

Local Government Services Authority

*Basic Financial Statements and
Independent Auditors' Reports*

For the years ended June 30, 2017 and 2016

Local Government Services Authority
Basic Financial Statements
For the years ended June 30, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Local Government Services Authority
Carmel Valley, California

We have audited the accompanying financial statements Local Government Services Authority (Authority), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 opinions 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. 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Local Government Services Authority
Carmel Valley, California
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Prior Period Financial Statements

The basic financial statements of the Authority as of June 30, 2016, were audited by other auditors whose report dated November 9, 2016, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and defined benefit pension plan schedules on pages 3–7 and 29 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, 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 of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority’s basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Oakland, California
November 22, 2017

LOCAL GOVERNMENT SERVICES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016

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, 2017. Please read it in conjunction with the Authority's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- In the fiscal year ended June 30, 2017, the Authority's net loss of \$479,994 is a significant drop from the net gain of \$190,758 in the prior fiscal year. The FY2016 net gain resulted from an operating loss of \$105,474 plus a \$296,232 reduction in the Authority's Pension expense as calculated under GASB 68.
- The Authority only has one client as a result of CalPERS actions to challenge the LGS business model. LGS purchases administrative services from RGS. Because RGS is growing its client base and service offerings, LGS' share central administrative costs will be absorbed by RGS.
- The JPA has been under-going a pension benefit audit by California Public Employee Retirement System (CalPERS) for over four years, costing LGS over \$200,000 in response costs for a second year in a row. In addition, because of the CalPERS audit the remaining client contract is anticipated to terminate at the end of calendar year 2017.

OPERATIONAL HIGHLIGHTS

- During the fiscal year ended June 30, 2017, the Authority's administrative services provider, RGS, has reduced overhead costs to conserve resources for the prolonged disagreement with CalPERS.
- The JPA has pursued several strategies to minimize the impact of the CalPERS audit on employees and former employees, 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 because of this year's activities?" The financial statements report information about the Authority's activities in a way that helps answer this question. The statements are prepared on the accrual basis of accounting, which means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. An explanation of each of the statements and the information they report follows.

THE STATEMENT OF NET POSITION

The Statement of Net Position details the Authority's assets, liabilities and the difference between them, known as net position, at the end of the fiscal years June 30, 2017, June 30, 2016 and June 30, 2015. 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.

LOCAL GOVERNMENT SERVICES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016

THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

THE STATEMENT OF CASH FLOWS

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

THE NOTES TO FINANCIAL STATEMENTS

The Notes to Financial Statements provide a description of accounting policies used to prepare the financial statements and present material disclosures required by 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, 2017 AND 2016

FINANCIAL ANALYSIS

NET POSITION

The Authority's net position at June 30, 2017 totaled \$246,242 compared to the June 30, 2016 total of \$726,236 and \$535,478 at June 30, 2015. 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.

	2015	2016	2017	Change	Percent Change
ASSETS					
Current Assets	\$2,556,863	\$2,317,671	\$1,784,000	(\$533,671)	-23%
Deferred Outflow of Pension Resources	405,765	737,047	939,017	201,970	27%
LIABILITIES					
Current Liabilities	1,467,744	1,371,933	1,362,524	-9,409	-1%
Non-Current Liabilities	767,972	697,850	950,289	252,439	36%
Total Liabilities	2,235,716	2,069,783	2,312,813	243,030	-12%
Deferred Inflow of Pension Resources	191,434	190,734	163,962	-26,772	-14.0%
Net Position					
Unrestricted	535,478	726,236	246,242	-479,994	-66%

The Authority contracts with RGS to invest surplus cash in the Local Agency Investment Fund, a governmental investment pool managed and directed by the California State Treasurer, and also in the Investment Trust of California (CalTrust), a public joint powers authority formed to pool and invest the funds of public agencies.

REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Authority reported a decrease in net position of \$479,994 for the year ended June 30, 2017. Net operating revenues were \$2,145,434 - a decrease from the FY16 total of \$4,741,114 - and reflects the continuing loss of JPA client revenue due to CalPERS' adverse actions.

