

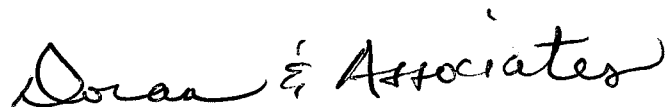
The Board of Directors
Inverness Public Utility District
Inverness, California

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Inverness Public Utility District (hereafter, the District) as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United State of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures and 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated October 22, 2014, on the financial statements of the Inverness Public Utility District.

We will review the status of these comments during our next audit engagement. We would like to thank the staff of the Inverness Public Utility District for their assistance and cooperation in completing the audit. We have already discussed these comments and suggestions with the District's General Manager, and we will be pleased to discuss them in further detail at your convenience, to perform additional study of these matters, or to assist you in implementing the recommendations.



October 22, 2014

INVERNESS PUBLIC UTILITY DISTRICT

PRIOR YEAR COMMENTS AND RECOMMENDATIONS NOT ADOPTED

Policies and Procedures

During a prior year we noted that the District's existing Procedures Manual was missing some key internal control items, including assignment of staff performing the duties indicated in the Manual to ensure proper segregation of duties and consistency of functions, and areas indicated in the manual to be completed later.

We had recommended that management review the existing Procedures Manual and make changes, as needed, to ensure that the Manual provides sufficient guidance and documentation of the District's policies and procedures. While we noted that the Manual has been updated to include many of the functions missing in the previous version, and consider that part of our recommendation to be adopted, we also noted that the Manual makes separate references to duties performed by the Bookkeeper although the General Manager performs all of the duties that would be performed by the Bookkeeper.

Because the Procedures Manual should serve as a current guideline for the performance of accounting procedures, we recommend that the Manual continue to be refined so that it reports the existing internal control procedures and existing staff.

Segregation of Duties

During a prior year we had noted that there is little segregation of duties, especially in the cash disbursements and cash receipts functions. A strong system of internal controls provides for sufficient oversight such that errors, omissions or fraud will be identified in a timely manner during the course of normal operations. Having controls in place that allow one person to initiate, approve and record a transaction does not allow for this identification of errors, etc. In reviewing the existing internal controls over the cash disbursements and cash receipts functions, we noted that one staff person handles a majority of the activities with each function.

We had recommended that the District review the existing procedures and consider ways to cross train staff so that no one staff person may initiate, approve and record transactions, and/or increase oversight by having Board members review documentation supporting transactions. In response to our recommendation, the Board adopted and implemented the "IPUD Anti-Fraud Program", designed to assign Board members oversight duties to address the segregation of duties issues noted above.

While the IPUD Anti-Fraud Program has been refined to address some of the issues noted above, we found that the performance of the procedures was inconsistent. The policy specifies that the procedures will be performed bi-monthly, and we recommend that the Board of Directors take steps to ensure that the IPUD Anti-Fraud Program procedures be performed timely.

INVERNESS PUBLIC UTILITY DISTRICT

PRIOR YEAR COMMENTS AND RECOMMENDATIONS NOT ADOPTED

Bank Reconciliations

During a prior year we had recommended that the District adopt a policy that requires regular reviews and approvals of the bank reconciliations, with related bank statements attached, by someone other than the staff person preparing the reconciliations prior to filing. We noted that the review and approval procedures are included in the IPUD Anti-Fraud Program, mentioned above. Upon successful and ongoing performance of the Anti-Fraud Program procedures, we will consider this recommendation to be adopted.

Accrued Vacation

In a prior year we had noted that the value of accrued vacation has steadily increased over the last three years. While an increase in accrued vacation is not necessarily indicative of a problem, it may result in a significant liability for the District. Additionally, having employees who do not take regular time off may need to be examined, as it does not allow for sufficient cross-training (and performance of that cross-training during absences) and may pose a risk of employee burn-out.

We had recommended that management consider adopting maximum limits on accrued vacations, taking care to comply with employment laws governing this area, and we continue to make this recommendation.


CURRENT YEAR COMMENTS AND RECOMMENDATIONS

There were no new comments or recommendations as a result of the audit of the Inverness Public Utility District as of and for the year ended June 30, 2014.

MEMO

Date: October 22, 2014

To: Scott McMorrow
Inverness Public Utility District

From: Lisa Doran 
Doran & Associates
(415)491-1130 x101
Lisa.Doran@sbcglobal.net

Dear Scott:

During our audit of the Inverness Public Utility District as of and for the year ended June 30, 2014, we became aware of a matter that did not rise to the level of a management letter comment, but we did want to bring to your attention:

Cash Receipts Segregation of Duties

Finding: During our audit we were informed that the District was changing its billing systems, and that customer payments were now being sent to the District instead of an outside vendor for processing and deposit, beginning during the fiscal year ended June 30, 2015. As a result of this change, there may be greater opportunity for misappropriation of District assets.

Recommendation: While not a part of the audit period, we recommend that the District adopt new procedures to address the change in procedures and internal controls, including:

- Require that all customer account adjustments be approved by the Board of Directors
- Require that a reconciliation between the billing program and the General Ledger be performed on a regular basis, and the results of those reconciliation be reviewed and approved in writing by a member of the Board of Directors as part of the District's IPUD Anti-Fraud Program

Please let me know if you have any questions or need more information about this comment.

Thanks!

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

BASIC
FINANCIAL STATEMENTS

For the Years Ended
June 30, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Inverness Public Utility District
Inverness, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Inverness Public Utility District (a California special district) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District'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 and the State Comptroller's *Minimum Audit Requirements for Special Districts*; 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 audits. We conducted our audits 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 Comptroller's *Minimum Audit Requirements for Special Districts*. Those standards require that we plan and perform the audits 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 financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Inverness Public Utility District as of June 30, 2014 and 2013, 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 and the State Comptroller's *Minimum Audit Requirements for 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, schedule of funding status-other post-employment benefits obligation, and budgetary comparison information on pages 3-6 and 39-41 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 audits 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 October 22, 2014, on our consideration of Inverness Public Utility District's internal control over financial reporting and on our tests of its compliance with certain 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 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 Inverness Public Utility District's internal control over financial reporting and compliance.

Doran & Associates

October 22, 2014

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2014

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Inverness Public Utility District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the Independent Auditor's Report and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- Net assets increased 7.5%, or \$236,265 to \$3,380,764 as a result of this year's operations
- Total revenues increased 7.0%, or \$63,991 from the prior year primarily due to operating grants received in 2014, interest earned on prepaid post employment benefits, and an increase in property taxes received.
- Total expenses decreased by 1.0%, or \$7,960, primarily due to a decrease in depreciation.

Using This Financial Report

This annual report consists of a series of financial statements. The Statements of Net Position and the Statements of Activities provides information about the activities and performance of the District using accounting methods similar to those used by private sector companies. The Statements of Net Position include all of the District's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statements of Activities. These statements measure the success of the District's operations over the past two years and can be used to determine the District's profitability and credit worthiness.

Government-wide Financial Statements

Statements of Net Position and Statements of Activities

One of the most important questions asked about the District's finances is: "Is the District better off or worse off as a result of this year's activities?" The Statements of Net Position and the Statements of Activities report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. Think of the District's net position - the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources - as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the District's property tax bases and the types of grants for which the District applies to assess the *overall financial health* of the District.

**INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2014**

Fund Financial Statements

Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 20 through 37.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the District's budgetary information and schedule of funding progress - other post-employment benefits obligation. Required supplementary information can be found on pages 39 through 41.

