

# Municipal Services Authority

*Basic Financial Statements and  
Independent Auditors' Reports*

*For the years ended June 30, 2017 and 2016*



**Municipal Services Authority**  
**Basic Financial Statements**  
**For the years ended June 30, 2017 and 2016**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the  
Municipal Services Authority  
Carmel Valley, California

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

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

**Prior Period Financial Statements**

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

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, claims reconciliation by type of contract, and claims development information by type of contract on pages 3–6 and 25-28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

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

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



Oakland, California  
November 22, 2017

**MUNICIPAL SERVICES AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2017 AND 2016**

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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, 2017 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. The Authority 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 2017 (FY17) 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 SIR 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, 2015 to June 30, 2017. Please read it in conjunction with MSA's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- Claims and claim adjustment expenses attributable to insured events in prior years was \$1,011,825. In addition, a provision for insured events in the current year (IBNR) was made in the amount of \$150,000.
- Revenues were in line with budget assumptions, while Worker's Compensation and General Liability premium expense came in \$9,389 above budget.
- The budget did not forecast changes in the provision for claims or retrospective adjustments which combined to total \$237,059.
- The operating expenses of Insurance premium, professional and administrative fees totaled \$49,835 above budgeted levels largely due to the additional cost of the LGS CalPERS audit.

**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 the Pool'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, 2017 AND 2016

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.

	2015	2016	2017	Change	Percent Change
Current Assets					
Cash and Investments	\$1,361,318	\$926,503	\$1,379,863	\$453,360	49%
Accounts receivable	1,292,649	2,163,411	1,874,050	-289,361	-13%
Total Assets	2,653,967	3,089,914	3,253,913	163,999	5%
Non-Current Liabilities					
Unpaid claims & claim adjustments	963,139	954,932	1,161,825	206,893	22%
Net Position					
Unrestricted	\$1,690,828	\$2,134,982	\$2,092,088	(\$42,894)	-2%

**Assets**

Total assets of MSA were budgeted to increase incrementally each year, starting with the first fiscal year of operation. This approach continued with FY17 resulting in a 5% growth in assets. Member contributions were offset by booking additional amounts to claims and claim reserve expenses in FY17.

One minor worker's compensation claim was paid during the fiscal year ended June 30, 2017.

**Liabilities**

Based upon an actuarial study, the incurred but not reported unpaid claims exposure was increased by \$87,000. The JPA also recognized a \$144,393 increase 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, 2017 AND 2016**

**Net Position**

MSA's unrestricted net assets remained essentially unchanged with a 2% decrease. Prior fiscal period strategies to increase reserves positioned the JPA for claims accrual adjustments such as those incurred in FY17.

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Change</b>	<b>Percent Change</b>
Operating Revenues:					
Member contributions	\$1,229,119	\$657,000	\$457,000	(\$200,000)	-30%
Operating Expenses:					
Provision for claims expense	-282,121	15,070	92,666	-107,736	-715%
Retrospective contributions		-20,707	144,393	165,100	
Insurance	116,747	131,816	134,398	2,582	2%
Administration	77,999	86,667	128,437	41,770	48%
Total Operating Expenses	-87,375	212,846	499,894	287,048	135%
Operating Income (Loss)	1,316,494	444,154	-42,894	-487,048	-110%
Beginning Net Position	374,334	1,690,828	2,134,982	444,154	26%
Ending Net Position	\$1,690,828	\$2,134,982	\$2,092,088	-42,894	-2%

**Revenues**

MSA's operating revenues reflect the budget of \$457,000 in member contributions. MSA's only revenue source is member contributions.

**Expenses**

MSA's operating expenses (claims, reinsurance and administrative expenses) totaled a \$262,835 which is a 20% increase compared to FY2016. The cost of RGS administrative services increased in FY17 due to the impacts of the CalPERS audit of LGS. The provision for claims expense increased \$77,596 over FY16, and the retrospective adjustments from the JPA's prior pooled insurance program, the California Joint Powers Insurance Authority, increased \$165,100 from FY16.

