

MUNICIPAL SERVICES AUTHORITY

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015

**JAMES MARTA &
COMPANY LLP**

**CERTIFIED PUBLIC
ACCOUNTANTS**

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MUNICIPAL SERVICES AUTHORITY

BOARD OF DIRECTORS

JUNE 30, 2016

**Ken Nordhoff
Chair**

**Dan Schwarz
Vice-Chair**

**Steve Rogers
Member**

**Richard Averett
Executive Director**

MUNICIPAL SERVICES AUTHORITY

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James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Municipal Services Authority
Carmel Valley, California

Report on the Financial Statements

We have audited the accompanying Statement of Net Position of Municipal Services Authority (the Authority), as of and for the years ended June 30, 2016 and 2015, and the related statement of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Municipal Services Authority as of June 30, 2016 and 2015, and the respective changes in financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America, as well as systems prescribed by the State Controller's Office and regulations governing special districts.

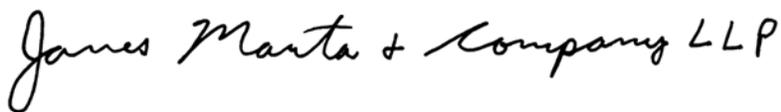
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Claims Reconciliation by Type of Contract and Claims Development Information by Type of Contract be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2016 on our consideration of Municipal Services Authority's internal control over financial reporting and our tests of its compliance with provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipal Services Authority's internal control over financial reporting and compliance.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

MUNICIPAL SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015

Municipal Services Authority (MSA) is a Joint Powers Authority (JPA) established to provide its members a joint program and system for workers' compensation, liability and crime insurance. MSA also provides joint purchasing power for major medical, and dental plans. The membership in MSA on June 30, 2016 and 2015 consisted of two Joint Powers Authorities: Regional Government Services Authority and Local Government Services Authority.

MSA was formed in January 2012 and became operational July 1, 2012. MSA retained Keenan & Associates as its insurance broker. MSA joined an insurance purchasing pool (Municipal Insurance Cooperative) of other public agencies in July 2014, and obtains Workers' Compensation coverage and Liability coverage through the pool. For fiscal year 2016 (FY16) workers' compensation coverage was provided by Arch Insurance Group. This coverage insures from MSA's retention of \$100,000 up to \$1,000,000. The Arch excess workers' compensation policy attaches at \$1,000,000 and insures up to the MIC limits of \$100,000,000. Liability coverage self-insured retention is at \$50,000 per occurrence.

This section of the annual financial report presents our discussion and analysis of MSA's financial performance during the period from July 1, 2014 to June 30, 2016. Please read it in conjunction with MSA's financial statements, which follow this section.

Financial Highlights

- In preparation of prior period liability claims in process, a MSA member agency contributed an additional \$200,000 towards claims reserve during the fiscal year.
- Claims and claim adjustment expenses attributable to insured events in prior years was \$(28,680). In addition, a provision for insured events in the current year (IBNR) was made in the amount of \$43,750.
- Before additional member contributions, revenues were in line with budget assumptions, while Worker's Compensation and General Liability premium expense came in \$6,816 above budget, yielding net income in line with the midyear forecast.

Overview of the Financial Statements

This report consists of three parts – *management's discussion and analysis* (this section), the *financial statements*, and *required supplementary information*.

The financial statements are prepared in conformity with generally accepted accounting principles and necessarily include amounts based upon reliable estimates and judgments. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows are included along with Notes to the Financial Statements to clarify unique accounting policies and financial information.

The Statement of Net Position includes all of MSA's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position.

MUNICIPAL SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015

MSA reports its activities as an enterprise fund. An enterprise fund is a proprietary fund, and as such uses full accrual accounting for its activities. The changes in net position presented on the Statement of Revenues, Expenses and Changes in Net Position are on an accrual basis and do not necessarily coincide with the Statement of Cash Flows which presents information about the cash receipts and cash payments during the year.