Government-wide Financial Analysis

Statements of Net Position

The following table is a condensed summary of the statement of net position at June 30, 2014, with prior year comparative information:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Assets:						
Current and other assets	\$ 1,603,416	\$ 1,449,707	\$ 295,564	\$ 341,411	\$ 1,898,980	\$ 1,791,118
Capital assets, net	69,040	104,794	1,343,963	1,201,119	1,413,003	1,305,913
Deferred outflows of resources	112,201	87,590	84,853	65,711	197,054	153,301
Total assets and deferred outflows of resources	<u>1,784,657</u>	<u>1,642,091</u>	<u>1,724,380</u>	<u>1,608,241</u>	<u>3,509,037</u>	<u>3,250,332</u>
Liabilities:						
Current liabilities	6,242	2,760	14,511	5,131	20,753	7,891
Non-current liabilities	26,384	22,819	22,172	17,807	48,556	40,626
Total liabilities	<u>32,626</u>	<u>25,579</u>	<u>36,683</u>	<u>22,938</u>	<u>69,309</u>	<u>48,517</u>

**INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2013**

Statements of Net Position (Continued)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Deferred inflows of resources	-	-	58,964	57,316	58,964	57,316
Net position:						
Net investment in capital assets	69,040	104,794	1,343,963	1,201,119	1,413,003	1,305,913
Board-designated / committed net position	808,715	768,880	942,319	828,283	1,751,034	1,597,163
Unrestricted	<u>874,276</u>	<u>742,838</u>	<u>(657,549)</u>	<u>(501,415)</u>	<u>216,727</u>	<u>241,423</u>
Total net position	<u>\$ 1,752,031</u>	<u>\$ 1,616,512</u>	<u>\$ 1,628,733</u>	<u>\$ 1,527,987</u>	<u>\$ 3,380,764</u>	<u>\$ 3,144,499</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$3,380,764 as of June 30, 2014. Compared to the prior year, net position of the District increased by 7.5% or \$236,265. The District's net position are made-up of three components: (1) net investment in capital assets, (2) Board-designated/committed net position, and (3) unrestricted net position.

Statements of Activities

The following table is a condensed summary of the statements of activities for the year ended June 30, 2014, with prior year comparative information:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues:						
Charges for services	\$ 68,896	\$ 72,308	\$ 416,419	\$ 436,150	\$ 485,315	\$ 508,458
Operating grants	14,980	-	-	-	14,980	-
General revenues:						
Property taxes	424,528	389,248	-	-	424,528	389,248
Interest earnings	30,821	10,637	21,006	4,316	51,827	14,953
Total revenues	<u>539,225</u>	<u>472,193</u>	<u>437,425</u>	<u>440,466</u>	<u>976,650</u>	<u>912,659</u>
Expenses:						
District operations and fire protection	403,706	411,677	-	-	403,706	411,677
Water	-	-	336,679	336,668	336,679	336,668
Total expenses	<u>403,706</u>	<u>411,677</u>	<u>336,679</u>	<u>336,668</u>	<u>740,385</u>	<u>748,345</u>
Change in net position	135,519	60,516	100,746	103,798	236,265	164,314
Net position, beginning of year	<u>1,616,512</u>	<u>1,555,996</u>	<u>1,527,987</u>	<u>1,424,189</u>	<u>3,144,499</u>	<u>2,980,185</u>
Net position, end of year	<u>\$ 1,752,031</u>	<u>\$ 1,616,512</u>	<u>\$ 1,628,733</u>	<u>\$ 1,527,987</u>	<u>\$ 3,380,764</u>	<u>\$ 3,144,499</u>

**INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2014**

Statements of Activities (Continued)

Governmental and Business-type activities increased the District's net position by \$236,265 thereby accounting for the 7.5% increase in the net position of the District. The District's total revenues increased 7.0% or \$63,991 from the prior year primarily due to operating grants received in 2014, interest earned on prepaid post-employment benefits, and increases in property taxes. In addition, the District's total expenses decreased by 1.0% or \$7,960 primarily due to a decrease in depreciation.

Capital Asset Administration

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Capital assets:						
Non-depreciable assets	\$ -	\$ -	\$ 395,762	\$ 212,113	\$ 395,762	\$ 212,113
Depreciable assets	<u>905,518</u>	<u>905,518</u>	<u>2,888,894</u>	<u>2,882,404</u>	<u>3,794,412</u>	<u>3,787,922</u>
Total capital assets	905,518	905,518	3,284,656	3,094,517	4,190,174	4,000,035
Accumulated depreciation	<u>(836,478)</u>	<u>(800,724)</u>	<u>(1,940,693)</u>	<u>(1,893,398)</u>	<u>(2,777,171)</u>	<u>(2,694,122)</u>
Total capital assets, net	<u>\$ 69,040</u>	<u>\$ 104,794</u>	<u>\$ 1,343,963</u>	<u>\$ 1,201,119</u>	<u>\$ 1,413,003</u>	<u>\$ 1,305,913</u>

At June 30, 2014, the District's investment in capital assets amounted to \$1,413,003, net of accumulated depreciation. This investment in capital assets includes land, buildings, fire apparatus, furnishings and equipment, collection and distribution systems, tanks, wells, water treatment facilities and construction-in-process. The capital assets of the District are more fully analyzed in Note 4 to the basic financial statements.

The CA Department of Public Health is mandating that all water systems comply with the new Disinfection Byproducts Rule. IPUD will address this requirement by improving its treatment process. These improvements involve replacing aging filter units, and adding advanced Nano-filtration Units. The cost estimate for this Project is \$574,702. IPUD has this funding set aside in reserves, and anticipates completing the Project by December 31, 2014.

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the District's current financial position, net position, or operating results in terms of past, present and future.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the Districts financial operations and financial conditions. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager at 50 Inverness Way, Inverness, California 94937 or (415) 669-1414.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

STATEMENTS OF NET POSITION
June 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash, cash equivalents and investments (Notes 1 and 2)	\$ 1,599,780	\$ 222,303	\$ 1,822,083
Accrued interest receivable	914	-	914
Accounts receivable (Note 1)	-	73,261	73,261
Property taxes receivable	2,722	-	2,722
Total current assets	<u>1,603,416</u>	<u>295,564</u>	<u>1,898,980</u>
Capital assets, net of accumulated depreciation of \$2,777,171 (Notes 1 and 4)	69,040	1,343,963	1,413,003
Total assets	<u>1,672,456</u>	<u>1,639,527</u>	<u>3,311,983</u>
Deferred outflows of resources:			
Prepaid other post-employment benefits (Note 5)	112,201	84,853	197,054
Total deferred outflows of resources	<u>112,201</u>	<u>84,853</u>	<u>197,054</u>
Total assets and deferred outflows of resources	<u>\$ 1,784,657</u>	<u>\$ 1,724,380</u>	<u>\$ 3,509,037</u>
LIABILITIES AND NET POSITION			
Current liabilities:			
Accounts payable and accrued expenses	\$ 6,242	\$ 14,511	\$ 20,753
Total current liabilities	<u>6,242</u>	<u>14,511</u>	<u>20,753</u>
Accrued compensated absences	26,384	22,172	48,556
Total liabilities	<u>32,626</u>	<u>36,683</u>	<u>69,309</u>
Deferred inflows of resources:			
Deferred revenue (Note 1)	-	58,964	58,964
Total deferred inflows of resources	<u>-</u>	<u>58,964</u>	<u>58,964</u>
Net position (Note 1):			
Net investment in capital assets	69,040	1,343,963	1,413,003
Board-designated/committed net position (Note 6)	808,715	942,319	1,751,034
Unrestricted net position	874,276	(657,549)	216,727
Total net position	<u>1,752,031</u>	<u>1,628,733</u>	<u>3,380,764</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 1,784,657</u>	<u>\$ 1,724,380</u>	<u>\$ 3,509,037</u>

The accompanying notes are an integral part of these financial statements.

**INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)**

**STATEMENTS OF NET POSITION (CONTINUED)
June 30, 2013**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash, cash equivalents and investments (Notes 1 and 2)	\$ 1,446,877	\$ 258,855	\$ 1,705,732
Accrued interest receivable	970	-	970
Accounts receivable (Note 1)	-	82,556	82,556
Property taxes receivable	<u>1,860</u>	<u>-</u>	<u>1,860</u>
Total current assets	<u>1,449,707</u>	<u>341,411</u>	<u>1,791,118</u>
Capital assets, net of accumulated depreciation of \$2,694,122 (Notes 1 and 4)	<u>104,794</u>	<u>1,201,119</u>	<u>1,305,913</u>
Total assets	<u>1,554,501</u>	<u>1,542,530</u>	<u>3,097,031</u>
Deferred outflows of resources:			
Prepaid other post-employment benefits (Note 5)	<u>87,590</u>	<u>65,711</u>	<u>153,301</u>
Total deferred outflows of resources	<u>87,590</u>	<u>65,711</u>	<u>153,301</u>
Total assets and deferred outflows of resources	<u>\$ 1,642,091</u>	<u>\$ 1,608,241</u>	<u>\$ 3,250,332</u>
LIABILITIES AND NET POSITION			
Current liabilities:			
Accounts payable and accrued expenses	<u>\$ 2,760</u>	<u>\$ 5,131</u>	<u>\$ 7,891</u>
Total current liabilities	<u>2,760</u>	<u>5,131</u>	<u>7,891</u>
Accrued compensated absences	<u>22,819</u>	<u>17,807</u>	<u>40,626</u>
Total liabilities	<u>25,579</u>	<u>22,938</u>	<u>48,517</u>
Deferred inflows of resources:			
Deferred revenue (Note 1)	<u>-</u>	<u>57,316</u>	<u>57,316</u>
Total deferred inflows of resources	<u>-</u>	<u>57,316</u>	<u>57,316</u>
Net position (Note 1):			
Net investment in capital assets	104,794	1,201,119	1,305,913
Board-designated/committed net position (Note 6)	768,880	828,283	1,597,163
Unrestricted net position	<u>742,838</u>	<u>(501,415)</u>	<u>241,423</u>
Total net position	<u>1,616,512</u>	<u>1,527,987</u>	<u>3,144,499</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 1,642,091</u>	<u>\$ 1,608,241</u>	<u>\$ 3,250,332</u>

The accompanying notes are an integral part of these financial statements.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

STATEMENTS OF ACTIVITIES
For the year ended June 30, 2014

	Governmental Activities: District Operations and Fire Protection	Business-Type Activities: Water- Enterprise Fund	Total
EXPENSES	<u>\$ 403,706</u>	<u>\$ 336,679</u>	<u>\$ 740,385</u>
PROGRAM REVENUES			
Charges for services	68,896	416,419	485,315
Operating grants and contributions	<u>14,980</u>	<u>-</u>	<u>14,980</u>
	<u>83,876</u>	<u>416,419</u>	<u>500,295</u>
Net Operating (Expense) Revenue	<u>(319,830)</u>	<u>79,740</u>	<u>(240,090)</u>
GENERAL REVENUES			
Property taxes (Note 7)	424,528	-	424,528
Interest	<u>30,821</u>	<u>21,006</u>	<u>51,827</u>
Total general revenues	<u>455,349</u>	<u>21,006</u>	<u>476,355</u>
Change in net position	135,519	100,746	236,265
Total net position, beginning of year	<u>1,616,512</u>	<u>1,527,987</u>	<u>3,144,499</u>
Total net position, end of year	<u>\$ 1,752,031</u>	<u>\$ 1,628,733</u>	<u>\$ 3,380,764</u>

The accompanying notes are an integral part of these financial statements.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

STATEMENTS OF ACTIVITIES (CONTINUED)
For the year ended June 30, 2013

	Governmental Activities: District Operations and Fire Protection	Business-Type Activities: Water- Enterprise Fund	Total
EXPENSES	\$ 411,677	\$ 336,668	\$ 748,345
PROGRAM REVENUES			
Charges for services	72,308	436,150	508,458
Net Operating (Expense) Revenue	(339,369)	99,482	(239,887)
GENERAL REVENUES			
Property taxes (Note 7)	389,248	-	389,248
Interest	10,637	4,316	14,953
Total general revenues	399,885	4,316	404,201
Change in net position	60,516	103,798	164,314
Total net position, beginning of year	1,555,996	1,424,189	2,980,185
Total net position, end of year	<u>\$ 1,616,512</u>	<u>\$ 1,527,987</u>	<u>\$ 3,144,499</u>

The accompanying notes are an integral part of these financial statements.

**INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)**

**BALANCE SHEETS - GOVERNMENTAL FUNDS
June 30, 2014**

	<u>Major Funds</u> General Fund	Total Governmental Funds
ASSETS		
Current assets:		
Cash, cash equivalents, and investments	\$ 1,599,780	\$ 1,599,780
Accrued interest receivable	914	914
Property taxes	<u>2,722</u>	<u>2,722</u>
Total assets	<u>\$ 1,603,416</u>	<u>\$ 1,603,416</u>
LIABILITIES AND FUND BALANCES		
Current liabilities:		
Accounts payable	<u>\$ 6,242</u>	<u>\$ 6,242</u>
Total liabilities	<u>6,242</u>	<u>6,242</u>
Fund balances:		
Committed (Note 6)	808,715	808,715
Assigned (Note 6)	26,384	26,384
Unassigned	<u>762,075</u>	<u>762,075</u>
Total fund balances	<u>1,597,174</u>	<u>1,597,174</u>
Total liabilities and fund balances	<u>\$ 1,603,416</u>	<u>\$ 1,603,416</u>

The accompanying notes are an integral part of these financial statements.

**INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)**

**BALANCE SHEETS - GOVERNMENTAL FUNDS (CONTINUED)
June 30, 2013**

	<u>Major Funds</u>	<u>Total</u>
	General Fund	Governmental Funds
ASSETS		
Current assets:		
Cash, cash equivalents, and investments	\$ 1,446,877	\$ 1,446,877
Accrued interest receivable	970	970
Property taxes receivable	1,860	1,860
Total assets	\$ 1,449,707	\$ 1,449,707
LIABILITIES AND FUND BALANCES		
Current liabilities:		
Accounts payable	\$ 2,760	\$ 2,760
Total liabilities	2,760	2,760
Fund balances:		
Committed (Note 6)	768,880	768,880
Assigned (Note 6)	22,819	22,819
Unassigned	655,248	655,248
Total fund balances	1,446,947	1,446,947
Total liabilities and fund balances	\$ 1,449,707	\$ 1,449,707

The accompanying notes are an integral part of these financial statements.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

RECONCILIATION OF THE BALANCE SHEETS - GOVERNMENTAL FUNDS
TO THE GOVERNMENT-WIDE STATEMENTS OF NET POSITION
June 30, 2014 and 2013

	2014	2013
Total fund balances - total governmental funds	<u>\$1,597,174</u>	<u>\$1,446,947</u>
Amounts reported for Governmental Activities on the Statements of Net Position are different because:		
Deferred outflows of resources related to prepaid other post-employment benefits (OPEB) are not reported on the Balance Sheets - Governmental Funds	<u>112,201</u>	<u>87,590</u>
Capital assets used in governmental activities are not current financial resources. Therefore, they are not reported on the Balance Sheets - Governmental Funds:		
Capital assets	905,518	905,518
Less: accumulated depreciation	<u>(836,478)</u>	<u>(800,724)</u>
	<u>69,040</u>	<u>104,794</u>
Long-term liabilities applicable to the District are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported on the Statements of Net Position:		
Compensated absences	<u>(26,384)</u>	<u>(22,819)</u>
Total net position	<u>\$1,752,031</u>	<u>\$1,616,512</u>

The accompanying notes are an integral part of these financial statements.

**INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)**

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the year ended June 30, 2014**

	<u>Major Funds</u> General Fund	Total Governmental Funds
REVENUES:		
Property taxes	\$ 424,528	\$ 424,528
Grant revenue	14,980	14,980
Interest earnings	30,821	30,821
Special assessments	65,417	65,417
Charges for service	<u>3,479</u>	<u>3,479</u>
Total revenue	<u>539,225</u>	<u>539,225</u>
EXPENDITURES		
Salaries and benefits	284,297	284,297
Dispatch and communications	23,456	23,456
Repairs and maintenance	1,426	1,426
Office and administration	41,174	41,174
Supplies and inventory	7,222	7,222
Training and education	4,468	4,468
Fuel reduction and fire prevention program	11,985	11,985
Utilities	3,250	3,250
Vehicle operation	<u>11,720</u>	<u>11,720</u>
Total expenditures	<u>388,998</u>	<u>388,998</u>
Net change in fund balances	150,227	150,227
Fund balances, beginning of year	<u>1,446,947</u>	<u>1,446,947</u>
Fund balances, end of year	<u>\$ 1,597,174</u>	<u>\$ 1,597,174</u>

The accompanying notes are an integral part of these financial statements.

**INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)**

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)
For the year ended June 30, 2013**

	<u>Major Funds</u> General Fund	Total Governmental Funds
REVENUES:		
Property taxes	\$ 413,803	\$ 413,803
Interest earnings	10,637	10,637
Special assessments	68,865	68,865
Charges for service	3,443	3,443
Total revenue	<u>496,748</u>	<u>496,748</u>
EXPENDITURES		
Salaries and benefits	353,923	353,923
Dispatch and communications	24,052	24,052
Repairs and maintenance	2,450	2,450
Office and administration	44,035	44,035
Supplies and inventory	9,935	9,935
Training and education	4,561	4,561
Fuel reduction and fire prevention program	10,915	10,915
Utilities	2,553	2,553
Vehicle operation	7,759	7,759
Total expenditures	<u>460,183</u>	<u>460,183</u>
Net change in fund balances	36,565	36,565
Fund balances, beginning of year	<u>1,410,382</u>	<u>1,410,382</u>
Fund balances, end of year	<u>\$ 1,446,947</u>	<u>\$ 1,446,947</u>

The accompanying notes are an integral part of these financial statements.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

**RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE GOVERNMENTAL-WIDE STATEMENTS OF ACTIVITIES
For the years ended June 30, 2014 and 2013**

	2014	2013
Net change in fund balances - total governmental funds	<u>\$ 150,227</u>	<u>\$ 36,565</u>
Amounts reported for Governmental Activities on the Statements of Activities are different because:		
Some revenues reported on the Statements of Activities are not current financial resources and therefore are not reported as revenues in governmental funds:		
Collection of the loan receivable from the State of California provides current financial resources to governmental funds. On the Statements of Activities the revenue was reported in the year the related tax revenue was earned	<u>-</u>	<u>(24,555)</u>
Governmental funds report capital outlays as expenditures. However, on the Statements of Activities the costs of those assets are allocated over their estimated useful lives and recorded as depreciation expense:		
Capital outlay	-	-
Less: depreciation expense	<u>(35,754)</u>	<u>(55,160)</u>
	<u>(35,754)</u>	<u>(55,160)</u>
Some expenses reported on the Statements of Activities do not require the use of current financial resources and therefore are not reported as expenses in governmental funds as follows:		
Net change in compensated absences	(3,565)	(4,574)
Net change in other post-employment benefits prepaid	<u>24,611</u>	<u>108,240</u>
Change in net position	<u>\$ 135,519</u>	<u>\$ 60,516</u>

The accompanying notes are an integral part of these financial statements.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

STATEMENTS OF NET POSITION - WATER ENTERPRISE FUND
June 30, 2014 and 2013

	2014	2013
ASSETS		
Current assets:		
Cash, cash equivalents, and investments	\$ 222,303	\$ 258,855
Accounts receivable	73,261	82,556
Total current assets	<u>295,564</u>	<u>341,411</u>
Capital assets, net of accumulated depreciation of \$1,940,693 at 2014 and \$1,893,398 at 2013	<u>1,343,963</u>	<u>1,201,119</u>
Total assets	<u>1,639,527</u>	<u>1,542,530</u>
Deferred outflows of resources:		
Prepaid other post-employment benefits	84,853	65,711
Total deferred outflows of resources	<u>84,853</u>	<u>65,711</u>
Total assets and deferred outflows of resources	<u>\$ 1,724,380</u>	<u>\$ 1,608,241</u>
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable and accrued expenses	\$ 14,511	\$ 5,131
Total current liabilities	<u>14,511</u>	<u>5,131</u>
Accrued compensated absences	22,172	17,807
Total liabilities	<u>36,683</u>	<u>22,938</u>
Deferred inflows of resources:		
Deferred revenue	58,964	57,316
Total deferred inflows of resources	<u>58,964</u>	<u>57,316</u>
Net position:		
Net investment in capital assets	1,343,963	1,201,119
Board-designated	942,319	828,283
Unrestricted	<u>(657,549)</u>	<u>(501,415)</u>
Total net position	<u>1,628,733</u>	<u>1,527,987</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 1,724,380</u>	<u>\$ 1,608,241</u>

The accompanying notes are an integral part of these financial statements.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

STATEMENTS OF REVENUES, EXPENSES AND FUND EQUITY-
WATER ENTERPRISE FUND

For the years ended June 30, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Water consumption sales	\$ 105,035	\$ 113,123
Readiness-to-serve charges	305,400	305,000
Other revenue	<u>5,984</u>	<u>22,343</u>
Total operating revenues	<u>416,419</u>	<u>440,466</u>
OPERATING EXPENSES		
Collection and treatment	15,508	17,183
Laboratory and monitoring	7,549	9,297
Storage and distribution	14,649	17,754
Supplies and inventory	13,034	9,926
Vehicle operation	10,657	5,962
Training and licensing	360	170
General and administrative	<u>227,627</u>	<u>228,215</u>
Total operating expenses	<u>289,384</u>	<u>288,507</u>
Operating income before general revenues and depreciation	127,035	151,959
GENERAL REVENUES		
Interest	21,006	-
Depreciation	<u>(47,295)</u>	<u>(48,161)</u>
Change in net position	100,746	103,798
Total net position, beginning of year	<u>1,527,987</u>	<u>1,424,189</u>
Total net position, end of year	<u>\$ 1,628,733</u>	<u>\$ 1,527,987</u>