**MUNICIPAL SERVICES AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2017 AND 2016**

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**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 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. At present 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

**Municipal Services Authority**  
**Statement of Net Position**  
**June 30, 2017 and 2016**

	2017	2016
<b>ASSETS</b>		
Current assets:		
Cash and investments	1,379,863	\$ 926,503
Contribution receivable from Regional Government Services Authority	581,401	870,762
Contribution receivable from Local Government Services Authority	1,292,649	1,292,649
<b>Total assets</b>	<b>3,253,913</b>	<b>3,089,914</b>
<b>LIABILITIES AND NET POSITION</b>		
Noncurrent liabilities:		
Retrospective contributions payable	1,011,825	867,432
Unpaid claims and claim adjustment expense	150,000	87,500
Total noncurrent liabilities	1,161,825	954,932
<b>Total liabilities</b>	<b>1,161,825</b>	<b>954,932</b>
<b>NET POSITION</b>		
Unrestricted	2,092,088	2,134,982
<b>Total net position</b>	<b>\$ 2,092,088</b>	<b>\$ 2,134,982</b>

See accompanying Notes to Basic Financial Statements.

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

	2017	2016
<b>OPERATING REVENUES:</b>		
Charges for services:		
Member contributions	\$ 457,000	\$ 657,000
<b>Total operating revenues</b>	<b>457,000</b>	<b>657,000</b>
<b>OPERATING EXPENSES:</b>		
Provision for claims expense	92,666	15,070
Retrospective contributions	144,393	(20,707)
Insurance	134,398	131,816
Professional services	8,000	3,000
Administration	120,437	83,667
<b>Total operating expenses</b>	<b>499,894</b>	<b>212,846</b>
<b>OPERATING INCOME:</b>	<b>(42,894)</b>	<b>444,154</b>
<b>NET POSITION:</b>		
Beginning of year	2,134,982	1,690,828
End of year	<b>\$ 2,092,088</b>	<b>\$ 2,134,982</b>

See accompanying Notes to Basic Financial Statements.

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

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received for services	\$ 746,361	\$ 657,000
Cash paid to supplies for goods and services	(262,835)	(218,483)
Cash paid for claims	(30,166)	(2,570)
<b>Net cash provided by operating activities</b>	<b>453,360</b>	<b>435,947</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Cash held by Regional Government Services Authority	-	(870,762)
<b>Net cash used in noncapital financing activities</b>	<b>-</b>	<b>(870,762)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>453,360</b>	<b>(434,815)</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	926,503	1,361,318
End of year	\$ 1,379,863	\$ 926,503
<b>RECONCILIATION OF OPERATING INCOME TO NET</b>		
<b>CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES:</b>		
Operating income	\$ (42,894)	\$ 444,154
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Changes in assets and liabilities:		
Contributions receivables	289,361	-
Restrospective contributions payable	144,393	(20,707)
Claims liability	62,500	12,500
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 453,360</b>	<b>\$ 435,947</b>

See accompanying Notes to Basic Financial Statements.

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# NOTES TO BASIC FINANCIAL STATEMENTS

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

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**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, 2017:

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 Basic Financial Statements**  
**For the years ended June 30, 2017 and 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***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, 2017:

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 and 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 member contributions. Operating expenses of the Authority include the cost of claims, insurance, and administrative expenses. All revenue 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. Contribution Receivables***

Contributions receivables relate to contributions owed to the Authority by Regional Government Services Authority and Local Government Services Authority for amounts budgeted to be contributed, but not received as of the end of the fiscal year.

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***F. 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.

***G. 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.

***H. 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.

***I. 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.

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***J. 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.

***K. New Pronouncements***

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

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

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**K. New Pronouncements, Continued**

- GASB Statement No. 77, *Tax Abatement Disclosure*- This Statement addresses the financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. The requirements of this statement were not applicable to the Authority.
- GASB Statement No. 78, *Pension Provided through Certain Multiple-Employer Defined Benefit Pension Plans*- The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this statement were not applicable to the Authority.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14* - The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this statement were not applicable to the Authority.

