the deferred revenue liability account. Upon invoicing for services rendered the deferred revenue is reversed and revenue is recognized. There is no impact on net position of the agency.

Fiscal-year-to-date (FYTD), net income for the JPA was negative \$168,157. Sharply reduced client review because of CalPERS actions and related increased legal costs and professional services in response to the on-going CalPERS investigation are the primary causes of this negative FYTD performance. Through the same period, net equity for the JPA was \$558,079, still above the target balance of \$500,000. As a result of the CalPERS audits of our largest client and of LGS, the Agency lost one of this client in the latter months of fiscal year 2016. RGS is continuing to adjust to the decreased LGS revenue, which a part was used to pay for RGS administrative services to LGS. RGS is continuing to adding new work in rebuilding revenues, while taking steps to limit administrative expenses.

Local Government Services
Profit & Loss
 July through September 2016

	<u>Jul 16</u>	<u>Aug 16</u>	<u>Sep 16</u>	<u>TOTAL</u>
Ordinary Income/Expense				
Income				
440301 · Client Billings	182,730	196,940	193,130	572,800
480000 · Miscellaneous	342	3,295	2,310	5,947
Total Income	<u>183,072</u>	<u>200,235</u>	<u>195,440</u>	<u>578,747</u>
Gross Profit	183,072	200,235	195,440	578,747
Expense				
511010 · Salaries - Regular	112,661	115,810	116,703	345,174
511072 · Salaries non-billable	9,459	(4,322)	7,420	12,558
512002 · Medicare Employer Expense	1,610	1,656	1,663	4,929
512004 · Employee Assistance Program	72	-	36	109
512005 · Health Insurance Expense	12,497	12,497	12,497	37,492
512006 · Dental Insurance Expense	1,276	1,276	1,276	3,828
512007 · Vision Insurance Expense	203	203	203	608
512008 · Life Insurance Expense	196	196	197	590
512009 · Long Term Disability Expense	224	224	225	673
512010 · Stars 401A Expense	29	29	29	87
512012 · Calpers Retirement Expense	22,766	23,711	25,714	72,191
512014 · Short Term Disability Expense	191	191	191	573
512018 · FSA Health & Day Care Expense	57	42	43	143
512019 · Employee Expense Allowances	400	400	-	800
520107 · APS (ADP) Payroll Fees	203	203	203	608
520109 · Communications - Employee Reimb	342	-	286	628
520204 · Printing & Postage	782	2,496	-	3,278
520302 · Legal Services	23,324	4,867	29,434	57,625
520320 · Professional Services	5,000	500	5,750	11,250
520503 · Conferences & Meetings	-	-	229	229
520803 · Travel Reimbursement	-	-	466	466
520805 · Supplies and Meals	-	-	105	105
522798 · Miscellaneous Expense	-	-	-	-
529997 · Administrative Services - RGS	26,929	25,000	79,034	130,963
Total Expense	<u>218,221</u>	<u>184,978</u>	<u>281,705</u>	<u>684,905</u>
Net Ordinary Income	(35,149)	15,256	(86,265)	(106,158)
Other Income/Expense				
Other Expense				
529994 · Allowed OPEB / HRA Expense	20,333	20,833	20,833	61,999
529998 · Allocated Admin. Services	64,826	29,786	123,449	218,062
529999 · Allocated Unbillable Expenses	(64,826)	(29,786)	(123,449)	(218,062)
Total Other Expense	<u>20,333</u>	<u>20,833</u>	<u>20,833</u>	<u>61,999</u>
Net Other Income	<u>(20,333)</u>	<u>(20,833)</u>	<u>(20,833)</u>	<u>(61,999)</u>
Net Income	<u><u>(55,482)</u></u>	<u><u>(5,577)</u></u>	<u><u>(107,098)</u></u>	<u><u>(168,157)</u></u>

Local Government Services
Balance Sheet
 As of September 30, 2016

	<u>Sep 30, 16</u>
ASSETS	
Current Assets	
Accounts Receivable	
131320 · Accounts Receivable - Trade	230,217
Total Accounts Receivable	<u>230,217</u>
Other Current Assets	
143006 · Due from RGS	1,984,132
150006 · Prepaid Expenses	49,788
150007 · Prepaid Insurance	8
Total Other Current Assets	<u>2,033,928</u>
Total Current Assets	2,264,145
Other Assets	
170000 · Deferred Outflows	669,082
Total Other Assets	<u>669,082</u>
TOTAL ASSETS	<u><u>2,933,227</u></u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Other Current Liabilities	
2100*OE · Payroll Liabilities	0
214071 · Claims Reserve Payable MSA	1,292,649
221001 · Calpers Retirement Liab	10,146
221003 · 457/401A Retirement Liab	5,899
221006 · FSA Health & Day Care	771
221015 · Health Insurance Liability	-1,158
221016 · Long Term Disability Liability	-3
221017 · Short Term Disability Liability	0
221023 · Dental Insurance Liability	-245
221024 · Vision Insurance Liability	-108
221025 · Life Insurance/AD&D Liability	-1
221026 · Child Support IWO	336
221028 · Misc Benefits Liability	13
221029 · Garnishments	539
230060 · Accrued Salaries, Wages & Taxes	51,170
240010 · Deferred Revenue	154,500
240011 · Refundable Deposits	0
250001 · Accrued Vacation	149,765
250002 · Contra Vacation, Sick and Admin	0
Total Other Current Liabilities	<u>1,664,273</u>
Total Current Liabilities	1,664,273
Long Term Liabilities	
260003 · Health Reimbursement Account	-40,501
270000 · Net Pension Liability	560,643
280000 · Deferred Inflows	190,734
Total Long Term Liabilities	<u>710,876</u>
Total Liabilities	2,375,149
Equity	
32000 · Retained Earnings	-84,664
370000 · Fund Bal Unreserved/Unrestrictd	1,334,881
380000 · Prior Period Adjustment	-523,981
Net Income	-168,157
Total Equity	<u>558,079</u>
TOTAL LIABILITIES & EQUITY	<u><u>2,933,228</u></u>

TO: EXECUTIVE COMMITTEE **EC Meeting: 11-17-2016**
FROM: RICHARD AVERETT, Executive Director/CFO **Item: 4B**
**SUBJECT: APPROVAL OF AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR
ENDING JUNE 30, 2016**

RECOMMENDATION

Review and approve the independent audit reports for fiscal year (FY) 2016.

