Local Government Services Authority

Basic Financial Statements and Independent Auditors' Reports

For the years ended June 30, 2018 and 2017

Local Government Services Authority
Basic Financial Statements
For the years ended June 30, 2018 and 2017

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BADAWI & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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, 2018 and 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, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 9 to the financial statements, the Authority has a significant deficit net position, unfunded pension liabilities, and no future planned revenues except receipt of equity upon dissolution of a Municipal Services Authority. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are described in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

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.

Badawi & Associates

Oakland, California
November 14, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the Local Government Services Authority (the "Authority" or "LGS") provides an overview of the Authority's financial activities for the fiscal year (FY) ended June 30, 2018. Please read it in conjunction with the Authority's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- Because of CalPERS actions to challenge the LGS business model, the authority ended client services December 31, 2017
- The JPA had a several factors that adversely impacted its financial results:
    - $1,226,926 (57%) drop in client revenue
    - $183,565 in legal costs associated with the CalPERS audit
    - $226,052 benefits payout to the last client when its contract terminated
    - $37,406 in continued payments of the JPAs unfunded accrued liability after all client revenue had ceased.
    - $336,031 increase in GASB 68 pension liability.
- As a result of the above, for the fiscal year ended June 30, 2018, the Authority's net loss was $1,195,540 which is a significant drop from the loss of $479,994 in the prior fiscal year.
- The JPA has been under-going a pension benefit audit by California Public Employee Retirement System (CalPERS) for over five years, costing LGS over $200,000 in legal and administrative costs for a third year in a row.

OPERATIONAL HIGHLIGHTS

- During the fiscal year ended June 30, 2018, the Authority's administrative services have been pared to focus on reducing costs and resolving issues brought about by CalPERS' determination adverse to the LGS model of providing a retirement benefit to Authority employees serving other public agencies.
- The JPA has pursued several strategies to minimize the impact of the CalPERS audit on employees and former employees, including a prohibition implemented several years ago on adding new clients to the JPA, supporting client migration out of the JPA, and supporting reallocation of retirement service credit to CalPERS-contracting agencies wherever possible.

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 STATEMENTOF NET POSITION

The Statement of Net Position details the Authority's assets, liabilities and the difference between them, known as net position, at the end of the fiscal years June 30, 2018, June 30, 2017 and June 30, 2016. 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. 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.

FINANCIAL ANALYSIS

NET POSITION

The Authority's net position at June 30, 2018 totaled a negative $949,298 compared to the June 30, 2017 total of $246,242 and $726,236 at June 30, 2016. 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. Deferred Outflow of Pension Resources refers to contributions subsequent to the CalPERS valuation date, changes in CalPERS assumptions, an increase in the JPA's proportion of the pool, differences between the JPA's actual contributions and proportionate share of contributions, and the difference between actual and projected earnings on plan investments. Non-current liabilities represent the net pension liability.

	2016	2017	2018	Change	Percent Change
ASSETS					
Current Assets	$2,317,671	$1,784,000	$691,794	($1,092,206)	-61%
Deferred Outflow of Pension Resources	737,047	939,017	778,116	-160,901	-17%
LIABILITIES					
Current Liabilities	1,371,933	1,362,524	1,294,428	-68,096	-5%
Non-Current Liabilities	697,850	950,289	1,008,611	58,322	6%
Total Liabilities	2,069,783	2,312,813	2,303,039	-9,774	0%
Deferred Inflow of Pension Resources	190,734	163,962	116,169	-47,793	-29.1%
Net Position					
Unrestricted	726,236	246,242	-949,298	-1,195,540	-486%

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 $1,195,540 for the year ended June 30, 2018. Net operating revenues were $918,508, a decrease from the FY17 total of $2,145,434 and reflects the continuing loss of JPA client revenue due to CalPERS' adverse actions.