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Change</u>	<u>Percent Change</u>
Current Assets					
Cash and investments	\$ 546,800	\$ 1,361,318	\$ 926,503	\$(434,815)	-32%
Accounts receivable	<u>1,072,794</u>	<u>1,292,649</u>	<u>2,163,411</u>	<u>870,762</u>	<u>67%</u>
Total Assets	<u>\$ 1,619,594</u>	<u>\$ 2,653,967</u>	<u>\$ 3,089,914</u>	<u>\$ 435,947</u>	<u>16%</u>
Non-Current Liabilities					
Retrospective contributions payable	\$ 888,139	\$ 888,139	\$ 867,432	\$ (20,707)	-2%
Unpaid claims & claim adjustments	<u>357,121</u>	<u>75,000</u>	<u>87,500</u>	<u>12,500</u>	<u>17%</u>
	<u>1,245,260</u>	<u>963,139</u>	<u>954,932</u>	<u>(8,207)</u>	<u>-1%</u>
Net Position					
Unrestricted	<u>\$ 374,334</u>	<u>\$ 1,690,828</u>	<u>\$ 2,134,982</u>	<u>\$ 444,154</u>	<u>26%</u>

Assets

Total assets of MSA were budgeted to increase incrementally each year, starting with the first fiscal year of operation. As previously noted, a high workers' compensation coverage deductible and prior period MSA member claims in process caused the Board to ask for additional member contributions to prepare for contingencies.

One minor worker's compensation claim was paid during the fiscal year ended June 30, 2016.

Liabilities

Based upon an actuarial study, claims liability was increased by \$12,500. The JPA also recognized a \$20,707 reduction in retrospective claims arising from the member agencies' prior participation in the California Joint Powers Insurance Authority insurance pool.

MSA has no long-term debt.

MUNICIPAL SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015

Net Position

MSA's unrestricted net position increased due to a lack of claims, budgeted member contributions to claims reserves and an additional member contribution to boost claims reserves. Through the combination of coverage level adjustments and additional member contributions over the past two fiscal years, staff believes the MSA has increased confidence that available assets will be adequate to pay actual claims costs.

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Change</u>	<u>Percent Change</u>
Operating Revenues					
Member contributions	\$ 834,993	\$ 1,221,465	\$ 657,000	\$ (564,465)	-46%
Miscellaneous revenue	-	7,654	-	(7,654)	-100%
Total	<u>834,993</u>	<u>1,229,119</u>	<u>657,000</u>	<u>(572,119)</u>	<u>-47%</u>
Operating Expenses					
Provision for claims expense	578,083	(282,121)	15,070	297,191	-105%
Retrospective contributions	-	-	(20,707)	(20,707)	N/A
Insurance	125,705	116,747	131,816	15,069	13%
Administration	106,259	77,999	86,667	8,668	11%
Total	<u>810,047</u>	<u>(87,375)</u>	<u>212,846</u>	<u>300,221</u>	<u>-344%</u>
Operating Income (Loss)	24,946	1,316,494	444,154	(872,340)	-66%
Beginning Net Position	<u>349,388</u>	<u>374,334</u>	<u>1,690,828</u>	<u>1,316,494</u>	<u>352%</u>
Ending Net Position	<u>\$ 374,334</u>	<u>\$ 1,690,828</u>	<u>\$ 2,134,982</u>	<u>\$ 444,154</u>	<u>26%</u>

Revenues

MSA's operating revenues reflect the budget of \$457,000 and mid-year additional member contributions of \$200,000. MSA's only revenue source in FY2016 was member contributions.

Expenses

MSA's operating expenses (claims, reinsurance and administrative expenses) totaled a \$212,846. Absent the extraordinary claims accrual reversal in FY2015 resulting from the actuarial study performed in that year, operating expenses increased 9% compared to FY2015.

MUNICIPAL SERVICES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015

Description of Facts or Conditions Expected to have a Significant Effect on Financial Position or Results of Operations

Prior period claims resulting from member activity while both member agencies participated in the California Joint Powers Insurance Authority (CJPIA) are expected to filter through the CJPIA claims administration, processing and allocation procedures over the next several years. It is intended that funding has been provided for MSA to pay for these expenses. Currently, there are no other known facts or conditions that are expected to have a significant effect on the financial position or results of operations.