BACKGROUND

The outside audit firm of James Marta and Company was retrained to complete the FY2016 audit. The June 30, 2016 audited financial statements for the JPA, along with the audit report and Management Letter are included. Audited financial statements are also posted to the JPA web site.

AUDIT RESULTS

Audit results are summarized below, with more information and analysis in the Management Discussion and Analysis section of the audit report. The FY2016 results reflect the continuing expenses and revenue decline resulting from the CalPERS audit.

LGS FINANCIAL HIGHLIGHTS

- In the fiscal year ended June 30, 2016, the Authority's net profit of \$190,758 is an improvement from the profit of \$141,810 in the prior fiscal year. 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.
- Revenues from client reimbursements for services provided decreased \$439,389 in FY2016 from the FY2015.

Net Assets at the end of the fiscal year are \$726,236, above the minimum target of \$500,000.



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**

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

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

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

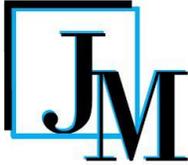
Executive Director

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.

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

LOCAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015

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.

LOCAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015

THE STATEMENT OF NET POSITION

The Statement of Net Position details the Authority's assets, liabilities and the difference between them, known as net position, at the end of the fiscal years June 30, 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.

LOCAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015

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.

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Change</u>	<u>Percent Change</u>
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	<u>1,503,893</u>	<u>2,235,716</u>	<u>2,069,783</u>	<u>(165,933)</u>	<u>-7%</u>
Deferred Inflow of Pension Resources	-	191,434	190,734	\$ (700)	0%
Net Position Unrestricted	<u>\$ 917,649</u>	<u>\$ 535,478</u>	<u>\$ 726,236</u>	<u>\$ 190,758</u>	<u>36%</u>

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.

LOCAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Change</u>	<u>Percent Change</u>
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	<u>4,919,932</u>	<u>5,038,693</u>	<u>4,550,356</u>	<u>(488,337)</u>	<u>-10%</u>
Operating Income (Loss)	58,178	141,810	190,758	48,948	35%
Prior Period Adjustment	-	(523,981)	-	523,981	-100%
Beginning Net Position	<u>859,471</u>	<u>917,649</u>	<u>535,478</u>	<u>(382,171)</u>	<u>-42%</u>
Ending Net Position	<u>\$ 917,649</u>	<u>\$ 535,478</u>	<u>\$ 726,236</u>	<u>\$ 190,758</u>	<u>36%</u>

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.

LOCAL GOVERNMENT SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015

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

	<u>2016</u>	<u>2015</u>
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	<u>2,317,671</u>	<u>2,556,863</u>
Deferred Outflows of Resources:		
Pension related	<u>669,082</u>	<u>405,765</u>
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	<u>1,371,933</u>	<u>1,467,744</u>
Non-Current Liabilities:		
Compensated absences	137,207	166,723
Unemployment claims payable	-	8,391
Net pension liability	560,643	592,858
Total Noncurrent Liabilities	<u>697,850</u>	<u>767,972</u>
Total Liabilities	<u>2,069,783</u>	<u>2,235,716</u>
Deferred Inflows of Resources:		
Pension related	<u>190,734</u>	<u>191,434</u>
NET POSITION		
Unrestricted	<u>\$ 726,236</u>	<u>\$ 535,478</u>

LOCAL GOVERNMENT SERVICES AUTHORITY

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

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015**

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

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
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

LOCAL GOVERNMENT SERVICES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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.

LOCAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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.

LOCAL GOVERNMENT SERVICES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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.

LOCAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>\$ 1,900,524</u>	<u>\$ 233,316</u>	<u>\$ -</u>	<u>\$ 2,133,840</u>

LOCAL GOVERNMENT SERVICES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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	<u>\$ 767,972</u>	<u>\$ -</u>	<u>\$ 70,122</u>	<u>\$ 697,850</u>

LOCAL GOVERNMENT SERVICES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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:

	<u>Prior to</u> <u>January 1, 2013</u>	<u>On or after</u> <u>January 1, 2013</u>
Hire date		
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.

LOCAL GOVERNMENT SERVICES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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)

LOCAL GOVERNMENT SERVICES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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

LOCAL GOVERNMENT SERVICES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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.

LOCAL GOVERNMENT SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10(a)</u>	<u>Real Return Years 11+(b)</u>
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	<u>100%</u>		

(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:

	<u>Discount Rate - 1% (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>Discount Rate + 1% (8.50%)</u>
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.

LOCAL GOVERNMENT SERVICES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 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, 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.

LOCAL GOVERNMENT SERVICES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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	<u>\$ 2,134,982</u>
Revenues	\$ 657,000
Expenses	212,846
Change in Net Postion	<u>\$ 444,154</u>

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

LOCAL GOVERNMENT SERVICES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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 disclosure 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 period.
- (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 deficiency (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 deficiency (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.

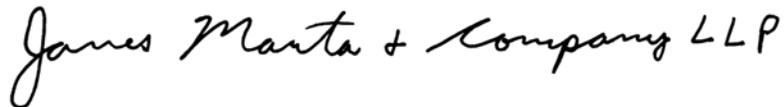
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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.

Compliance and Other Matters

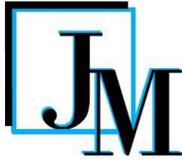
As part of obtaining reasonable assurance about whether Local Government Services Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have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

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

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 9, 2016



James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of Directors
Local Government Services Authority
Carmel Valley, California

We have audited the basic financial statements of Local Government Services Authority (the Authority) for the years ended June 30, 2016 and 2015, and have issued our report thereon dated November 9, 2016. Professional standards require that we communicate certain matters to you related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As communicated in our engagement letter dated February 2, 2016, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Authority solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate and our firm have complied with all relevant ethical requirements regarding independence.

We follow the AICPA Ethics Standard Rule 201C, in conjunction with this, we annually review with all engagement staff potential conflicts and obtain a conflict certification. In addition, we inquire on each engagement about potential conflicts with staff. We have not identified any relationships or other matters that in the auditor's judgment may be reasonably thought to bear on independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Change in Accounting Principle

The Authority implemented GASB Statement No. 68 – Accounting and Financial Reporting for Pensions, for the year ended June 30, 2015. This standard establishes new requirements for governments to report a “net pension liability” for the unfunded portion of its pension plan. Governments that participate in a cost sharing plan report a liability for their “proportionate share” of the net pension liability of the entire system. The effects of the implementation of this standard are a decrease in net position as of July 1, 2014 of \$523,981, and recognition of net pension liability of \$592,858, deferred outflows of \$405,765 and deferred inflows of \$191,434 for the year ended June 30, 2015.

