

Local Government Services Authority

*Basic Financial Statements and
Independent Auditors' Reports*

For the years ended June 30, 2019 and 2018

Local Government Services Authority
Basic Financial Statements
For the years ended June 30, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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.

To the Board of Directors
Local Government Services Authority
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Emphasis of Matters

As discussed in Note 7, the Authority has been dissolved during fiscal year 2019. Certain assets and liabilities of the Authority has been transferred to Regional Government Services Authority and Municipal Services Authority and is reported as a special item in the statement of Revenues, Expenses and Changes in Net Position. 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 3-6 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.



Berkeley, California
April 17, 2020

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, 2019. 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.
- With no income and mounting legal costs, both attributable to CalPERS actions, the Board elected to dissolve the JPA on December 28, 2018. This action was designed to preserve what assets remained in order to have resources to continue trying to resolve matters with CalPERS and former employees.
- The dissolution of LGS triggered the dissolution of Municipal Services Authority (MSA) a Joint Powers Authority of which LGS was one of the two members. Upon the dissolution of MSA, certain assets and liabilities were distributed in accordance with JPA provisions.
- A successor entity for LGS was set up to receive its remaining assets and liabilities. That entity is Municipal Shared Services, a non-profit benefits corporation.

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, 2019, June 30, 2018 and June 30, 2017. 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, 2019 was zero compared to the June 30, 2018 total of negative \$949,298 and \$246,242 at June 30, 2017. 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.

	2017	2018	2019	Change	Percent Change
ASSETS					
Current Assets	\$1,784,000	\$691,794	\$0	(\$691,794)	-100%
Deferred Outflow of Pension Resources	939,017	778,116	0	-778,116	-100%
LIABILITIES					
Current Liabilities	1,362,524	1,294,428	0	-1,294,428	-100%
Non-Current Liabilities	950,289	1,008,611	0	-1,008,611	-100%
Total Liabilities	<u>2,312,813</u>	<u>2,303,039</u>	0	-2,303,039	100%
Deferred Inflow of Pension Resources	163,962	116,169	0	-116,169	-100.0%
Net Position					
Unrestricted	<u>246,242</u>	<u>-949,298</u>	0	949,298	-100%

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 an decrease in net position of \$949,298 for the year ended June 30, 2019. There were no operating revenues were in fiscal year 2019, a decrease from the FY18 total of \$918,508 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 final entry for FY19 is the dissolution entry to close the financial records of the JPA.

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

	2017	2018	2019	Change	Percent Change
Operating Revenues:					
Charges for services	2,145,434	918,508	-	(918,508)	-100%
Operating Expenses:					
Salaries and benefits	1,880,475	1,639,861	46,472	(1,593,389)	-97%
Administration	744,953	474,187	147,102	(327,085)	-69%
Total Operating Expenses	2,625,428	2,114,048	193,574	(1,920,474)	-91%
Operating Income (Loss)	(479,994)	(1,195,540)	(193,574)	1,001,966	-84%
Dissolution entries			1,142,872		
Beginning Net Position	726,236	246,242	(949,298)	(1,195,540)	-486%
Ending Net Position	246,242	(949,298)	-	949,298	-100%

CAPITAL ASSETS

At June 30, 2019, 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 was a unique government agency, in that it was 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 determined 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 ensured that the Authority stayed current with its mission to serve local agencies in a fiscally sustainable manner. LGS began with no clients and no employees and served 12 client agencies with approximately 150 employees. Now, 17 years after beginning operations, the Authority has no more clients or employees and is dissolved.

Local Government Services Authority
Statement of Net Position
June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash and investments	\$ -	\$ 691,786
Accounts receivables	-	-
Prepaid expenses	-	8
Total assets	-	691,794
DEFERRED OUTFLOW OF RESOURCES		
Deferred employer contributions	-	132,325
Deferred outflows related to pension	-	645,791
Total deferred outflows of resources	-	778,116
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	-	1,779
Contribution payable to Municipal Services Authority	-	1,292,649
Total current liabilities	-	1,294,428
Noncurrent liabilities:		
Net pension liability	-	1,008,611
Total noncurrent liabilities	-	1,008,611
Total liabilities	-	2,303,039
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pension	-	116,169
Total deferred outflows of resources	-	116,169
NET POSITION		
Unrestricted	-	(949,298)
Total net position	\$ -	\$ (949,298)

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, 2019 and 2018

	2019	2018
OPERATING REVENUES:		
Charges for services:		
Service charges	\$ -	\$ 918,508
Total operating revenues	-	918,508
OPERATING EXPENSES:		
Salaries and benefits	46,472	1,639,861
Administration	147,102	474,187
Total operating expenses	193,574	2,114,048
OPERATING INCOME:	(193,574)	(1,195,540)
SPECIAL ITEM:		
Dissolution of Local Government Services Authority	1,142,872	-
Change in net position	949,298	(1,195,540)
NET POSITION:		
Beginning of year	(949,298)	246,242
End of year	\$ -	\$ (949,298)

See accompanying Notes to Basic Financial Statements.