LOCAL GOVERNMENT SERVICES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016

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

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

	2015	2016	2017	Change	Percent Change
Operating Revenues:					
Charges for services	\$5,180,503	\$4,741,114	\$2,145,434	(\$2,595,680)	-55%
Operating Expenses:					
Salaries and benefits	3,919,936	3,685,510	1,880,475	-1,805,035	-49%
Administration	1,118,757	864,846	744,953	-119,893	-14%
Total Operating Expenses	5,038,693	4,550,356	2,625,428	-1,924,928	-42%
Operating Income (Loss)	141,810	190,758	-479,994	-670,752	-352%
Prior Period Adjustment	-523,981				
Beginning Net Position	917,649	535,478	726,236	190,758	36%
Ending Net Position	\$535,478	\$726,236	\$246,242	-479,994	-66%

CAPITAL ASSETS

At June 30, 2017, 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 to do so.

LOCAL GOVERNMENT SERVICES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016

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 served 12 client agencies. Revenues exceeded \$5 million a year and staffing reached 50 employees. Now, due to CalPERS actions, the Authority has one active client and 9 employees. LGS initially had to borrow start-up funds, and now is debt-free and has approximately \$246,000 in net equity from operations. 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. The audit was completed four and one-half years after beginning and is expected to take years more to resolve.

The FY2018 budget reflects the loss of the final client and continued CalPERS audit costs beyond the client engagement resulting in a projected \$391,000 operating loss before insurance claim reimbursements are considered.

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 other public 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*

Local Government Services Authority
Statement of Net Position
June 30, 2017 and 2016

	2017		2016
ASSETS			
Current assets:			
Cash and investments	\$ 1,539,523		\$ 2,133,840
Accounts receivables	240,469		180,485
Prepaid expenses	4,008		3,346
Total assets	1,784,000	#	2,317,671
DEFERRED OUTFLOW OF RESOURCES			
Deferred employer contributions	181,001		209,195
Deferred outflows related to pension	758,016		527,852
Total deferred outflows of resources	939,017		737,047
LIABILITIES AND NET POSITION			
Current liabilities:			
Accounts payable	69,875		64,784
Unearned revenue	-		14,500
Contribution payable to Municipal Services Authority	1,292,649		1,292,649
Total current liabilities	1,362,524	#	1,371,933
Noncurrent liabilities:			
Compensated absences	164,601		137,207
Net pension liability	785,688		560,643
Total noncurrent liabilities	950,289		697,850
Total liabilities	2,312,813	#	2,069,783
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	163,962		258,699
Total deferred outflows of resources	163,962		258,699
NET POSITION			
Unrestricted	246,242		726,236
Total net position	\$ 246,242	#	\$ 726,236

See accompanying Notes to Basic Financial Statements.

Local Government Services Authority
Statement of Revenues, Expenses and Changes in Fund Net Position
For the years ended June 30, 2017 and 2016

	2017	2016
OPERATING REVENUES:		
Charges for services:		
Service charges	2,145,434	\$ 4,741,114
Total operating revenues	2,145,434	4,741,114
OPERATING EXPENSES:		
Salaries and benefits	1,880,475	3,685,510
Administration	744,953	864,846
Total operating expenses	2,625,428	4,550,356
OPERATING INCOME:	(479,994)	190,758
NET POSITION:		
Beginning of year	726,236	535,478
End of year	\$ 246,242	\$ 726,236

See accompanying Notes to Basic Financial Statements.

Local Government Services Authority
Statement of Cash Flows
For the years ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for services	\$ 2,070,950	\$ 4,881,656
Cash paid to supplies for goods and services	(745,615)	(971,171)
Cash paid to employees for services	(1,919,652)	(4,011,258)
Net cash provided by operating activities	(594,317)	(100,773)
CASH AND CASH EQUIVALENTS:		
Beginning of year	2,133,840	2,234,613
End of year	<u>\$ 1,539,523</u>	<u>\$ 2,133,840</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ (479,994)	\$ 190,758
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Changes in assets and liabilities:		
Accounts receivable	(59,984)	140,542
Prepaid expenses	(662)	(2,123)
Deferred outflows of resources	(201,970)	(263,317)
Accounts payable	5,091	(95,811)
Unearned revenue	(14,500)	-
Due to other government	-	-
Compensated absences	27,394	(37,907)
Net pension liability	225,045	(32,215)
Deferred inflows of resources	(94,737)	(700)
Net cash provided by operating activities	<u>\$ (594,317)</u>	<u>\$ (100,773)</u>