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Authority is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the fiscal year ended June 30, 2016. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. However, we have identified new accounting standards that will be applicable in subsequent years and are included in Attachment I.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The most significant estimates are those regarding your net pension liability.

Management's estimate of the net pension liability is based on an actuarial study performed during the year. We evaluated the key factors and assumptions used to develop the net pension liability and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Authority's financial statements relate to accounting policies affecting the net pension liability.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. There were no uncorrected misstatements identified as a result of our audit procedures.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. In the current year, no uncorrected misstatements were identified as a result of our audit procedures. All adjustments were presented to us by management. These adjustments are summarized in Attachment II, *Adjusting Journal Entries Report*.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Authority's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated November 9, 2016. See attachment III.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Findings or Issues

In the normal course of our professional association with the Authority, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Authority, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Authority's auditors.

Other Services

We have assisted management in preparing the financial statements of the Authority in conformity with U.S. generally accepted accounting principles based on information provided by management.

Management's responsibilities for other services included designating qualified individuals with the skill, knowledge, and experience to be responsible and accountable for overseeing financial statement preparation and any other nonattest services we performed as part of this engagement. Management has represented that they have evaluated the adequacy and results of those services and is accepting responsibility for them.

This report is intended solely for the use of the Board of Directors and management of Local Government Services Authority and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 9, 2016

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the Authority in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the Authority. For the complete text of these and other GASB standards, visit www.gasb.org and click on the “Standards & Guidance” tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

GASB 72 - Fair Value Measurement and Application

Effective for the fiscal year ending June 30, 2016

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB 73 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68

Effective for the fiscal year ending June 30, 2017

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans* and Statement 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

GASB 74 Financial Reporting for Postemployment Benefits Other Than Pension Plans (OPEB)

Effective for the fiscal year ending June 30, 2017

This standard establishes the requirements for other postemployment benefit plans administered by trusts to report on their operations, including setting new uniform requirements for actuarial valuations of the total OPEB liability, and reporting various 10-year trend data as required supplementary information. The financial statements of pension plans will not change substantially as a result of GASB 74, though the additional note disclosures and required supplementary information will be significant. Additionally, actuarial valuations conducted in accordance with GASB 74 will have to match the government’s fiscal year, or be rolled forward to that date by the actuary.

Because the Authority no longer offers postemployment benefits, we do not expect GASB 74 to have any significant impact on the Authority at this time.

GASB 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions
Effective for the fiscal year ending June 30, 2018

This standard establishes new requirements for governments to report a “net OPEB liability” for the unfunded portion of its other postemployment benefits, which includes retiree medical benefits.

Historically, governments have only been required to report a net OPEB liability to the extent that they have not met the annual required contribution (ARC) in any given year. Upon implementation of this standard, governments will be required to report a net OPEB liability based on the current funded status of their OPEB plans. Changes in this liability from year to year will largely be reflected on the income statement, though certain amounts will be deferred and amortized over varying periods.

Because the Authority does no longer offers postemployment benefits, we do not expect GASB 75 to have any significant impact on the Authority at this time.

GASB 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

Effective for the fiscal year ending June 30, 2016

The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

GASB 77 - Tax Abatement Disclosures

Effective for the fiscal year ending June 30, 2016

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

GASB 78 – Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans
Effective for the fiscal year ended June 30, 2016

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

GASB 79 – Certain External Investment Pools and Pool Participants
Effective for the fiscal year ended June 30, 2016

This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes.

Because the investment pool the Authority participates in does not meet the criteria within GASB 79, we do not expect GASB 79 to have any significant impact on the Authority at this time.

GASB 80 – Blending Requirements for Certain Component Units – an amendment of GASB 14
Effective for the fiscal year ended June 30, 2017

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

Because the Authority is not a component unit, nor does it have any component units, we do not expect GASB 80 to have any significant impact on the Authority at this time.

GASB 81 – Irrevocable Split-Interest Agreements
Effective for the fiscal year ended June 30, 2017

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

Because the Authority is not involved in an irrevocable split-interest agreement, we do not expect GASB 81 to have any significant impact on the Authority at this time.

GASB 82 – Pension Issues – an amendment of GASB Statements 67, 68 and 73

Effective for the fiscal year ended June 30, 2017

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

Adjusting Journal Entries

Adjusting Journal Entries JE # 2

Booked in order to agree CY beginning net position to PY audited ending balance

522798	Miscellaneous Expense	6,201.00	
32000	Retained Earnings		6,201.00
Total		6,201.00	6,201.00

Adjusting Journal Entries JE # 4

PBC - To accrue additional vacation payable due to miscalculation for one individual

511072	Salaries non-billable	288.00	
250001	Accrued Vacation		288.00
Total		288.00	288.00

Adjusting Journal Entries JE # 5

To record Net Pension Liability activity for 15-16

170000	Deferred Outflows	263,317.00	
270000	Net Pension Liability	32,215.00	
280000	Deferred Inflows	700.00	
512012	Calpers Retirement Expense		296,232.00
Total		296,232.00	296,232.00

Reclassifying Journal Entries

Reclassifying Journal Entries JE # 1

To reclassify CalTRUST funds held by RGSA on behalf of LGSA

110040	CalTRUST Med Term Fund	2,133,840.00	
143006	Due from RGS		2,133,839.00
32000	Retained Earnings		1.00
Total		2,133,840.00	2,133,840.00

Reclassifying Journal Entries JE # 3

Reclassification of overpayments of liabilities shown as debit payable balances

150007	Prepaid Insurance	3,338.00	
221015	Health Insurance Liability		2,877.00
221023	Dental Insurance Liability		380.00
221024	Vision Insurance Liability		81.00
Total		3,338.00	3,338.00

Passed Journal Entries

None.