Local Government Services Authority
Statement of Cash Flows
For the years ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for services	\$ -	\$ 1,158,977
Cash paid to supplies for goods and services	(147,094)	(470,187)
Cash paid to employees for services	(48,253)	(1,536,527)
Net cash provided by operating activities	(195,347)	(847,737)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash transferred to successor entity	(496,439)	-
Net cash provided by noncapital financing activities	(496,439)	-
CASH AND CASH EQUIVALENTS:		
Beginning of year	691,786	1,539,523
End of year	\$ -	\$ 691,786
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ (193,574)	\$ (1,195,540)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Changes in assets and liabilities:		
Accounts receivable	-	240,469
Prepaid expenses	8	4,000
Deferred outflows of resources	-	160,901
Accounts payable	(1,781)	(68,096)
Compensated absences	-	(164,601)
Net pension liability	-	222,923
Deferred inflows of resources	-	(47,793)
Net cash provided by operating activities	\$ (195,347)	\$ (847,737)

See accompanying Notes to Basic Financial Statements.

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NOTES TO BASIC FINANCIAL STATEMENTS

Local Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2019 and 2018

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, 2019 and 2018

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, 2019 and 2018

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 2019, the Authority adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 83, *Certain Asset Retirement Obligations* - The objective of this statement is to addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this statement did not apply to the Authority for the current fiscal year
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* - The objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this statement did not apply to the Authority for the current fiscal year.

Local Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2019 and 2018

2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2018 consisted of CalTRUST Funds in the amount of \$691,786. 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, 2019 and 2018

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.

Local Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2019 and 2018

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 are summarized as follows:

Hire Date	Miscellaneous - Classic		Miscellaneous - PEPRA	
	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

Local Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2019 and 2018

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, Notes were \$181,001.

As of June 30, 2018, the Authority reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$1,008,611.

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 was 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, 2016, and 2017 was as follows:

Proportion - June 30, 2016	0.009080%
Proportion - June 30, 2017	<u>0.010170%</u>
Change - Increase (Decrease)	0.001090%

Local Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2019 and 2018

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, the Authority recognized pension expense(income) of \$468,356. At June 30, 2019 and 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ -	\$ -	\$ 132,325	\$ -
Changes in employer's proportion	-	-	250,221	54,054
Differences between the employer's contribution and the employer's proportionate share of contributions	-	-	74,613	12,257
Changes of assumptions	-	-	260,049	19,829
Differences between expected and actual experiences	-	-	2,096	30,029
Net differences between projected and actual earnings on plan investments	-	-	58,812	-
Total	\$ -	\$ -	\$ 778,116	\$ 116,169

\$132,325 reported as deferred outflows of resources related to contributions subsequent to the measurement date was recognized as a reduction of the net pension liability during the year ended June 30, 2019. 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	2018
Ending June 30:	
2018	\$ -
2019	236,696
2020	192,529
2021	135,318
2022	(34,921)

Local Government Services Authority
Notes to Basic Financial Statements
For the years ended June 30, 2019 and 2018

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

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age-Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Projected Salary Increase	Varies by entry age and service
Investment Rate of Return (1)	7.15%
Mortality	Derived by CalPERS membership date 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 valuation 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 percent for the Plan for the measurement date June 30, 2017. 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 percent discount rate is adequate and the use of the municipal bond rate calculation was not necessary. The long term expected discount rate of 7.15 and percent has been 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.

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For the years ended June 30, 2019 and 2018

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	New Strategic Allocation	Real Return Years 1-10(a)	Real Return Years 11+(b)
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	80.00%	2.27%
Inflation Sensitive	6.00%	60.00%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
	100.00%		

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

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

Local Government Services Authority
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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:

1% Decrease	6.15%
Net Pension Liability	1,865,808
Current Discount Rate	7.15%
Net Pension Liability	1,008,611
1% Increase	8.15%
Net Pension Liability	298,664

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, 2018 the Authority reported a payable of \$0 for outstanding amount of required contributions to the pension plan required.

Local Government Services Authority
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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 were \$71,393.

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.

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
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For the years ended June 30, 2019 and 2018

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.

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.

Local Government Services Authority
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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, 2018, the amount held on behalf of LGSA was \$691,786.

9. DISSOLUTION OF THE AUTHORITY

During the fiscal year 2019, LGSA was dissolved. The Authority's Net Position balance at the time of dissolution of \$1,142,872 has been transferred to Regional Government Services Authority and Municipal Services Authority and is reported as a special item in the Statement of Revenues, Expenses and Changes in Net Position.

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**REQUIRED
SUPPLEMENTARY INFORMATION**

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Local Government Services Authority
Required Supplementary Information
For the years ended June 30, 2019 and 2018

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)
Contribution 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.