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

Local Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2017 and 2016

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 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 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 revenue of the Authority are fee 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 reporting 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 Basic Financial Statements
For the years ended June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Investments

Under provisions of the Authority's investment policy, and in accordance with Section 53601 of the California Government Code, the Authority may deposit and invest in the following:

- Local Agency Bonds
- U.S Treasury Obligations
- U.S Agency Securities
- Negotiable Certificates of Deposit
- CalTRUST Investment Pool
- Local Agency Investment Fund

The Authority records its investments in the CalTRUST investment pool at fair value. Changes in fair value are reported as revenue in the Statement of Revenues, Expenses, and Changes in Net Position. The effect of recording investments at fair value is reflected as an increase in the fair value of investments on the Statement of Revenues, Expenses, and Changes in Net Position. The Authority's investments in the CalTRUST investment pool have been valued based on the relative fair value of the entire external pool to the external pool's respective amortized cost.

F. Unearned Revenue

When the Authority collect fees in advance for services provided to others, these amounts are recorded as unearned revenue on the statement of net position until the respective services have been provided.

G. Use of Estimates

The preparation of the Financial Statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

Local Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Net Position

Financial Statements

In the Financial Statements, net position is classified in the following categories:

Net Investment in Capital Assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted - This amount is all net position that do not meet the definition of "net investment in capital assets" or "restricted net position" as defined above.

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the Authority's policy is to apply restricted net position first.

I. New Pronouncements

In 2017, the Authority adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*- The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this statement were not applicable to the Authority.

Local Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. New Pronouncements, Continued

- GASB Statement No. 77, *Tax Abatement Disclosure*- This Statement addresses the financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. The requirements of this statement were not applicable to the Authority.
- GASB Statement No. 78, *Pension Provided through Certain Multiple-Employer Defined Benefit Pension Plans*- The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this statement were not applicable to the Authority.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14* - The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. 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*. The requirements of this statement were not applicable to the Authority.

Local Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. New Pronouncements, Continued

- GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statement No. 67, No. 68, and No. 73* - This Statement addresses certain issues that had 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 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in the 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. The City updated covered employee payroll information in the required supplementary information as part of implementation of this accounting standard. The requirements of this statement were not applicable to the Authority.

2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2017 and 2016 consisted of CalTRUST Funds in the amount of \$1,539,523 and \$2,133,840 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).

A. 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).

B. Fair Value Measurements

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. None of the Authority's investments were subject to levelling disclosure.

Local Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2017 and 2016

2. CASH AND INVESTMENTS, Continued

C. Risk Disclosures

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 are 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, 2017 and 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 Authority has long term liabilities for compensated absences in the amount of \$164,601 and \$137,207 as of June 30, 2017 and 2016.

Local Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2017 and 2016

4. EMPLOYEE RETIREMENT PLAN

A. Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS.) The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The Authority sponsors two miscellaneous rate plans. Benefit provisions under the Plan are established by State statute and Authority resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

B. Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members who must be public employees, and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employee's Retirement Law.

The rate plans' provisions and benefits in effect at June 30, 2017 and 2016 are summarized as follows:

	<u>Miscellaneous - Classic</u>	<u>Miscellaneous - PEPRA</u>
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit vesting schedule	5 years service	5 years service
Benefit payment	Monthly for life	Monthly for life
Retirement age	55	60
Monthly benefits, as a % of annual salary	2.00%	2.00%
Required employee contribution rates	7.000%	6.000%
Required employer contribution rates (2016)	8.512%	6.237%
Required unfunded liability payment (2016)	\$ 57,365	\$ -
Required employer contribution rates (2017)	8.880%	6.555%
Required unfunded liability payment (2017)	\$ 68,544	\$ 284

Local Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2017 and 2016

4. EMPLOYEE RETIREMENT PLAN, CONTINUED

B. Benefits Provided, Continued

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 are effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan 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. The Authority is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

The Authority's contributions to the Plan for the measurement periods ended June 30, 2016 and 2015 were \$209,195 and \$284,173 respectively.

As of June 30, 2017 and 2016, the Authority reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$785,688 and \$560,643 respectively.