MANAGEMENT REPRESENTATION LETTER

November 9, 2016

James Marta & Company LLP
Certified Public Accountants
Sacramento, California

This representation letter is provided in connection with your audit of the Statement of Net Position of Local Government Services Authority as of June 30, 2016 and 2015 and for the years then ended, and the related Statement of Revenues, Expenses and Changes in Net Position, Cash Flows and notes to the financial statements, for the purpose of expressing an opinion on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of Local Government Services Authority in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of November 9, 2016:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 2, 2016, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility for 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes and acknowledge the auditor's role in the preparation of this information.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- We have reviewed and approved the adjusting and reclassifying journal entries reflected in the audit statements (Attachment A).
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.

- All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
- All net position components and fund balance classifications have been properly reported.
- All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
- All interfund and intra-entity transactions and balances have been properly classified and reported.
- Special items and extraordinary items have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- All required supplementary information is measured and presented within the prescribed guidelines.
- With regard to investments and other instruments reported at fair value:
 - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

Information Provided

- We have provided you with:
 - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- Local Government Services Authority has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which Local Government Services Authority is contingently liable.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and*

Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
 - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
 - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62
- Local Government Services Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit, or similar arrangements have been properly disclosed.

Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements:

- We acknowledge our responsibility for the presentation of the required supplementary information in accordance with U.S. GAAP.
- We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with U.S. GAAP.
- The methods of measurement or presentation have not changed from those used in the prior period.
- We believe the following significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances:

<i>Significant Assumption or Interpretation</i>	<i>Basis for Assumption or Interpretation</i>
Pension and Other Postemployment Benefit Liabilities	Actuarially Accrued

Use of a Specialist

We agree with the findings of specialists in evaluating the pension and other postemployment benefit liabilities and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.



Richard Averett, Executive Director



Jefferson B Kise, Finance and Operations Manager

ATTACHMENT I – JOURNAL ENTRY REPORT

Adjusting Journal Entries

Adjusting Journal Entries JE # 2			
Booked in order to agree CY beginning net position to PY audited ending balance			
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32000	Retained Earnings		6,201.00
Total		6,201.00	6,201.00

Adjusting Journal Entries JE # 4			
PBC - To accrue additional vacation payable due to miscalculation for one individual			
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250001	Accrued Vacation		288.00
Total		288.00	288.00

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221015	Health Insurance Liability		2,877.00
221023	Dental Insurance Liability		380.00
221024	Vision Insurance Liability		81.00
Total		3,338.00	3,338.00

Proposed Journal Entries

None.

TO: EXECUTIVE COMMITTEE **EC Meeting: 11-17-2016**
FROM: RICHARD AVERETT, Executive Director/CFO **Item: 6A**
SUBJECT: REQUEST FOR PROPOSALS – INDEPENDENT AUDIT SERVICES

RECOMMENDATION

Approve the RFP for independent audit services and authorize staff to issue the RFP.

BACKGROUND

The independent audit relies on the auditor's assessment of the Authority's control procedures and financial statement disclosures. The Board approved an Auditor Rotation Policy May 17, 2012, recognizing that changing the independent auditing firm periodically provides the Authority with a fresh approach to testing risk. The Policy provides for a three-year contract with up to a two-year extension.

The Audit Rotation Policy requires a competitive process for the selection of the Authority's auditors. In accordance with the policy, staff is submitting the following RFP for review and approval. There are no proposed substantive changes to the RFP issued in 2013.

The contract period is three years with the option to extend two additional years. The RFP would be issued November 28, 2016 with a deadline for submission on December 23, 2016. It is anticipated that the Board or designated Committee would select an audit firm by January 27, 2017. The successful proposer will conduct the 2016-2017 Audit.

FISCAL IMPACT

There is no fiscal impact of approving and authorizing staff to release the RFP for audit services. Funds for the annual audits were included in the annual budget. Total fees for the FY2016 RGS, LGS and MSA audits were \$28,800 combined.

**Regional Government Services Authority
Local Government Services Authority
Municipal Services Authority**

**REQUEST FOR PROPOSALS
FOR PROFESSIONAL AUDITING SERVICES
(Issued: November 28th, 2016)**

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Supporting schedule for Total All Inclusive Price

Regional Government Services (RGS), Local Government Services (LGS), and Municipal Services Authority (MSA), Joint Powers Authorities

REQUEST FOR PROPOSALS
FOR PROFESSIONAL AUDITING SERVICES

I. INTRODUCTION

A. General Information

The Regional Government Services Authority (RGS), Local Government Services Authority (LGS), and Municipal Services Authority (MSA), three Joint Powers Authorities - aka “the Authorities” - are requesting proposals from qualified firms of certified public accountants to audit their annual financial statements for the fiscal years ending June 30, 2017 through June 30, 2019, with the option for the Authorities’ Boards of Directors to extend the agreement for up to two additional fiscal years, through the year ending June 2021.

These audits are to be performed in accordance with generally accepted auditing standards and the standards set for financial audits contained in Governmental Auditing Standards (1994) issued by the Comptroller General of the United States, the provisions of the Federal Single Audit Act as amended in 1996, and U.S. Office of Management and Budget (OMB) Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations.

There is no express or implied obligation for the Authorities to reimburse responding firms for any expenses incurred in preparing proposals in response to this request.

For a firm to be considered, the Authorities must receive their proposal in PDF format, via e-mail by **Noon Friday, December 23, 2016** at jkise@rgs.ca.gov. Subject Line: Proposal for Professional Audit Services.

The Authorities reserve the right to reject any and all proposals submitted.

Proposals will be initially reviewed by staff, and all responsive proposals will be forwarded to the Finance Committee, which includes two members of the Authorities’ Boards of Directors.

During this process, the Finance Committee and the Authorities reserve the right to request additional information or clarifications from proposers, or to allow corrections of errors or omissions. At the discretion of the Finance Committee, firms submitting proposals may be requested to make an oral presentation as part of the evaluation process—this would most likely be via teleconference or web meeting.

The Authorities reserve the right to retain all proposals submitted, and to use any ideas in a proposal regardless of whether that proposal is selected. Submission of a proposal indicates acceptance by the firm of the conditions contained in this request for proposals, unless clearly and specifically noted in the proposal submitted and confirmed in the agreement between the Authorities and the firm selected.

It is anticipated the selection of a firm and approval by the Authorities will be completed prior to February 15th, 2017. Following notification of the selected firm, it is expected a contract shall be

executed between both parties within 15 working days.