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**K. New Pronouncements, Continued**

- GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statement No. 67, No. 68, and No. 73* - This Statement addresses certain issues that had been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in the required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The City updated covered employee payroll information in the required supplementary information as part of implementation of this accounting standard. The requirements of this statement were not applicable to the Authority.

**2. CASH AND INVESTMENTS**

Cash and investments as of June 30, 2017 and 2016 consisted of the following:

	2017	2016
Cash in banks	\$ 4,000	\$ 1,430
CalTrust Funds	1,375,863	925,073
	<u>\$ 1,379,863</u>	<u>\$ 926,503</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).

**A. Cash in Bank**

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. California law also allows institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the Authority’s total cash deposits.

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

**2. CASH AND INVESTMENTS, Continued**

***B. 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).

***C. 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.

***D. 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.

Investment Type	Fair Value	Investment Maturities (in years)				
		1 year or Less	2 years	3 years	4 years	5 years or More
CalTrust	\$ 1,375,863	\$ 1,375,863	\$ -	\$ -	\$ -	\$ -
<b>Total</b>	<b>\$ 1,375,863</b>	<b>\$ 1,375,863</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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

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**2. CASH AND INVESTMENTS, Continued**

*D. Risk Disclosures, Continued*

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 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, 2017 and 2016. The monies held in the CalTRUST investment pool are not subject to this disclosure.

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. UNPAID CLAIMS LIABILITIES**

The claims liability for the years ended June 30, 2017 and 2016 were based on an actuarial valuation. The schedule on the following page represents changes in claims liabilities for the Authority during the period ended June 30, 2017 and 2016.

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

**3. UNPAID CLAIMS LIABILITIES, Continued**

	<u>2017</u>	<u>2016</u>
Unpaid claim and claim adjustment expense at beginning of year	\$ 87,500	\$ 75,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	98,916	43,750
Increase/(decrease) in provision of insured events in prior years	<u>(6,250)</u>	<u>(28,680)</u>
Total incurred claims and claim adjustment expenses	<u>92,666</u>	<u>15,070</u>
Payments		
Payments on claim and adjustment expenses attributable to insured events of the current year	<u>30,166</u>	<u>2,570</u>
Total Payments	<u>30,166</u>	<u>2,570</u>
Total unpaid claims and claims adjustment expenses	<u>\$ 150,000</u>	<u>\$ 87,500</u>

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

	<u>2017</u>	<u>2016</u>
Claim reserves	\$ 30,765	\$ 30,765
Claims incurred but not reported (IBNR)	<u>119,235</u>	<u>56,735</u>
Total	<u>\$ 150,000</u>	<u>\$ 87,500</u>

**4. RELATED PARTY TRANSACTIONS AND CONTRIBUTIONS RECEIVABLE**

***A. Administration Services***

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, 2017 and 2016 was \$40,000 each year. RGSA also holds cash and investments on behalf of the Authority. At June 30, 2017 and 2016, the amount held on behalf of the Authority was \$1,327,863 and \$925,073, respectively.

***B. Contribution Receivables from Members***

As of June 30, 2017 and 2016, the Authority had a 'contribution receivable from RGSA' balance of \$581,401 and \$870,762, respectively. As of June 30, 2017 and 2016, the Authority held a 'contribution receivable from LGSA' balance of \$1,292,649 and \$1,292,649 respectively. Contributions receivables from member agencies reflect past required contributions budgeted from RGSA and LGSA, but not yet collected.

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

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**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, 2017 and 2016 the amounts assumed by Municipal Services Authority for the workers' compensation and liability programs were \$1,011,825 and \$867,432, respectively. The amounts are based on CJPIA calculations as of June 30, 2016 and 2015, respectively, as the amount as of June 30, 2017 is not calculated until after the completion of our audit.

**4. JOINTLY FORMED 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 general liability and workers compensation.

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.