The Authority's net pension liability for the Plans is measured as the proportionate share of the total net pension liability of the Plan. The net pension liability of the Plan for the fiscal year 2017 is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by actuarial valuations as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The net pension liability of the Plan for the fiscal year 2016 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 actuarial valuations as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The Authority's proportionate share of the net pension liability was based on the Authority's plan liability and asset-related information where available, and proportional allocations of plan amounts as of the valuation date where not available.

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

The Authority's proportionate share of the net pension liability for the plan as of the measurement dates June 30, 2014, 2015, and 2016 was as follows:

Proportion - June 30, 2014	0.009530%	Proportion - June 30, 2015	0.008170%
Proportion - June 30, 2015	<u>0.008170%</u>	Proportion - June 30, 2016	<u>0.009080%</u>
Change - Increase (Decrease)	-0.001360%	Change - Increase (Decrease)	0.000910%

Local Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2017 and 2016

4. EMPLOYEE RETIREMENT PLAN, CONTINUED

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

For the year ended June 30, 2017 and 2016, the Authority recognized pension expense(income) of \$109,339 and \$79,371 respectively. At June 30, 2017 and 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 181,001	\$ -	\$ 209,195	\$ -
Changes in employer's proportion	189,584	85,851	296,332	-
Differences between the employer's contribution and the employer's proportionate share of contributions	163,452	-	213,307	-
Changes of assumptions	-	76,263	-	172,315
Differences between expected and actual experiences	8,060	1,848	18,213	-
Net differences between projected and actual earnings on plan investments	396,920	-	-	86,384
Total	\$ 939,017	\$ 163,962	\$ 737,047	\$ 258,699

\$181,001 and \$209,195 reported as deferred outflows of resources related to contributions subsequent to the measurement date. \$181,001 will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. \$209,195 was recognized during the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year	Ending June 30:	
	2017	2016
2017	-	76,286
2018	182,347	76,286
2019	145,059	76,286
2020	163,843	40,295
2021	102,805	-

Local Government Services Authority
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For the years ended June 30, 2017 and 2016

4. EMPLOYEE RETIREMENT PLAN, Continued

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

Actuarial Assumptions – The total pension liabilities in the June 30, 2014 and 2015 actuarial valuations were determined using the following actuarial assumptions:

	<u>2017</u>	<u>2016</u>
Valuation Date	June 30, 2015	June 30, 2014
Measurement Date	June 30, 2016	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Projected Salary Increase	Varies by entry age and service	Varies by entry age and service
Investment Rate of Return ⁽¹⁾	7.50%	7.50%
Mortality	Derived by CalPERS membership data for all funds	Derived by CalPERS membership data for all funds

(1) Net of pension plan administrative expenses

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 and 2014 valuations were based on the results of a January 2010 actuarial experience study for the period 1997 to 2007. Further details of the Experience Study can found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liabilities was 7.65 percent for the Plan for the measurement date June 30, 2016 and 2015. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the 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 that can be obtained from the CalPERS website.

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.

Local Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2017 and 2016

4. EMPLOYEE RETIREMENT PLAN, Continued

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

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.

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

Asset Class	2017			2016		
	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.00%	5.25%	5.71%	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%	2.00%	-0.55%	-1.05%
Total	<u>100%</u>			<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.

Local Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2017 and 2016

4. EMPLOYEE RETIREMENT PLAN, Continued

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

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 the Plan, calculated using the discount rate for the 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>2017</u>		<u>2016</u>
1% Decrease	6.65%		6.65%
Net Pension Liability	\$ 1,499,576	\$	940,237
Current Discount Rate	7.65%		7.65%
Net Pension Liability	\$ 785,688	\$	560,643
1% Increase	8.65%		8.65%
Net Pension Liability	\$ 195,695	\$	247,244

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan

At June 30, 2017 and 2016 the Authority reported a payable of \$0 and \$0 for outstanding amount of required contributions to the pension plan required.

Local Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2017 and 2016

5. DEFINED CONTRIBUTION PLANS

A. *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, 2017 and 2016 were \$124,146 and \$146,732 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.