B. Terms of Engagement

A three-year contract is contemplated: with the option to extend for two (2) subsequent years, subject to annual review and recommendation of the Finance Committee, satisfactory negotiation of terms (including a price mutually acceptable to the Authorities and the selected firm).

II. NATURE OF SERVICES REQUIRED

A. Scope of Work to be Performed

The Authorities desire the auditor to express an opinion on the fair presentation of its general purpose financial statements in conformity with generally accepted accounting principles.

B. Auditing Standards to be Followed

To meet requirements of this request for proposal, the audit shall be performed in accordance with generally accepted auditing standards and the standards set for financial audits contained in Governmental Auditing Standards (1994) issued by the Comptroller General of the United States, the provisions of the Federal Single Audit Act as amended in 1996, and U.S. Office of Management and Budget (OMB) Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations.

C. Reports to be Issued

Following the completion of the audit of the fiscal year's financial statements, the auditor shall issue:

1. A report on the fair presentation of the financial statements of the Authorities in conformity with generally accepted accounting principles;
2. A report on the internal control structure based on the auditor's understanding of the control structure and assessment of control risk;
3. A report on compliance with applicable laws and regulations;
4. An "in-relation-to" report on the schedule of federal financial assistance, if applicable;
5. A report on the internal control structure used in administering federal financial assistance programs, if applicable;
6. A report on compliance with general and specific requirements related to major and non-major federal financial assistance programs, if applicable; and
7. Draft financial statements for each fiscal year will be presented to Authority Staff by the end of the following September. The Final Report to the Board and Management shall be received by the end of the second week of November.

In the required reports on internal controls, the auditor shall communicate any reportable conditions found during the audit. A reportable condition shall be defined as a significant deficiency in the design or operation of the internal control structure which could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Reportable conditions that are also material weaknesses shall be identified as such in the report.

Non-reportable conditions discovered by the auditors shall be reported in a separate letter to management, which shall be referred to in the reports on internal controls.

The reports on compliance shall include all instances of noncompliance.

Irregularities and illegal acts. Auditors shall be required to make an immediate, written report of all irregularities and illegal acts of which they become aware to the following parties:

Board Chair
Finance Committee Chair
Executive Director

The auditor shall print and bind (2) copies of the financial statements including supplementary information, for each JPA. The auditor shall provide one electronic copy of the financial statements including supplementary information.

D. Special Considerations

1. Schedules of federal financial assistance and related auditor's reports, as well as the reports on compliance and internal controls, are not to be included in the annual financial report, but are to be issued separately

E. Working Paper Retention and Access to Working Papers

All working papers and reports must be retained, at the auditor's expense, for a minimum of three (3) years, unless the firm is notified in writing by the Authorities of the need to extend the retention period. The auditor will be required to make working papers available, upon request, to the following parties or their designee:

Member and Client Agencies of the Authorities
Auditors of Grants or Assistance programs for which the Authorities may meet the criteria of a subrecipient
State of California, Office of the State Controller

In addition, the firm shall respond to the reasonable inquiries of successor auditors and allow successor auditors to review working papers relating to matters of continuing accounting significance.

III. DESCRIPTION OF GOVERNMENT

A. Contact Persons/Organizational Chart

The auditor's principal management contact with the Authorities shall be Richard Averett, Executive Director, raverett@rgs.ca.gov or a designated representative, who will coordinate the assistance provided by the Authorities to the auditor. The auditor's principal governing body contact with the Authorities shall be the Chair of the Finance Committee or the Board of Directors.

Questions about this RFP shall be submitted, in writing, to Jefferson Kise, Finance and Operations Manager, at jkise@rgs.ca.gov prior to 5:00 PM Wednesday, December 7th, 2016. Questions will be answered via e-mail within 5 business days. Additionally, a summary of questions and answers will be provided to each firm who submits a written request prior to 5:00 PM Wednesday, December 14th, 2016.

Organizational charts are attached (Appendix A)

B. Background Information

RGS, LGS and MSA are Joint Powers Authorities. Policies are set by the four-member Boards of Directors of RGS and LGS, and by the three-Member Board of Directors of MSA, and implemented by the Executive Director. The JPAs' mission is to provide services to California Public Agencies. Currently, the Authorities serve 90 California public agencies. The Authorities currently have 110 employees with a total projected 2016-2017 Payroll and Benefits expense of approximately \$10 million. The last Audit report issued is for the 2015-2016 fiscal year.

C. Services Provided

The Authorities provide the following services to public agencies:

Staffing (Interim, Project, and Long Term Staffing)
Human Resources, Finance & Communications Consulting
Payroll and Human Resource Expertise
Insurance

D. Accounting and Fund Information

The Authorities use the following fund types and account groups in their financial reporting:

<u>Fund type/Account Group</u>	Enterprise (Proprietary Fund Type)
<u>Number of Funds</u>	1 per agency

E. Federal and State Financial Assistance

The Authorities are fully funded on a fee for service basis and receive no direct Federal or State Assistance. Some client agencies may receive Federal and State Assistance which may fully or partially fund the Authorities activities. The auditor may examine whether the Authorities meet the criteria of subrecipient through our activities and report accordingly.

F. Pension Plans

Local Government Services participates in the Public Employees' Retirement System of the State of California (CalPERS). The fund is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various state and local governmental agencies within the State of California. The fund provides retirement, disability and death benefits based on an employee's years of service, age and final compensation.

Regional Government Services participates in a defined contribution qualified retirement plan, with the employer contributing 10 percent of regular, on-going salary to the employee's 401(a)

account. Individual employment agreements may stipulate additional matching contributions.

Municipal Services Authority has not established a retirement plan, as it has no employees.

G. Component Units

There are no component units in any of the three JPA's.

H. Finance Operations

Currently, financial operations are headed by the Executive Director/Chief Financial Officer of the Authorities. A Finance Manager, and Human Resources Manager oversee payroll and financial operations.

Functions performed by Staff include: client agency billing and collections, accounts receivable/payable, payroll (APS), general ledger, and financial reporting.

The Authorities accounting system is maintained on QuickBooks accounting software. The bulk of transactions take place within the RGS entity. Payroll processing is outsourced to a vendor who provides direct deposit and tax filings. RGS issues roughly 125 invoices per month, most benefits payments are made electronically, approximately 12 accounts payable checks per month are issued, and the payroll journal entries are all imported via file feed from the payroll system. Most of the non-payroll activity in LGS is by Journal Entry. There is no payroll activity in the MSA.