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

Total Assets	\$ 26,368
Total Liabilities	<u>13,781</u>
Net Position	<u>\$ 12,587</u>
Revenues	\$ 2,305,790
Expenses	<u>2,297,332</u>
Change in Net Position	<u>\$ 8,458</u>

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**REQUIRED  
SUPPLEMENTARY INFORMATION**

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**Municipal Services Authority**  
**For the years ended June 30, 2017 and 2016**  
**Required Supplementary Information**

**1. RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT**

	Worker's Compensation		Liability		Totals	
	2017	2016	2017	2016	2017	2016
Unpaid claim and claim adjustment expense at beginning of year	\$ 75,000	\$ 50,000	\$ 12,500	\$ 25,000	\$ 87,500	\$ 75,000
Incurred claims and claim adjustment expenses:						
Provision for insured events of the current year	40,166	37,500	58,750	6,250	98,916	43,750
Increase/(decrease) in provision of insured events in prior years	-	(9,930)	(6,250)	(18,750)	(6,250)	(28,680)
Total incurred claims and claim adjustment expenses	40,166	27,570	52,500	(12,500)	92,666	15,070
Payments						
Claim and adjustment expenses attributable to insured events of the current year	30,166	2,570	-	-	-	2,570
Total Payments	30,166	2,570	-	-	-	2,570
Total unpaid claims and claims adjustment expenses	\$ 85,000	\$ 75,000	\$ 65,000	\$ 12,500	\$ 150,000	\$ 87,500

**Municipal Services Authority**  
**For the years ended June 30, 2017 and 2016**  
**Required Supplementary Information**

**2. CLAIMS DEVELOPMENT INFORMATION - WORKERS' COMPENSATION**

	2013	2014	2015	2016	2017
1. Premiums and investment revenue:					
Earned	\$ 573,649	626,245	\$ 921,839	492,750	\$ 342,750
Ceded	(50,045)	(61,445)	(55,405)	(72,208)	(70,998)
Net Earned	<u>523,604</u>	<u>564,800</u>	<u>866,434</u>	<u>420,542</u>	<u>271,752</u>
2. Unallocated expenses	78,375	79,694	58,499	62,750	96,328
3. Estimated incurred claims and expenses, end of policy year					
Incurred	147,042	160,079	50,000	37,500	40,166
Ceded Claims	-	-	-	-	-
Net incurred claims	<u>147,042</u>	<u>160,079</u>	<u>50,000</u>	<u>37,500</u>	<u>40,166</u>
4. Paid (cumulative) as of:					
End of policy year	-	-	-	2,570	30,166
One year later	-	-	-	2,570	
Two years later	-	-	-		
Three years later	-	-			
Four 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	10,000
One year later	147,042	-	40,070	37,500	
Two years later	-	-	40,070		
Three years later	-	-			
Four 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>	<u>\$ -</u>

**Municipal Services Authority**  
**For the years ended June 30, 2017 and 2016**  
**Required Supplementary Information**

**3. CLAIMS DEVELOPMENT INFORMATION - LIABILITY**

	2013	2014	2015	2016	2017
1. Premiums and investment revenue:					
Earned	\$ 191,216	208,748	\$ 307,280	164,250	\$ 114,250
Ceded	(62,256)	(64,260)	(61,342)	(59,608)	(63,400)
Net Earned	<u>128,960</u>	<u>144,488</u>	<u>245,938</u>	<u>104,642</u>	<u>50,850</u>
2. Unallocated expenses	26,125	26,565	19,500	20,917	32,114
3. Estimated incurred claims and expenses, end of policy year					
Incurred	51,634	-	25,000	6,250	58,750
Ceded Claims	-	-	-	-	-
Net incurred claims	<u>51,634</u>	<u>-</u>	<u>25,000</u>	<u>6,250</u>	<u>58,750</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	-	-	-	-
Four 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	58,750
One year later	51,634	-	6,250	-	-
Two years later	1,634	-	-	-	-
Three years later	1,634	-	-	-	-
Four 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>\$ (6,250)</u>	<u>\$ -</u>

**Municipal Services Authority**  
**For the years ended June 30, 2017 and 2016**  
**Notes to Required Supplementary Information**

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**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 worker's compensation and liability programs.

**2. CLAIMS DEVELOPMENT INFORMATION**

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

The tables illustrate the Authority's earned revenue (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 (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.