B. *Other Defined Contribution Plan*

The Authority has also established a defined contribution plan in accordance with Internal Revenue Code Section 401(a). The employer contributes 10% of regular salary on behalf of the employee and may contribute an additional amount up to 5% subject to individual employee's employment agreement. Plan assets are invested in each individual's name with the defined contribution plan provider.

Distributions are made upon the participant's termination, retirement, death or total disability, and in a manner in accordance with the election made by the participant. Contributions to the plan for the year ended June 30, 2017 and 2016 totaled \$102 and \$1,145, respectively, and were contributed by the Authority.

The Authority believes it has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Authority has formally established a trust in accordance with Internal Revenue Code Section 401(f) for its defined contribution plan to provide protection from the claims of the employer's general creditors. Accordingly defined contribution assets placed in the trust are not reflected in these financial statements.

Local Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2017 and 2016

6. OTHER POSTEMPLOYMENT BENEFITS

Effective January 1, 2014, the Authority implemented a Health Reimbursement Account (HRA) plan. Those employees participating in the medical plan are now enrolled in the HRA plan. 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 receives a contribution of \$2,500 per year that vests after five years of service and the second tier receives a contribution of \$10,000 per year that vests after ten years of service.

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, 2017 and 2016.

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, which include Regional Government Services Authority (RGSA) and Local Government Services Authority (LGSA). 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.

Full financial statements are available separately from MSA. As of June 30, 2017, LGSA had a contribution payable to MSA of \$1,292,649.

Condensed financial information for the year ended June 30, 2017 is as follows:

Total Assets	\$ 3,253,913
Total Liabilities	<u>1,161,825</u>
Net Position	<u>\$ 2,092,088</u>
Revenues	\$ 457,000
Expenses	<u>499,894</u>
Change in Net Position	<u>\$ (42,894)</u>

Local Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2017 and 2016

7. JOINTLY GOVERNED ORGANIZATIONS, Continued

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

8. RELATED PARTY TRANSACTIONS

Regional Government Services Authority (RGSA) provides administration for Local Government Services Authority (LGSA) and Municipal Services Authority (MSA) of which LGSA is a member, 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, 2017 and 2016 were \$585,509 and \$744,722, respectively for LGSA, and \$40,000 annually for MSA for the years ended June 30, 2017 and 2016. RGSA also holds cash and investments on behalf of LGSA. At June 30, 2017, the amount held on behalf of LGSA is \$1,539,523. At June 30, 2016, the amount held on behalf of LGSA was \$2,133,840.

9. CONTINGENCIES

Local Government Services Authority (LGS) has recently been audited by CalPERS and CalPERS determined LGS was not the employer of staff hired by LGS to provide services to other public agencies. LGS is appealing that conclusion, while also seeking to find practical resolution to the consequences of this determination. All but 14 of LGS' 142 employees since it began operation in 2002, will have their LGS service credit with CalPERS transferred to the agencies served under LGS. Those 14 workers could lose service credit if a resolution isn't found.

**REQUIRED
SUPPLEMENTARY INFORMATION**

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Local Government Services Authority
Required Supplementary Information
For the years ended June 30, 2017 and 2016

DEFINED BENEFIT PENSION PLAN

A. Schedule of the Authority's Proportionate Share of the Net Pension Liability - Last 10 Years*

Measurement date	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
Proportion of the net pension liability	0.00908%	0.00817%	0.00951%
Proportionate share of the net pension liability	\$ 785,688	\$ 560,643	\$ 592,858
Covered payroll	\$ 2,892,491	\$ 2,413,968	\$ 2,904,511
Proportionate Share of the net pension liability as percentage of covered payroll	27.16%	23.22%	62.00%
Plan fiduciary net position as a percentage of the total pension liability	74.06%	78.40%	79.82%

Notes to Schedule:

*- Fiscal year 2015 was the 1st year of implementation.

B. Schedule of Contributions - Last 10 Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 181,001	\$ 209,195	\$ 284,173
Contribution in relation to the actuarially determined contributions	(181,001)	(209,195)	(284,173)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll	\$ 1,353,698	\$ 2,892,491	\$ 2,413,968
Contributions as a percentage of covered payroll	13.37%	7.23%	11.77%
Note to Schedule			
Valuation date:	6/30/2014	6/30/2013	6/30/2012

* - Fiscal year 2015 was the 1st year of implementation.