The accompanying notes are an integral part of these financial statements.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

STATEMENTS OF CASH FLOWS - WATER ENTERPRISE FUND
For the years ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 427,362	\$ 431,444
Cash paid to employees	(215,434)	(283,825)
Cash paid to suppliers and vendors	(79,347)	(85,983)
Net cash provided by operating activities	<u>132,581</u>	<u>61,636</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	<u>21,006</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES		
Acquisition and construction of capital assets	<u>(190,139)</u>	<u>(38,575)</u>
(Decrease) increase in cash and cash equivalents	(36,552)	23,061
Cash and cash equivalents, beginning of year	<u>258,855</u>	<u>235,794</u>
Cash and cash equivalents, end of year	<u>\$ 222,303</u>	<u>\$ 258,855</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	\$ 100,746	\$ 103,798
Changes in assets and liabilities:		
Depreciation	47,295	48,161
Interest income reported as investing activity	(21,006)	-
Accounts receivable	9,295	(12,269)
Prepaid other post-employment benefits	(19,142)	(65,711)
Accounts payable and accrued expenses	9,380	1,055
Deferred revenue	1,648	3,247
Accrued benefits payable	4,365	(16,645)
Total adjustments	<u>31,835</u>	<u>(42,162)</u>
Net cash provided by operating activities	<u>\$ 132,581</u>	<u>\$ 61,636</u>

The accompanying notes are an integral part of these financial statements.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Description of District - The Inverness Public Utility District (the District) was formed in 1948 with the intent to purchase the water system serving the Inverness Valley community. In 1949 and 1950, the District attempted to purchase the water system serving the community; however, the District did not receive the required votes from the community to make the purchase. In 1951, the District took over the operations of the Inverness Volunteer Fire Department. In 1980, the District purchased the water system serving the community. The District is governed by a five-member Board of Directors who serve four-year terms and are elected at large. The directors entrust the responsibility for the efficient execution of District policies to their designated representative, the General Manager. The District is subject to the laws, regulations and guidelines as set forth by the State Controller's Office. Major sources of revenue for the District include water service charges and property taxes.

The Reporting Entity - The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The District has no blended or discretely-presented component units.

Basis of Accounting and Measurement Focus - The basic financial statements of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Government-wide Financial Statements- These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting for both governmental and business-like activities. Accordingly, all of the District's assets and liabilities, including capital assets, are included in the accompanying Statements of Position. The Statements of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred. The Statements of Activities demonstrate the degree to which the operating expenses of a given function are offset by operating revenues. Operating expenses are those that are clearly identifiable with a specific function. The types of transactions reported as operating revenues for the District are charges for services directly related to the operations of the District. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the District. Taxes, operating grants and other items not properly included among operating revenues are reported instead as non-operating revenues. Contributed capital and capital grants are included as capital contributions.

Fund Financial Statements - These statements include Balance Sheets and Statements of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Accompanying these statements is a schedule to reconcile and explain the differences in fund balances as presented in these statements to the net position presented in the Government-wide Financial Statements.

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheets. The Statements of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary sources susceptible to accrual for the District are property tax, interest earnings, investment revenue and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule may include principal and interest on debt, which are recognized when due.

The accrual basis of accounting is followed by the proprietary fund. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Unbilled water receivables are recorded at year end.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Fund Financial Statements (Continued) - Proprietary funds distinguish operating revenues and expenses from non-operating items. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place. Operating revenues, such as water sales, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as grant funding and investment income, result from non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) value in exchange.

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts established for the purpose of carrying out specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Funds are organized into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the categories. A fund is considered major if it is the primary operation fund of the District or meets the following criteria:

- a) Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.
- c) The entity has determined that a fund is important to the financial statement user.

The funds of the financial reporting entity are described below:

Governmental Fund:

General Fund - This fund accounts for the operations and fire protection activities of the District.

Proprietary Fund:

Water Enterprise Fund - This fund accounts for the water operations of the District.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Net Position -The government-wide financial statements utilize a net position presentation. Net position categories are as follows:

- Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets.
- Restricted Net Position - This component of net position consists of amounts with constraints placed on net asset use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - This component of net position consist of net positions that do not meet the definition of restricted or net investment in capital assets. This may include amounts Board-designated to be reported as being held for a particular purpose.

Fund Balance - The financial statements - governmental funds report fund balances as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

- Nonspendable fund balance - amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- Restricted fund balance - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.
- Committed fund balance - amounts that can only be used for specific purposes determined by formal action of the District's highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- Assigned fund balance - amounts that are constrained by the District's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose. This is also the classification for residual funds in the District's special revenue funds.
- Unassigned fund balance - the residual classification for the District's general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Fund Balance (Continued) - The Board of Directors establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, followed by the unrestricted, committed, assigned and unassigned resources as they are needed.

Fund Balance Policy

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned and unassigned fund balances are considered unrestricted.

The purpose of the District's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

Accounts Receivable - The District bills the local residents for water usage on a bi-monthly basis. Estimated unbilled water revenue through June 30 has been accrued at year-end for the Water Enterprise fund. Management believes all amounts are collectible and, accordingly, there is no provision for uncollectible accounts reflected herein.

Deferred Revenue - Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. The District bills for its fixed service charge in advance. Therefore, the portion of customers' bills that is for the fixed charge is deferred.

Capital Contributions - Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

Budgetary Policies - The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each April, the District's General Manager prepares and submits a capital and operating budget to the Board of Directors for adoption no later than June of each year. The basis used to prepare the budget does not differ substantially from the modified accrual basis of accounting. The adopted budget becomes operative on July 1.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Budgetary Policies (Continued) - The Board of Directors must approve all supplemental appropriations to the budget and transfers between major funds. The legal level of budgetary control is at the fund level. Budget information is presented as required supplementary information for the general fund.

Compensated Absences - The District's policy is to permit employees to accumulate an unlimited amount of earned vacation leave. Accumulated vacation time is accrued at year-end to account for the District's obligation to the employees for the amount owed. Sick leave, which is limited to 80 hours per year for full-time employees and is pro-rated for part-time employees, is unearned and does not carry over to the following fiscal year.

Governmental fund types recognize the vested vacation as an expenditure in the current year to the extent it is paid during the year. Accrued vacation relating to governmental funds is included as a long-term liability in the Statements of Net Position as those are payable from future resources and within the Balance Sheets - Water Enterprise Fund for amounts relating to the proprietary fund type.

Capital Assets - Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for recording capital assets at \$3,000. Donated assets are recorded at estimated fair market value at the date of donation and/or historical cost. Upon retirement or other disposition of capital assets, the cost and related accumulation depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Governmental Activities

- Buildings and improvements - 5 to 30 years
- Fire apparatus - 3 to 20 years
- Furnishings and equipment - 3 to 7 years

Business-Type Activities

- Collection and distribution system - 5 to 50 years
- Tanks - 5 to 40 years
- Water treatment - 5 to 40 years
- Wells - 40 years
- Vehicles and equipment - 5 to 7 years

Investments and Investment Policy - The District has adopted an investment policy directing the District's General Manager to deposit funds in financial institutions. Investments are to be made in the following areas:

- Financial institution checking and savings accounts
- California Local Agency Investment Fund (LAIF)

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Investments and Investment Policy (Continued) - Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

Local Agency Investment Fund

LAIF is regulated by California Government Code (Code) Section 16429 and is under the management of the State of California Treasurer's Office with oversight provided by the Local Agency Investment Advisory Board.