Financial Contact

Questions concerning the information provided in this discussion and analysis and MSA's financial statements should be addressed to:

MSA
Richard H. Averett, Executive Director
PO Box 1350
Carmel Valley, CA 93924
831-308-1508

BASIC FINANCIAL STATEMENTS

MUNICIPAL SERVICES AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash and investments	\$ 926,503	\$ 1,361,318
Accounts receivable	<u>2,163,411</u>	<u>1,292,649</u>
Total Assets	<u>3,089,914</u>	<u>2,653,967</u>
LIABILITIES		
Non-Current Liabilities:		
Retrospective contributions payable	867,432	888,139
Unpaid claims and claims adjustment expenses	<u>87,500</u>	<u>75,000</u>
Total Liabilities	<u>954,932</u>	<u>963,139</u>
NET POSITION		
Net Position		
Unrestricted	<u>\$ 2,134,982</u>	<u>\$ 1,690,828</u>

MUNICIPAL SERVICES AUTHORITY

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

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

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Member contributions	\$ 657,000	\$ 1,221,465
Miscellaneous revenue	-	7,654
Total Operating Revenues	<u>657,000</u>	<u>1,229,119</u>
Operating Expenses:		
Provision for claims expense	15,070	(282,121)
Retrospective contributions	(20,707)	-
Insurance	131,816	116,747
Professional services	3,000	-
Administration	83,667	77,999
Total Operating Expenses	<u>212,846</u>	<u>(87,375)</u>
Operating Income (Loss)	444,154	1,316,494
Beginning Net Position	<u>1,690,828</u>	<u>374,334</u>
Ending Net Position	<u>\$ 2,134,982</u>	<u>\$ 1,690,828</u>

MUNICIPAL SERVICES AUTHORITY

STATEMENT OF CASH FLOWS

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

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from members	\$ 657,000	\$ 1,001,610
Cash held by RGSA on-behalf of MSA	(870,762)	-
Other cash receipts	-	7,654
Cash paid to suppliers for goods and services	(218,483)	(194,746)
Cash paid for claims	<u>(2,570)</u>	<u>-</u>
Net cash provided (used) by operating activities	(434,815)	814,518
Cash and cash equivalents, beginning of year	<u>1,361,318</u>	<u>546,800</u>
Cash and cash equivalents, end of year	<u>\$ 926,503</u>	<u>\$ 1,361,318</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 444,154	\$ 1,316,494
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Decrease (increase) in:		
Accounts receivable	(870,762)	(219,855)
Increase (decrease) in:		
Retrospective contributions payable	(20,707)	-
Claims liability	<u>12,500</u>	<u>(282,121)</u>
Net cash provided (used) by operating activities	<u>\$ (434,815)</u>	<u>\$ 814,518</u>

MUNICIPAL SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

Municipal Services Authority (Authority) is a Joint Powers Authority established in January 2012 to provide a joint program and system for workers' compensation, liability and crime insurance programs for each member of the Authority.

The member agencies of Municipal Services Authority are Local Government Services Authority and Regional Government Services Authority. For financial reporting purposes, the Authority is considered a stand-alone government with separately issued financial statements. Accordingly, the Authority is jointly governed by its member participants as a separate and specific activity in which member participants retain an ongoing financial responsibility.

Municipal Services Authority has elected to enter into a cooperation agreement with Local and Regional Government Services Authorities to share administrative services, thereby taking advantage of pooled staff resources and saving support costs.

Admission

Any public agency may become a member of the Authority upon two-thirds vote of the members present at a Board of Directors' meeting and by paying an appropriate entry fee or charge, as established by the Board of Directors.

Withdrawal

Agencies may withdraw upon advance written notice subject to the joint powers agreement and bylaws of the Authority. The effect of withdrawal (or termination) does not terminate the responsibility of the agency to continue paying its share of assessments or other financial obligations incurred by reason of its previous participation.

B. DESCRIPTION OF PROGRAMS

Workers' Compensation

The Workers' Compensation Program was established to account for the provision of this coverage to participating members. The program year runs from July 1 to June 30. Funding is based on member contributions established by the Board. The Authority has contracted with a third party administrator to administer claims on behalf of participating members.

Self-insured coverage at June 30, 2016:

JPA's SIR:	\$100,000 per occurrence
Reinsurance:	\$100,001 to \$1,000,000 per occurrence
Excess Insurance:	\$1,000,000 to \$100,000,000 per occurrence

MUNICIPAL SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

B. DESCRIPTION OF PROGRAMS (CONTINUED)

Liability

The Liability Program was established for the purposes of creating a pool to share the costs of liability claims, administrative costs, and excess insurance for Members. The program year runs from July 1 to June 30. Funding for the program is based on member contributions established by the Board. The Authority has contracted with a third party administrator to administer claims on behalf of participating members.