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:

	2016	2017	2018	Change	Percent Change
Operating Revenues:					
Charges for services	4,741,114	2,145,434	918,508	(1,226,926)	-57%
Operating Expenses:					
Salaries and benefits	3,685,510	1,880,475	1,639,861	(240,614)	-13%
Administration	864,846	744,953	474,187	(270,766)	-36%
Total Operating Expenses	4,550,356	2,625,428	2,114,048	(511,380)	-19%
Operating Income (Loss)	190,758	(479,994)	(1,195,540)	(715,546)	149%
Beginning Net Position	535,478	726,236	246,242	(479,994)	-66%
Ending Net Position	726,236	246,242	(949,298)	(1,195,540)	-486%

CAPITAL ASSETS

At June 30, 2018, 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 provided general, administrative and staffing services to local government agencies. How LGS was of value to local governments varies from agency to agency, but the Authority primarily offered on-going staffing and employment services. Agencies used LGS services when they determine it is in their best to do so, whether because they lacked the capacity to support their own staffing or had unstable funding for project assignments.

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 no more clients or employees. 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. There is no FY2019 budget because the Authority plans to dissolve during the fiscal year.

Local Government Services Authority
Statement of Net Position
June 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and investments	$ 691,786	$ 1,539,523
Accounts receivables	-	240,469
Prepaid expenses	8	4,008
Total assets	691,794	1,784,000
DEFERRED OUTFLOW OF RESOURCES		
Deferred employer contributions	132,325	181,001
Deferred outflows related to pension	645,791	758,016
Total deferred outflows of resources	778,116	939,017
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	1,779	69,875
Contribution payable to Municipal Services Authority	1,292,649	1,292,649
Total current liabilities	1,294,428	1,362,524
Noncurrent liabilities:		
Compensated absences	-	164,601
Net pension liability	1,008,611	785,688
Total noncurrent liabilities	1,008,611	950,289
Total liabilities	2,303,039	2,312,813
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pension	116,169	163,962
Total deferred outflows of resources	116,169	163,962
NET POSITION		
Unrestricted	(949,298)	246,242
Total net position	$ (949,298)	$ 246,242

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, 2018 and 2017

	2018	2017
OPERATING REVENUES:		
Charges for services:		
Service charges	918,508	$ 2,145,434
Total operating revenues	918,508	2,145,434
OPERATING EXPENSES:		
Salaries and benefits	1,639,861	1,880,475
Administration	474,187	744,953
Total operating expenses	2,114,048	2,625,428
OPERATING INCOME:	(1,195,540)	(479,994)
NET POSITION:		
Beginning of year	246,242	726,236
End of year	$ (949,298)	$ 246,242

See accompanying Notes to Basic Financial Statements.

Local Government Services Authority
Statement of Cash Flows
For the years ended June 30, 2018 and 2017

		2018		2017
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received for services	$	1,158,977	$	2,070,950
Cash paid to supplies for goods and services		(470,187)		(745,615)
Cash paid to employees for services		(1,536,527)		(1,919,652)
Net cash provided by operating activities		(847,737)		(594,317)
CASH AND CASH EQUIVALENTS:				
Beginning of year		1,539,523		2,133,840
End of year	$	691,786	$	1,539,523
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	$	(1,195,540)	$	(479,994)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Changes in assets and liabilities:				
Accounts receivable		240,469		(59,984)
Prepaid expenses		4,000		(662)
Deferred outflows of resources		160,901		(201,970)
Accounts payable		(68,096)		5,091
Unearned revenue		-		(14,500)
Compensated absences		(164,601)		27,394
Net pension liability		222,923		225,045
Deferred inflows of resources		(47,793)		(94,737)
Net cash provided by operating activities	$	(847,737)	$	(594,317)

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

Members of the Authority include the City of Larkspur, the 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.

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.

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 2018, the Authority adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - The objective of this statement is to address reporting by governments that provide other postemployment benefits (OPEB) to their employees and for governments that finance OPEB for employees of other governments. The requirements of this statement did not apply to the Authority for the current fiscal year.