LAIF is carried at fair value based on the value of each participating dollar as provided by LAIF. The fair value of the District's position in the LAIF is the same as the value of its pooled share. Investment in securities of the U.S. government or its agencies are carried at fair value based on quoted market prices. Bank balances are secured by the pledging of a pool of eligible securities to collateralize the District's deposits with the bank in accordance with the Code.

Cash and Cash Equivalents - Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with maturity dates within three months of the acquisition date.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

New Accounting Pronouncements to be Adopted in the Future - In June 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, to revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The new standard is effective for the year ending June 30, 2015. The District is currently evaluating the effect that implementation of the new standard will have on its statement of net position and statement of activities.

Subsequent Events - Subsequent events have been evaluated through October 22, 2014, which is the date the financial statements were available to be issued.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS

The District maintains an operating account at Bank of America, and all other funds are on deposit with the California Local Agency Investment Fund (LAIF) investment pool (see Note 1, Investments and Investment Policy).

These funds have been segregated into various accounts and, at June 30, 2014 and 2013, the balances were as follows:

	2014	2013
Cash on hand	\$ 7	\$ 7
Deposits held with financial institutions	71,042	108,562
Deposits held with LAIF	1,751,034	1,597,163
Total cash, cash equivalents, and investments	\$ 1,822,083	\$ 1,705,732

Cash deposits held at financial institutions can be categorized according to three levels of risk:

- 1) Deposits which are insured or collateralized with securities held by the District or by its agent in the District's name.
- 2) Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- 3) Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the District's cash deposits are classified as Category 1.

NOTE 3 LOAN RECEIVABLE FROM STATE OF CALIFORNIA

During the year ended June 30, 2010, the State of California elected to borrow local property tax revenues from cities, counties and special districts as allowed under Prop 1A of 2004. The County of Marin calculated a loan amount from the District in the amount of \$23,426. The calculation was based on 8% of property tax revenues, and was assessed to all Marin County cities and special districts. During the year ended June 30, 2013, the loan, including accrued interest, was repaid.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE 4 CAPITAL ASSETS

Capital assets consisted of the following at June 30, 2014:

Governmental Activities

	Balance 2013	Additions	Deletions/ Transfers	Balance 2014
<u>Depreciable assets</u>				
Buildings	\$ 227,528	\$ -	\$ -	\$ 227,528
Tankers and vehicles	381,811	-	-	381,811
Furnishings and equipment	296,179	-	-	296,179
Total depreciable assets	<u>905,518</u>	<u>-</u>	<u>-</u>	<u>905,518</u>
<u>Accumulated depreciation</u>				
Buildings	(196,671)	(4,640)	-	(201,311)
Tankers and vehicles	(339,523)	(15,203)	-	(354,726)
Furnishings and equipment	(264,530)	(15,911)	-	(280,441)
Total accumulated depreciation	<u>(800,724)</u>	<u>(35,754)</u>	<u>-</u>	<u>(836,478)</u>
Total capital assets, net	<u>\$ 104,794</u>	<u>\$ (35,754)</u>	<u>\$ -</u>	<u>\$ 69,040</u>

Depreciation expense under governmental activities (district operations and fire protection) totaled \$35,754.

Business-Type Activities

<u>Non-depreciable assets</u>				
Land	\$ 66,320	\$ -	\$ -	\$ 66,320
Construction in progress	145,793	183,649	-	329,442
Total non-depreciable assets	<u>212,113</u>	<u>183,649</u>	<u>-</u>	<u>395,762</u>
<u>Depreciable assets</u>				
Collection system	352,967	-	-	352,967
Distribution system	979,222	-	-	979,222
Tanks	589,174	-	-	589,174
Water treatment	807,402	-	-	807,402
Wells	71,499	-	-	71,499
Vehicles and equipment	82,140	6,490	-	88,630
Total depreciable assets	<u>2,882,404</u>	<u>6,490</u>	<u>-</u>	<u>2,888,894</u>

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE 4 CAPITAL ASSETS (Continued)

	<u>Balance</u> 2013	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance</u> 2014
<u>Accumulated depreciation</u>				
Collection system	(215,658)	(9,652)	-	(225,310)
Distribution system	(631,072)	(14,443)	-	(650,901)
Tanks	(164,337)	(14,614)	-	(178,951)
Water treatment	(743,483)	(6,897)	-	(744,993)
Wells	(57,649)	(1,375)	-	(59,024)
Vehicles and equipment	(81,199)	(314)	-	(81,514)
Total accumulated depreciation	<u>(1,893,398)</u>	<u>(47,295)</u>	<u>-</u>	<u>(1,940,693)</u>
Total depreciable assets, net	<u>989,006</u>	<u>(40,805)</u>	<u>-</u>	<u>948,201</u>
Total capital assets, net	<u>\$ 1,201,119</u>	<u>\$ 142,844</u>	<u>\$ -</u>	<u>\$ 1,343,963</u>

Capital asset additions in the business-type activities area include \$183,649 to projects still under construction at year-end. Depreciation expense under business-type activities (retail water enterprise) totaled \$47,295.

Construction in Progress

The District has been involved in various construction projects for business-type activities throughout the year. The balances of the various construction projects that comprise the construction in progress balances at June 30, 2014, are as follows:

DBP Treatment facilities *	\$ 293,182
Tenney tanks	<u>36,260</u>
Construction in progress	<u>\$ 329,442</u>

* To comply with the California Department of Public Health, the District is installing a nano-filtration system, which requires an upgrade to the existing treatment chain. The total cost for the nano-filtration system is estimated to be \$574,702 and work is expected to be completed by December 31, 2014.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE 5 OTHER POST-EMPLOYMENT BENEFITS (OPEB) PREPAID/(PAYABLE)

Plan Description, Benefits - The District offers post-employment medical benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any plan available through the District's CalPERS medical plan. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors.

Plan Description, Eligibility - The District pays a portion of the cost of health insurance for retirees under any group plan offered by CalPERS, subject to certain restrictions as determined by the District. Membership in the OPEB plan consisted of the following members as of June 30, 2014 and 2013:

Active plan members	4
Retirees and beneficiaries receiving benefits	<u>3</u>
	<u>7</u>

Funding Policy - The District is required to identify the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Prior to June 30, 2012, the District funded the plan on a pay-as-you-go basis and maintained reserves (and recorded a liability) for the difference between pay-as-you-go and the actuarially determined ARC cost. During the year ended June 30, 2012, the District entered into an agreement with CalPERS for the California Employers' Retiree Benefit Trust (CERBT), which allows the District to pre-fund future retiree health benefits and other OPEB costs. For one employee, the District shall continue the pay-as-you-go basis.