I. Availability of Prior Audit Reports

Prior years' audit reports are available at <http://rgs.ca.gov/> or by contacting Jefferson Kise, Finance and Operations Manager, at jkise@rgs.ca.gov or (831) 308-2718.

IV. TIME REQUIREMENTS

The Authorities will use the following schedule:

The deadline to submit proposals is Friday December 23, 2016 Noon.

RFP issued	Monday, November 28 th , 2016
Submission of Written RFP Questions	Wednesday, December 7 th , 2016, 5:00 PM
Release of Summary of Questions/Answers	Wednesday, December 14 th , 2016, 5:00 PM
Proposals due	Friday December 23 rd , 2016, Noon
Finance Committee Selection of Proposal	On or Before January 27, 2017
Formal Notification to Proposers	On or Before Feb 15, 2017

Following is the anticipated audit schedule for FY2017, and is reflective of the approximate schedules for 2018 and 2019.

Authorities submit to auditors the final trial balance	August 28
Auditors submit to Authority the	

Preliminary Financial Statement	September 30
Authorities submit to Auditors the draft management letter and Audit Report	October 15
Auditors submit to Authorities Final Audit	November 10

Upon completion of the audit examination and prior to issuing any audit reports or the management letter, the auditor may participate in an exit conference with the Executive Director, Members of the Finance Committee, and other staff designated TBA to discuss observations and findings. During the course of the engagement, the auditor shall meet with and provide periodic status reports to the Executive Director or his designee on a regular basis. The auditor shall also be available to meet with the Executive Director and Finance Committee as needed, to provide consultation on various accounting and auditing matters.

V. ASSISTANCE TO BE PROVIDED TO THE AUDITOR AND REPORT PREPARATION

A. Finance Department and Clerical Assistance

Accounting staff and responsible management personnel will be available during the audit to assist the auditor by providing information, documentation and explanations.

B. Work Area, Telephones, Photocopying and Fax

The Authorities are virtual organizations and as such have no facilities to support field work. All documents will be provided electronically, and work will be performed remotely.

C. Report Preparation

The Authorities' Finance staff will also be responsible for the posting of any auditor adjusting entries or changes to the financial statements.

VI. PROPOSAL REQUIREMENTS

A. Submission of Proposal

The following material is required to be received by **Noon on Friday, December 23, 2016** for a firm to be considered:

1. The Technical Proposal, to include the following:

i. Title Page

Title page showing the request for proposal's subject, the firm's name, address and telephone number of the contact person and the date of the proposal.

ii. Table of Contents

iii. Transmittal Letter

A signed letter of transmittal briefly stating the proposer's understanding of the work to be done, the commitment to perform the work within the time period, a statement as to why the firm believes itself to be best qualified to perform the engagement and a statement that the proposal is a firm and irrevocable offer for ninety (90) days.

iv. Detailed Proposal

The detailed proposal shall follow the order set forth below in **Section VI B** of this request.

- a. The proposer shall submit a PDF of a Dollar Cost Bid as set forth in **Section VI C**.
- b. Proposers shall send the completed proposal, consisting of a PDF, containing the Dollar Cost Bid per part “a.” above, and the remainder of the proposal.

The PDF shall be e-mailed to: jkise@rgs.ca.gov

All proposals must be clearly titled in the subject line, as follows: “*Proposal-Audit Services.*” All proposals must be received by the date specified above.

B. Technical Proposal

1. General Requirements

The purpose of the Technical Proposal is to demonstrate the qualifications, competency, and capacity of the firm seeking to undertake an independent audit of the Authorities in conformity with the requirements of the request. As such, the substance of the proposal will carry more weight than their form or manner of presentation. The Technical Proposal shall demonstrate the qualifications of the firm and of the particular staff to be assigned to this engagement. It shall also specify an audit approach that will meet the request for proposal requirements.

There shall be no dollar units or total costs included in the Technical Proposal Document.

The Technical Proposal shall address all the points outlined in the request for proposals. The proposal shall be prepared simply and economically, providing a straightforward, concise description of the proposer’s capabilities to satisfy the requirements of the request for proposals. While additional data may be presented, the following subjects, items 2 through 9, must be included. They represent the criteria against which the proposal will be judged.

2. Independence

The firm shall provide an affirmative statement that it is independent of RGS, LGS and MSA, as defined by generally accepted auditing standards and the U.S. Government Accountability Office’s *Government Auditing standards* (July 2007 revision).

3. License to Practice in California

An affirmative statement shall be included stating the firm and all assigned key professional staff are properly licensed to practice as certified public accountants in California.

4. Firm Qualifications and Experience

The proposal shall state the size of the firm; the size of the firm's governmental audit staff; the location of the office from which this engagement is to be performed; the number and nature of the professional staff to be employed in this engagement on a full-time basis; and the number and nature of the staff to be so employed on a part-time basis.

If the proposer is a joint venture or consortium, the qualifications of each firm comprising the joint venture or consortium shall be separately identified and the firm that is to serve as the principal auditor shall be noted, if applicable.

The firm shall submit a copy of the report of its most recent external quality control review, with a statement as to whether that quality control review included a review of specific governmental audit engagements.

The firm shall also provide information on the results of any Federal or State of California desk reviews or field reviews of its audits during the past three (3) years. In addition, the firm shall provide information on the circumstances and status of any disciplinary action taken or pending against the firm during the past three (3) years by state regulatory bodies or professional organizations.

5. Partner, Supervisory and Staff Qualifications and Experience

The firm shall identify the principal supervisory and management staff, including engagement partners, managers, other supervisors and specialists, who would be assigned to the engagement and indicate whether each such person is (registered/licensed) to practice in the field and provide information on the government auditing experience of each person, including information on relevant continuing professional education for the past three (3) years and membership in professional organizations relevant to the performance of this audit.

The firm shall provide as much information as possible regarding the number, qualifications, experience and training, including relevant continuing professional education, of the specific staff to be assigned to this engagement. The firm also shall indicate how the quality and continuity of staff assigned over the term of the agreement will be assured.

Consultants and firm specialists mentioned in response to this request for proposals can only be changed with the express prior written permission of the Authorities, which retains the right to approve or reject replacement.