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements* – The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement did not apply to the Authority for the current fiscal year.

- GASB Statement No. 85, *Omnibus 2017* – The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and other postemployment benefits (OPEB). There was no effect on net position as a result of implementation of this statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. New Pronouncements, Continued

- GASB Statement No. 86, *Certain Debt Extinguishment Issues* – The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. There was no effect on net position as a result of implementation of this statement.

2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2018 and 2017 consisted of CalTRUST Funds in the amount of $691,786 and $1,539,523 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.

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, 2018 and 2017.

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 had long term liabilities for compensated absences in the amount of $164,601 as of June 30, 2017.

	Balance	2017		Balance	2018		Balance
	July 1, 2016	Additions	Reductions	June 30, 2017	Additions	Reductions	June 30, 2018
Compensated absences	$ 137,207	$ 27,394	$ -	$ 164,601	$ -	$ (164,601)	$ -

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, 2018 and 2017 are summarized as follows:

	Miscellaneous - Classic	Miscellaneous - PEPRA
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 (2017)	8.880%	6.555%
Required unfunded liability payment (2017)	$ 68,544	$ 284
Required employer contribution rates (2018)	8.921%	6.533%
Required unfunded liability payment (2018)	$ 73,279	$ 492

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, 2017 and 2016 were $181,001 and $209,195 respectively.

As of June 30, 2018 and 2017, the Authority reported a net pension liability for its proportionate share of the net pension liability of the Plan of $1,008,611 and $785,688 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 2018 is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by actuarial valuations as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. 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 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, 2015, 2016, and 2017 was as follows:

Proportion - June 30, 2015	0.008170%	Proportion - June 30, 2016	0.009080%
Proportion - June 30, 2016	0.009080%	Proportion - June 30, 2017	0.010170%
Change - Increase (Decrease)	0.000910%	Change - Increase (Decrease)	0.001090%

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, 2018 and 2017, the Authority recognized pension expense(income) of $468,356 and $109,339 respectively. At June 30, 2018 and 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 132,325	$ -	$ 181,001	$ -
Changes in employer's proportion	250,221	54,054	189,584	85,851
Differences between the employer's contribution and the employer's proportionate share of contributions	74,613	12,257	163,452	-
Changes of assumptions	260,049	19,829	-	76,263
Differences between expected and actual experiences	2,096	30,029	8,060	1,848
Net differences between projected and actual earnings on plan investments	58,812	-	396,920	-
Total	$ 778,116	$ 116,169	$ 939,017	$ 163,962

$132,325 and $181,001 reported as deferred outflows of resources related to contributions subsequent to the measurement date. $132,325 will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. $181,001 was recognized as a reduction of the net pension liability during the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30:	2018	2017
2018	$ -	$ 182,347
2019	236,696	145,059
2020	192,529	163,843
2021	135,318	102,805
2022	(34,921)	-

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, 2015 and 2016 actuarial valuations were determined using the following actuarial assumptions:

	2018	2017
Valuation Date	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2017	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.15%	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)	7.15%	7.65%
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, 2016 and 2015 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 7.15 and 7.65 percent for the Plan for the measurement date June 30, 2017 and 2016 respectively. 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 7.15 and 7.65 percent discount rates are adequate and the use of the municipal bond rate calculation was not necessary. The long term expected discount rate of 7.15 and 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.

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.

	2018			2017		
Asset Class	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	47.00%	4.90%	5.38%	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.80%	2.27%	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.60%	1.39%	6.00%	0.45%	3.36%
Private Equity	12.00%	6.60%	6.63%	10.00%	6.83%	6.95%
Real Estate	11.00%	2.80%	5.21%	10.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	3.90%	5.36%	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.40%	-0.90%	1.00%	-0.55%	-1.05%
Total	100%			100%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

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:

	2018	2017
1% Decrease	6.15%	6.65%
Net Pension Liability	$ 1,865,808	$ 1,499,576
Current Discount Rate	7.15%	7.65%
Net Pension Liability	$ 1,008,610	$ 785,688
1% Increase	8.15%	8.65%
Net Pension Liability	$ 298,664	$ 195,695

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

<u>Payable to the Pension Plan</u>

At June 30, 2018 and 2017 the Authority reported a payable of $0 and $0 for outstanding amount of required contributions to the pension plan required.