Annual Cost - For the years ended June 30, 2014 and 2013, the District's gross ARC cost is \$35,260 and \$35,913, respectively. The District's net OPEB prepaid asset amounted to \$197,054 and \$153,301 as of June 30, 2014 and 2013, respectively. The District contributed \$17,000 and \$204,000 under the CERBT program and \$14,000 and \$14,480, in age-adjusted contributions for current retiree OPEB premiums during the years ended June 30, 2014 and 2013, respectively.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE 5 POST-EMPLOYMENT BENEFITS PREPAID/(PAYABLE) (Continued)

The balance of OPEB prepaid asset/(payable obligation) at June 30, 2014 and 2013, consisted of the following:

	2014	2013
OPEB prepaid asset / (payable), beginning of year	\$ 153,301	\$ (39,126)
Annual OPEB expense:		
Annual required contribution (ARC)	(35,260)	(35,913)
Interest on net OPEB obligation	49,326	1,653
Adjustment to annual required contribution	(1,313)	8,207
Total annual OPEB expense, net	12,753	(26,053)
Change in net OPEB payable obligation:		
CERBT deposits	17,000	204,000
Age adjusted contributions made	14,000	14,480
Total change in net OPEB payable obligation	43,753	192,427
OPEB prepaid asset / (payable), end of year	\$ 197,054	\$ 153,301

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2014 and the three preceding years were as follows:

Fiscal Year Ended	(A) Annual OPEB Cost	(B) Age Adjusted Contribution	(C) CERBT Deposits Paid	[(B)+(C)]/(A) Percentage of Annual OPEB Cost Contributed	Net OPEB Prepaid / (Obligation Payable)
2014	\$ (12,753)	\$ 14,000	\$ 17,000	(243.08%)	\$ 197,054
2013	\$ 26,053	\$ 14,480	\$ 204,000	838.60%	\$ 153,301
2012	\$ 50,637	\$ 16,907	\$ 85,000	201.25%	\$ (39,126)
2011	\$ 64,477	\$ 17,095	\$ -	26.51%	\$ (90,396)

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE 6 COMMITTED AND ASSIGNED FUND BALANCES AND BOARD-DESIGNATED FUND EQUITIES

As described in Note 1, Net Position and Fund Balance the District has reserved certain equity amounts to be used for particular purposes as follows as of June 30, 2014 and 2013:

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	
	(Committed fund balance)	(Board- designed fund equity)	Total
<u>June 30, 2014:</u>			
Capital projects	\$ -	\$ 494,347	\$ 494,347
Customer deposits	-	5,800	5,800
Accrued vacation	26,384	22,172	48,556
Main replacements	-	25,000	25,000
Vehicle replacements	20,000	20,000	40,000
Emergency reserves	375,000	375,000	750,000
Other reserves	<u>387,331</u>	<u>-</u>	<u>387,331</u>
	<u>\$ 808,715</u>	<u>\$ 942,319</u>	<u>\$ 1,751,034</u>
	<u>Assigned</u>		
Compensated absences	<u>\$ 26,384</u>		
<u>June 30, 2013:</u>			
Capital projects	\$ -	\$ 107,461	\$ 107,461
Customer deposits	-	3,000	3,000
Accrued vacation	22,819	17,807	40,626
Main replacements	-	25,000	25,000
Equipment replacements	-	280,015	280,015
Vehicle replacements	20,000	20,000	40,000
Emergency reserves	375,000	375,000	750,000
OPEB fund	17,000	-	17,000
Other reserves	<u>334,061</u>	<u>-</u>	<u>334,061</u>
	<u>\$ 768,880</u>	<u>\$ 828,283</u>	<u>\$ 1,597,163</u>
	<u>Assigned</u>		
Compensated absences	<u>\$ 22,819</u>		

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE 7 PROPERTY TAXES

Property taxes are assessed, collected and distributed by the County of Marin in accordance with legislation. Secured property taxes are attached as an enforceable lien on real property located in the County of Marin as of March 1. Secured property taxes are levied each November 1 on the assessed value of the real property as of prior March 1. Taxes are due in two equal installments on December 10 and April 10 following the levy date.

Under California law, secured property taxes are assessed and collected by the counties at up to 1% of assessed value, plus other increases approved by the voters. The property taxes are pooled and then allocated to the District based upon complex formulas.

Unsecured property taxes are levied throughout the year beginning March 1 on the assessed value of personal property as of March 1. For unsecured property tax bills issued between March 1 and June 30, the amount is payable by August 31. For unsecured property tax bills issued after June 30, the amount of the tax is due 30 days after the bill is issued, but no later than February 28/29.

Special assessment charges are incorporated on the property tax bill, and therefore are attached as an enforceable lien on real property located within the District. Special assessment charges are due in two installments on December 10 and April 10 following the assessment date. The special assessments are collected and distributed to the District by the County of Marin.

Effective July 1, 1993, the District, in addition to other districts, entered into an agreement (hereafter known as the "Teeter Plan") with the County of Marin whereby the County agreed to purchase without recourse all previously outstanding (net of all adjustments) secured delinquent property tax and special assessment receivables, penalties and interest of the districts as of June 30, 1993. Additionally, the County agreed to advance each district its share of the annual gross levy of secured property taxes and special assessments (net of adjustments) billed through the County's Tax Collector for the fiscal year ended June 30, 1996, and for each subsequent fiscal year of the agreement. In consideration, the District gives the County of Marin its right to penalties and interest on delinquent property tax receivables and actual proceeds collected. This agreement is still operational as of the fiscal years ended June 30, 2014 and 2013.

NOTE 8 RELATED PARTY TRANSACTIONS

The District employs a relative of a member of management staff. This transaction is approved annually by the Board of Directors as part of the budget process. For the years ended June 30, 2014 and 2013, \$68,163 and \$65,587, respectively, was paid in salaries under his employment.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE 9 DEFINED BENEFIT PENSION PLAN

Plan Description - The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the District. Copies of CalPERS annual financial reports may be obtained from their executive office: 400 P Street, Sacramento, CA, 95814.

Funding Policy -The contribution rate for plan members in the CalPERS 2.0% at 55 Risk Pool Retirement Plan for Safety Employees is 7% and CalPERS 2.0% at 60 Risk Pool Retirement Plan for Miscellaneous Employees is 7% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension cost (APC) percentage of payroll for fiscal years 2014, 2013, and 2012, as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS.

For fiscal years 2012, 2013, and 2014, the District's annual contributions for the CalPERS plan were equal to the District's required and actual contributions for each fiscal year as follows:

Three Years CalPERS Funding Information - Safety Employees Plan

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
2011-2012	\$ -	100%	\$ -	15.126%
2012-2013	\$ -	100%	\$ -	15.283%
2013-2014	\$ -	100%	\$ -	15.100%

Three Years CalPERS Funding Information - Miscellaneous Plan

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
2011-2012	\$ 48,051	100%	\$ -	12.658%
2012-2013	\$ 51,494	100%	\$ -	14.959%
2013-2014	\$ 56,042	100%	\$ -	15.400%

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE 10 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Special District Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs from California Special Districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2014 and 2013, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$2,500,000, combined single limit at \$2,500,000 per occurrence. The District purchased additional excess coverage layers: \$2,500,000 for general, auto and public officials liability, which increases the limit on the insurance coverage noted above.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to \$400,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$1.0 billion per occurrence, subject to a \$2,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible per occurrence.
- Public officials personal liability up to \$500,000 each occurrence, with an annual aggregate of \$100,000 per each elected/appointed official to which this coverage applies, subject to the terms, with a deductible of \$500 per claim. Workers' compensation insurance up to \$100 million per occurrence and Employer's Liability Coverage up to \$5 million.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. There were no reductions in insurance coverage in fiscal years 2014 and 2013. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2014 and 2013.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE 11 COMMITMENTS AND CONTINGENCIES

Nuclear Free Zone -The Board of Directors of the Inverness Public Utility District adopted an ordinance on November 6, 1990, declaring the District as a Nuclear Free Zone and thereby joined in with other Nuclear Free Zone communities in eliminating the profit incentive for nuclear weapons makers by means of an economic boycott. As a result of this ordinance, the District shall purchase no product or service of or from any nuclear weapon maker, except that the District may purchase such a product or service where required by law or where no other product or service can be found in sufficient quality or suitability and at a low enough price to be consistent with good management practice and safety. The District shall include a copy of the ordinance with all requests for proposals and all purchase orders. The Board of Directors of the District shall meet annually to review the investment options and determine if the transfer of District funds to a financial institution that makes no investments in nuclear weapons makers (“Nuclear Free Fund”) is consistent with State law and prudent management.