Other audit personnel may be changed at the discretion of the proposer provided that replacements have substantially equal or better qualifications or experience.

6. Similar Engagements with Other Government Entities

For the firm's office that will be assigned responsibility for the audit, list the most significant engagements (maximum of 5) performed in the last five years that are similar to the engagement described in this request for proposals. These engagements shall be ranked on the basis of total staff hours. Indicate the scope of

work, date, engagement partners, total hours, and the name and telephone number of the principal client contact.

7. Specific Audit Approach

The proposal shall set forth a work plan, including an explanation of the audit methodology they shall follow to perform the services required in **Section II** of this request for proposals. In developing the work plan, reference shall be made to such sources of information as the Authorities' budget and related materials, organizational charts, manuals and programs, and financial and other management information systems.

Proposers are expected to provide the following information on their audit approach:

- i. Level of staff and number of hours to be assigned to each proposed segment of the engagement;
- ii. Sample sizes and the extent to which statistical sampling is to be used in the engagement;
- iii. Approach to be taken to gain and document an understanding of the Authorities' internal control structure;
- iv. Approach to be taken in determining laws and regulations that will be subject to audit test work;
- v. Approach to be taken in drawing audit samples for purposes of tests of compliance.

8. Identification of Anticipated Potential Audit Problems

The proposal shall identify and describe anticipated potential audit problems, if any, the firm's approach to resolving these problems and any special assistance that will be requested from the Authorities.

9. Technical Compliance

The proposal should provide insight into auditor's experience to assist in GASB 68 reporting requirements. Likewise, what is the firm doing to prepare for GASB 75 implementation coming in FY2018.

10. Report Format

The proposal shall include sample formats for required reports.

C. Dollar Cost Bid

1. Total All-inclusive Maximum Price.

The dollar cost bid shall contain all pricing information relative to performing the audit engagement as described in this request for proposals. The total all-inclusive maximum price to be bid is to contain all direct and indirect costs, including all out-of-pocket expenses (Appendix B).

The Authorities will not be responsible for the expenses incurred in preparing and submitting the technical proposal or the dollar cost bid. Such costs shall not be included in the proposal.

The first page (Appendix B) of the dollar cost bid shall include the following information:

- i. Name of Firm;
 - ii. Certification that the person signing the proposal is entitled to represent the firm, empowered to submit the bid and authorized to sign a contract with the Authorities;
 - iii. A Total All-inclusive Maximum Price for each fiscal year of the engagement.
2. Rates by Partner, Specialist, Supervisory and Staff; Times the Hours Anticipated for Each.

The second page (Appendix C) of the dollar cost bid shall include a schedule of professional fees and expenses, presented in the format provided in the attachment, that supports the Total All-inclusive Maximum Price.

3. Rates for Additional Professional Services

If it should become necessary for the Authorities to request the auditor to render any additional services, either to supplement the services requested in this request for proposals or to perform additional work, then such additional work shall be performed only if set forth in an addendum to the contract between Authorities and the firm. Any such additional work agreed to between the Authorities and the firm shall be performed at the same rates set forth in the schedule of fees and expenses included in the dollar cost bid.

4. Manner of Payment

Progress payments will be made on the basis of hours of work completed during the course of the engagement in accordance with the firm's dollar cost bid proposal. Interim billings shall cover a period of not less than a calendar month. Final payment will be made after delivery of the firm's final reports.

VII. EVALUATION PROCEDURES

A. Staff and Finance Committee Evaluation

Proposals will be reviewed and evaluated by the staff and the Finance Committee of the Authorities, which includes two Board members and is supported by the Executive Director.

B. Review of Proposals

The Evaluation Committee will use a point formula during the review process to score proposals. Every member will score each technical proposal matching the criteria described in Section VII C

below. At this point, firms with an unacceptably low technical score will be eliminated from further consideration.

After the composite technical score for each firm has been established, additional points will be added to the technical score based on the price bid. The maximum score for price will be assigned to the firm offering the lowest total all-inclusive maximum price. Proportionate fractional scores will be assigned to other proposers.

The Authorities reserve the right to retain all proposals submitted and use any idea contained therein.

C. Evaluation Criteria

Firms meeting the mandatory criteria will have their proposals evaluated and scored for both technical qualifications and price. The following represent the principal selection criteria which will be considered during the evaluation process.

1. Mandatory Elements

- i. The audit firm shall be independent and licensed to practice in California
- ii. The audit firm's professional personnel shall have received adequate continuing professional education within the preceding two years
- iii. The firm shall have no conflict of interest with regard to any other work performed by the firm for the Authorities
- iv. The firm shall submit a copy of its most recent external quality control review report and the firm has a record of quality audit work
- v. The firm shall adhere to the instructions in this request for proposals on preparing and submitting the proposal

2. Technical Qualifications:

- i. Expertise and Experience
 - a. The firm's past experience and performance on comparable government engagements
 - b. The quality of the firm's professional personnel to be assigned to the engagement
- ii. Audit Approach
 - a. Adequacy of proposed staffing plan for various segments of the engagement
 - b. Adequacy of sampling techniques
 - c. Adequacy of analytical procedures

3. Price

THOUGH COST IS AN IMPORTANT FACTOR, IT IS NOT THE MOST IMPORTANT CONSIDERATION.

D. Possible Oral Presentations

During the review process, the Evaluation Committee may, at its discretion, request any one or all

firms to make an oral presentation--most likely by telephone, less likely in person. Such a presentation will provide firms with an opportunity to answer any questions the Evaluation Committee may have about a firm's proposal. Not all firms may be asked to make such oral presentations.

E. Final Selection

The Finance Committee will select a firm based upon their evaluation of the proposals.

It is anticipated that a firm will be chosen on or before February 15, 2017. Following notification of the firm selected, it is expected a contract will be executed within 15 working days.

F. Right to Reject Proposals

Submission of a proposal indicates acceptance by the firm of the conditions contained in this request for proposals unless clearly and specifically noted in the proposal submitted and confirmed in the contract between the Authorities and the firm selected.