Self -insured coverage at June 30, 2016:

JPA's SIR: \$50,000 per occurrence
Excess Insurance: \$10,000,000 per occurrence

C. BASIS OF ACCOUNTING

The Authority is accounted for as an enterprise fund and its financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows.

Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are member contributions. Operating expenses of the Authority include the cost of claims, insurance and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenue and expense.

D. CASH AND CASH EQUIVALENTS

Municipal Services Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

E. ACCOUNTS RECEIVABLE

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At June 30, 2016 and 2015, the total accounts receivable balance was considered collectible.

F. INCOME TAXES

The Authority is a governmental entity and as such its income is exempt from taxation under Section 115(1) of the Internal Revenue Code and Section 23701d of the California and Taxation Code. Accordingly, no provision for federal or state income taxes has been made in the accompanying financial statements.

MUNICIPAL SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

G. UNPAID CLAIMS LIABILITIES (CLAIMS RESERVES AND CLAIMS INCURRED BUT NOT REPORTED)

Each program establishes claims liabilities based on estimates of the ultimate cost of claims (including future allocated claim adjustment expense) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability.

Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

H. UNALLOCATED LOSS ADJUSTMENT EXPENSE

The liability for unallocated loss adjustment expense includes all costs expected to be incurred in connection with the settlement of unpaid claims that cannot be related to a specific claim. Management has estimated the accrual based on past experience and the amount is included in general and administrative expense.

I. EXCESS INSURANCE

The Authority purchases specific occurrence excess insurance from commercial carriers for the workers compensation and pooled liability programs. The coverage for losses above the corresponding policy year's specified self-insured retention (SIR) is limited to that policy year's excess coverage limit.

J. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

MUNICIPAL SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Cash in banks	\$ 1,430	\$ 4,000
CalTRUST Funds	<u>925,073</u>	<u>1,357,318</u>
Total	<u>\$ 926,503</u>	<u>\$ 1,361,318</u>

The amount in the CalTRUST investment pool is held by Regional Government Services Authority as a fiduciary on behalf of the Authority (See Note 4 – Related Party Transactions).

The carrying amount of the Authority’s cash is covered by federal depository insurance up to \$250,000. Should deposits exceed the insured limits, the balance is covered by collateral held by the bank in accordance with California law requiring the depository bank to hold collateral equal to 110% of the excess government funds on deposit. This collateral must be in the form of government-backed securities.

CalTRUST Investment Pool

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

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

MUNICIPAL SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

2. CASH AND INVESTMENTS (CONTINUED)

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
US Agency, Treasury & Municipal Notes (USATM):				
US Agency Notes:	\$ 10,953	\$ -	\$ -	\$ 10,953
Notes/Discount Notes FFCB	70,215	-	-	70,215
Notes/Discount Notes FHLB	58,339	-	-	58,339
Notes/Discount Notes FNMA	20,324	-	-	20,324
Notes/Discount Notes FHLMC	227,951	-	-	227,951
US Treasury Notes:	115,176	-	-	115,176
Corporate Bonds	320,968	-	-	320,968
Asset Back Securities	-	100,273	-	100,273
Money Market Accounts	-	875	-	875
Total	<u>\$ 823,925</u>	<u>\$ 101,148</u>	<u>\$ -</u>	<u>\$ 925,073</u>

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The monies held in the CalTRUST investment pool is not subject to categorization by risk category. It is also not rated as to credit risk by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of Municipal Services Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total Authority investments for the year ended June 30, 2016 and 2015.

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.

MUNICIPAL SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

3. UNPAID CLAIMS LIABILITIES

The claims liability for the years ended June 30, 2016 and 2015 were based on an actuarial valuation. The following represents changes in claims liabilities for the Authority during the period ended June 30, 2016 and 2015:

	2016	2015
Unpaid claims and claim adjustment expenses at beginning of year	\$ 75,000	\$ 357,121
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	43,750	75,000
Increase/(decrease) in provision of insured events of prior years	(28,680)	(357,121)
Total incurred claims and claim adjustment expenses	15,070	(282,121)
Payments:		
Claim and claim adjustment expenses attributable to insured events of the current year	2,570	-
Claim and claim adjustment expenses attributable to insured events of the prior years	-	-
Total Payments	2,570	-
Total unpaid claims and claims adjustment expenses	\$ 87,500	\$ 75,000

The components of unpaid claims and claim adjustment expenses as of June 30 were as follows:

	2016	2015
Claims reserves	\$ 30,765	\$ -
Claims incurred but not reported (IBNR)	56,735	75,000
Unallocated loss adjustment expenses (ULAE)	-	-
Total Claims Liabilities	\$ 87,500	\$ 75,000
Current portion	\$ 17,500	\$ -
Non-current portion	70,000	75,000
Total Claims Liabilities	\$ 87,500	\$ 75,000

MUNICIPAL SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

4. RELATED PARTY TRANSACTIONS

Regional Government Services Authority (RGSA) is a member of Municipal Services Authority and also provides administration for the Authority. RGSA charges administrative overhead to the Authority each month. The amount charged for the years ended June 30, 2016 and 2015 was \$40,000 each year. RGSA also holds cash and investments on behalf of the Authority. At June 30, 2016 and 2015, the amount held on behalf of the Authority was \$925,073 and \$1,357,318, respectively. As of June 30, 2016 and 2015, the Authority held a 'due from RGSA' balance of \$870,762 and \$0, respectively.

5. RETROSPECTIVE CONTRIBUTIONS

The financial statements reflect the assumption of the retrospective contribution liabilities related to both members' participation in California Joint Powers Insurance Authority (CJPIA), a risk sharing pool. At June 30, 2016 and 2015 the amounts assumed by Municipal Services Authority for the workers' compensation and liability programs were \$867,432 and \$888,139, respectively. The amounts are based on CJPIA calculations as of June 30, 2015 and 2014, respectively, as the amount as of June 30, 2016 is not calculated until after the completion of our audit.

6. JOINTLY GOVERNED ORGANIZATIONS

As of July 1, 2014, Municipal Services Authority became a member of Municipal Insurance Cooperative (MIC), a newly formed Joint Powers Authority which provides coverage for dental benefits. On January 1, 2015, the Authority began using the Dental program, which was started in August 2014.

MIC is governed by a Board consisting of representatives from its member agencies. The Board controls the operations, including selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the Board. Each member agency pays a contribution or assessment commensurate with the level of coverage and services requested and shares surpluses and deficits proportionate to their participation in the joint powers authority.

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

6. JOINTLY GOVERNED ORGANIZATIONS (CONTINUED)

Condensed financial information for MIC as of and for the year ended June 30, 2015 is as follows:

	<u>2015*</u>
Total Assets	<u>\$ 10,991</u>
Total Liabilities	5,000
Total Net Position	<u>5,991</u>
Total Liabilities and Net Position	<u>\$ 10,991</u>
Total Revenues	766,801
Total Expenditures	<u>760,810</u>
Increase (Decrease in Net Position	<u>5,991</u>

** Most recent report available*

Payments to MIC for the years ended June 30, 2016 and 2015 were \$75,483 and \$154,747, respectively.

7. SUBSEQUENT EVENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

MUNICIPAL SERVICES AUTHORITY

**REQUIRED SUPPLEMENTARY INFORMATION
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016 AND 2015

	Worker's Compensation		Liability		Totals	
	2016	2015	2016	2015	2016	2015
Unpaid claims and claim adjustment expenses at beginning of year	\$ 50,000	\$ 307,121	\$ 25,000	\$ 50,000	\$ 75,000	\$ 357,121
Incurred claims and claim adjustment expenses:						
Provision for insured events of the current year	37,500	50,000	6,250	25,000	43,750	75,000
Increase/(decrease) in provision of insured events of prior years	(9,930)	(307,121)	(18,750)	(50,000)	(28,680)	(357,121)
Total incurred claims and claim adjustment expenses	27,570	(257,121)	(12,500)	(25,000)	15,070	(282,121)
Payments:						
Claim and claim adjustment expenses attributable to insured events of the current year	2,570	-	-	-	2,570	-
Claim and claim adjustment expenses attributable to insured events of the prior years	-	-	-	-	-	-
Total Payments	2,570	-	-	-	2,570	-
Total unpaid claims and claims adjustment expenses	<u>\$ 75,000</u>	<u>\$ 50,000</u>	<u>\$ 12,500</u>	<u>\$ 25,000</u>	<u>\$ 87,500</u>	<u>\$ 75,000</u>

See accompanying notes to the required supplementary information.