Marin Emergency Radio Authority - During fiscal year 1999, the District became a member of the Marin Emergency Radio Authority (Authority). The Authority is a joint exercise of powers agency created on February 28, 1998, pursuant to the California Government Code and a Joint Powers Agreement, by and among the County of Marin and twenty-five local agencies within the County (collectively, the “Members”). The Authority’s purpose is to plan, finance, implement, manage, own and operate a multi-jurisdictional and County-wide public safety and emergency radio system. During 1999, the Authority issued bonds to finance the acquisition and installation of a County-wide public safety and emergency radio system (the “Project”), to fund a reserve fund, to fund capitalized interest on the 1999 bonds and to pay the costs incurred in issuing the 1999 bonds. The Project will be owned and operated by the Authority. The Members will use the radio service provided by the Project to carry out public safety and emergency functions in their individual service areas. The 1999 bonds are special obligations of the Authority payable solely from revenues consisting generally of the service payments to be made by the County and the Members within the County under an operating agreement. Scheduled payments began in August 2001. In addition, the District is obligated to pay a share of the Authority’s annual operating costs. For the years ended June 30, 2014 and 2013, the operating costs associated with the District’s participation in the Authority were \$8,228 and \$7,931, respectively.

A copy of the Authority’s financial statements is available upon request from the Marin County Administrator’s office at 3501 Civic Center Drive, Room 325, San Rafael, CA 94903.

Grant Awards - Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

**INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)**

**NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013**

NOTE 12 CONCENTRATION OF CREDIT RISK

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. Within the District's deposit portfolio with governmental agencies as of June 30, 2014, LAIF is 96% of the District's total depository and investment portfolio. There were no investments in any one non-governmental issuer that represents 5% or more of the District's total investments.

SUPPLEMENTARY INFORMATION

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND

For the year ended June 30, 2014

	Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Budgetary Basis	Variance Positive (Negative)
REVENUES					
Property taxes	\$ 346,621	\$ -	\$ 346,621	\$ 424,528	\$ 77,907
Grant revenue	7,490	-	7,490	14,980	7,490
Interest earnings	3,800	-	3,800	30,821	27,021
Special assessments	68,000	-	68,000	65,417	(2,583)
Charges for services	2,400	-	2,400	3,479	1,079
Total revenues	<u>428,311</u>	<u>-</u>	<u>428,311</u>	<u>539,225</u>	<u>110,914</u>
EXPENDITURES					
Salaries and benefits	299,555	-	299,555	284,297	15,258
Dispatch and communications	25,100	-	25,100	23,456	1,644
Repairs and maintenance	3,000	-	3,000	1,426	1,574
Professional services	6,000	-	6,000	-	6,000
Supplies and inventory	20,000	-	20,000	7,222	12,778
Training and education	-	-	-	4,468	(4,468)
Fuel reduction and fire prevention program	25,000	-	25,000	11,985	13,015
Utilities	3,500	-	3,500	3,250	250
Vehicle operation	8,000	-	8,000	11,720	(3,720)
General and administrative	45,934	-	45,934	41,174	4,760
Capital outlay	-	-	-	-	-
Total expenditures	<u>436,089</u>	<u>-</u>	<u>436,089</u>	<u>388,998</u>	<u>47,091</u>
Net change in fund balance	(7,778)	<u>\$ -</u>	(7,778)	150,227	<u>\$ 158,005</u>
Fund balance, beginning of year	<u>1,254,846</u>		<u>1,254,846</u>	<u>1,446,947</u>	
Fund balance, end of year	<u>\$ 1,247,068</u>		<u>\$ 1,247,068</u>	<u>\$ 1,597,174</u>	

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

SCHEDULE OF FUNDING STATUS - OTHER POST-EMPLOYMENT BENEFITS OBLIGATION
For the year ended June 30, 2014

Funded Status and Funding Progress of the Plan

The Schedule of Funding Progress below shows the recent history of the risk pool's actuarial value of assets, accrued liability, their relationship, and the relationship of the unfunded liability (UL) to payroll:

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/10	\$ -	\$ 586,436	\$ 586,436	0.00%	\$ 269,460	217.63%
6/30/13	\$ 306,000	\$ 545,921	\$ 239,921	56.05%	\$ 285,862	83.93%

The most recent valuation (dated June 30, 2013) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$545,921.

Actuarial Methods and Assumptions

Actuarial valuations involved estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	30 Years as of the Valuation Date
Asset Valuation Method	30 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	6.125%
Projected Salary Increases	2.000%
Inflation - Discount Rate	6.125%
Individual Salary Growth	District annual COLA

INVERNESS PUBLIC UTILITY DISTRICT
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SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - WATER ENTERPRISE FUND
For the year ended June 30, 2014

	Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Accrual Basis	Variance Positive (Negative)
OPERATING REVENUES					
Water consumption sales	\$ 85,000	\$ -	\$ 85,000	\$ 105,035	\$ 20,035
Readiness-to-serve charges	304,800	-	304,800	305,400	600
Other revenue	2,120	-	2,120	5,984	3,864
Total operating revenues	<u>391,920</u>	<u>-</u>	<u>391,920</u>	<u>416,419</u>	<u>24,499</u>
OPERATING EXPENSES					
Collection and treatment	17,000	-	17,000	15,508	1,492
Laboratory and monitoring	9,000	-	9,000	7,549	1,451
Storage and distribution	16,000	-	16,000	14,649	1,351
Supplies and inventory	22,000	-	22,000	13,034	8,966
Vehicle operation	8,000	-	8,000	10,657	(2,657)
Training and licensing	2,000	-	2,000	360	1,640
General and administrative	250,060	-	250,060	227,627	22,433
Total operating expenses	<u>324,060</u>	<u>-</u>	<u>324,060</u>	<u>289,384</u>	<u>34,676</u>
Operating income before general revenues and depreciation	67,860	-	67,860	127,035	59,175
Interest	-	-	-	21,006	21,006
Depreciation expense	<u>(55,376)</u>	<u>-</u>	<u>(55,376)</u>	<u>(47,295)</u>	<u>8,081</u>
Change in net assets	12,484	<u>\$ -</u>	12,484	100,746	<u>\$ 88,262</u>
Net assets, beginning of year	<u>1,392,736</u>		<u>1,392,736</u>	<u>1,527,987</u>	
Net assets, end of year	<u>\$ 1,405,220</u>		<u>\$ 1,405,220</u>	<u>\$ 1,628,733</u>	

**INDEPENDENT AUDITOR'S 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**

To the Board of Directors
Inverness Public Utility District
Inverness, California

We have audited, in accordance with 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Inverness Public Utility District (a California Special District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 the District's financial statements are free from 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

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results 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.

Doran & Associates

October 22, 2014