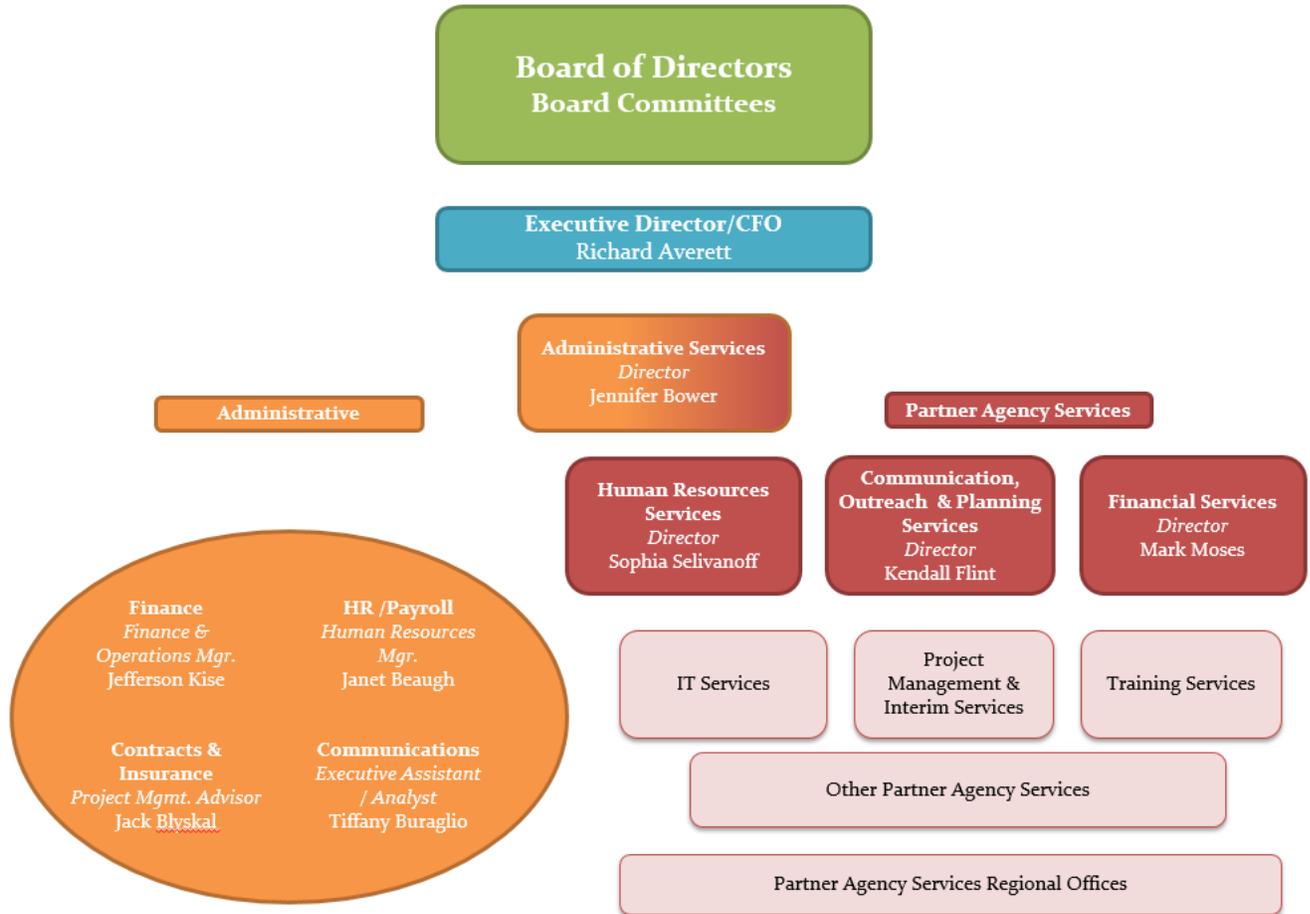
VIII. OFFICERS of the AUTHORITIES

A. Meeting With Officers

Audit staff may expect to meet with the Chair of the Finance Committee and/or Chair of the Board of Directors during the audit field work. Meeting(s) would most likely be via teleconference.

The Authorities reserve the right without prejudice to reject any or all proposals.

Regional Government Services



Local Government Services

Board of Directors
Board Committees

Executive Director/CFO
Richard Averett

Administrative Services
Director
Jennifer Bower

Finance
Finance & Operations
Mgr.
Jefferson Kise

HR /Payroll
Human Resources Mgr.
Janet Beagh

Contracts & Insurance
Project Mgmt. Advisor
Jack Blyskal

Communications
Executive Assistant /
Analyst
Tiffany Buraglio

Municipal Services Authority

Board of Directors
Board Committees

Executive Director/CFO
Richard Averett

Administrative Services
Director
Jennifer Bower

Administrative

Partnership Services

Finance
Finance & Operations Mgr.
Jefferson Kise

HR /Payroll
Human Resources Mgr.
Janet Beaugh

Contracts & Insurance
Project Mgmt. Advisor
Jack Blyskal

Communications
Executive Assistant / Analyst
Tiffany Buraglio

MIC

PACE

Dental Program

STARS

Appendix B

DOLLAR COST BID

Name of Firm: _____

Address: _____

City, State, Zip: _____

Contact Name: _____

Contact Telephone Number(s): _____

Contact E-mail Address: _____

I, the undersigned, certify I am duly authorized to represent the above named firm and am empowered to submit this bid. In addition, I certify I am authorized to contract with Regional Government Services, Local Government Services and Municipal Services Authority on behalf of the above named firm.

Signature Title Date

Name (print)

Total All-inclusive Maximum Price for 2016-2017 Audit \$ _____

Total All-inclusive Maximum Price for 2017-2018 Audit \$ _____

Total All-inclusive Maximum Price for 2018-2019 Audit \$ _____

Appendix C

**SCHEDULE OF PROFESSIONAL FEES AND EXPENSES FOR THE AUDIT OF THE FY2017
FINANCIAL STATEMENTS**

	<u>Hours</u>	<u>Standard Hourly Rates</u>	<u>Quoted Hourly Rates</u>	<u>Total</u>
Partners				
Managers				
Supervisory staff				
Staff				
Other (specify):				
<i>Subtotal</i>				
Out-of-pocket expenses:				
Meals & Lodging				
Transportation				
Other (specify):				
Total for services described in Section II of the RFP				
TOTAL ALL-INCLUSIVE MAXIMUM PRICE FOR 2016-2017 AUDIT				\$
[do you put something here for the next two years' pricing? Note: The rate quoted should not be presented as a general percentage of the standard hourly rate or as a gross deduction from the total all-inclusive maximum price.				