MUNICIPAL SERVICES AUTHORITY

**REQUIRED SUPPLEMENTARY INFORMATION
CLAIMS DEVELOPMENT INFORMATION – WORKERS’ COMPENSATION**

AS OF JUNE 30, 2016

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
1. Premiums and investment revenue:				
Earned	\$ 573,649	\$ 626,245	\$ 921,839	\$ 492,750
Ceded	(50,045)	(61,445)	(55,405)	(72,208)
Net earned	<u>523,604</u>	<u>564,800</u>	<u>866,434</u>	<u>420,542</u>
2. Unallocated expenses	78,375	79,694	58,499	62,750
3. Estimated incurred claims and expenses, end of policy year				
Incurred	147,042	160,079	50,000	37,500
Ceded Claims	-	-	-	-
Net incurred claims	<u>147,042</u>	<u>160,079</u>	<u>50,000</u>	<u>37,500</u>
4. Paid (cumulative) as of:				
End of policy year	-	-	-	2,570
One year later	-	-	-	
Two years later	-	-		
Three years later	-			
5. Reestimated ceded claims and expenses:	-	-	-	-
6. Reestimated net incurred claims and expenses:				
End of policy year	147,042	160,079	50,000	37,500
One year later	147,042	-	40,070	
Two years later	-	-		
Three years later	-			
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	<u>\$ (147,042)</u>	<u>\$ (160,079)</u>	<u>\$ (9,930)</u>	<u>\$ -</u>

MUNICIPAL SERVICES AUTHORITY

**REQUIRED SUPPLEMENTARY INFORMATION
CLAIMS DEVELOPMENT INFORMATION – LIABILITY**

AS OF JUNE 30, 2016

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
1. Premiums and investment revenue:				
Earned	\$ 191,216	\$ 208,748	\$ 307,280	\$ 164,250
Ceded	(62,256)	(64,260)	(61,342)	(59,608)
Net earned	<u>128,960</u>	<u>144,488</u>	<u>245,938</u>	<u>104,642</u>
2. Unallocated expenses	26,125	26,565	19,500	20,917
3. Estimated incurred claims and expenses, end of policy year				
Incurred	51,634	-	25,000	6,250
Ceded Claims	-	-	-	-
Net incurred claims	<u>51,634</u>	<u>-</u>	<u>25,000</u>	<u>6,250</u>
4. Paid (cumulative) as of:				
End of policy year	1,634	-	-	-
One year later	1,634	-	-	
Two years later	1,634	-		
Three years later	1,634			
5. Reestimated ceded claims and expenses:	-	-	-	-
6. Reestimated net incurred claims and expenses:				
End of policy year	51,634	-	25,000	6,250
One year later	51,634	-	6,250	
Two years later	1,634	-		
Three years later	1,634			
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	<u>\$ (50,000)</u>	<u>\$ -</u>	<u>\$ (18,750)</u>	<u>\$ -</u>

MUNICIPAL SERVICES AUTHORITY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016

1. RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT

The schedule represents the changes in claims liabilities for the past year for the Authority's workers' compensation and liability program.

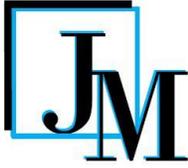
2. CLAIMS DEVELOPMENT INFORMATION

The tables illustrate the Authority's earned revenues (net of reinsurance) and investment income compared to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Authority as of the end of the year.

The rows of the table are defined as follows:

1. This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers and net earned contribution revenue and reported investment revenue.
2. This line shows each fiscal year's other operating costs of the Authority including overhead and claims expense not allocable to individual claims.
3. This line shows the Authority's gross incurred claims and allocated claim adjustment expense (both paid and accrued), claims assumed by reinsurers and net incurred claims and allocated adjustment expenses as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). The original estimate of ceded claims was not available.
4. This section shows the cumulative net amounts paid as of the end of successive years for each policy year.
5. This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
6. This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claim, reevaluation of existing information on known claims and emergence of new claims not previously known.
7. This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally estimated. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years.

OTHER INDEPENDENT AUDITOR'S REPORT



James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Municipal Services Authority
Carmel Valley, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Municipal Services Authority (the "Authority"), as of and for the year ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 9, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financials statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

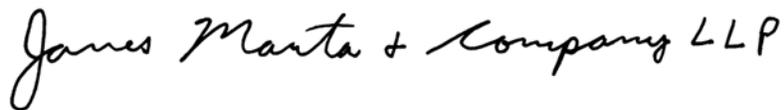
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipal Services Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "James Marta & Company LLP". The signature is written in a cursive, flowing style.

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