D. Subsequent Event

The FY 2019 financial statements reflect CalPERS valuation reports that use a measurement date of June 30. 2017, which doesn't reflect subsequent positive investment return by CalPERS, transfers off LGS account for service reallocations of more than 50 percent of LGS' liability, nor the cessation of all LGS employment as of December 31, 2017. One tenth of all former LGS employees may not have another agency to which to transfer service credits and liability. The Authority is actively negotiating with those individuals to reach a satisfactory pension payoff agreement. Therefore, the GASB 68 entries most probably significantly overstate liabilities for the Authority.

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, 2018 and 2017 were $71,393 and $124,146 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, 2018 and 2017 totaled $0 and $102, 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.

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, 2018 and 2017.

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, 2018, LGSA had a contribution payable to MSA of $1,292,649.

Condensed financial information for the years ended June 30, 2018 and 2017 is as follows:

	2018	2017
Total Assets	$ 3,063,663	$ 3,253,913
Total Liabilities	877,681	1,161,825
Net Position	$ 2,185,982	$ 2,092,088
Revenues	$ 396,000	$ 457,000
Expenses	302,106	499,894
Change in Net Position	$ 93,894	$ (42,894)

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). The amounts charged to LGSA are calculated each month based on revenues to date. The amounts charged to MSA are set by the Board of Directors, as deemed necessary.

The amounts charged for the year ended June 30, 2018 were $289,384 for LGSA. RGSA also holds cash and investments on behalf of LGSA and MSA. At June 30, 2017, the amount held on behalf of LGSA is $691,786.

The amounts charged for the year ended June 30, 2017 were $585,509 for LGSA. RGSA also holds cash and investments on behalf of LGSA and MSA. At June 30, 2017, the amount held on behalf of LGSA is $1,539,523.

9. GOING CONCERN

As of June 30, 2018, Local Government Services Authority (LGS) reported a deficit net position of $949,298, and currently does not have any planned future revenue sources. The MSA Board, at its November 15, 2018 meeting, is scheduled to allocate remaining assets to its member agencies – of which LGS is one. This allocation to LGS is expected to slightly exceed the Authority's deficit position. Also, at the LGS November 15, 2018 meeting, the Authority will be considering entering an agreement with a non-profit benefit corporation to handling Authority remaining issues.

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REQUIRED SUPPLEMENTARY INFORMATION

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DEFINED BENEFIT PENSION PLAN

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

Fiscal year	**2018**	**2017**	**2016**	**2015**
Measurement date	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of the net pension liability	0.01017%	0.00908%	0.00817%	0.00951%
Proportionate share of the net pension liability	$ 1,008,610	$ 785,688	$ 560,643	$ 592,858
Covered payroll	$ 1,353,698	$ 2,892,491	$ 2,413,968	$ 2,904,511
Proportionate Share of the net pension liability as percentage of covered payroll	74.51%	27.16%	23.22%	62.00%
Plan fiduciary net position as a percentage of the total pension liability	73.31%	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**

Fiscal year	**2018**	**2017**	**2016**	**2015**
Contractually required contribution (actuarially determined)	$ 132,325	$ 181,001	$ 209,195	$ 284,173
Contribution in relation to the actuarially determined contributions	(132,325)	(181,001)	(209,195)	(284,173)
Contribtion deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 883,638	$ 1,353,698	$ 2,892,491	$ 2,413,968
Contributions as a percentage of covered payroll	14.98%	13.37%	7.23%	11.77%

Note to Schedule

Valuation date:	6/30/2015	6/30/2014	6/30/2013	6/30/2012

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