

Inverness Public Utility District
Annual Financial Report
For the Fiscal Year Ended June 30, 2011



Our Mission Statement

"To bring safe, reliable, and courteous Fire and Water services to the residents of our community."

Inverness Public Utility District Board of Directors

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term Expires</u>
Scoby A. Zook	President	Elected	11/2013
Michael D. McEneany	Vice President	Elected	11/2011
Laura B. Alderdice	Treasurer	Elected	11/2011
Alden Adkins	Director	Appointed	11/2011
Kenneth J. Emanuels	Director	Elected	11/2013

**Inverness Public Utility District
Scott M. McMorrow, General Manager
50 Inverness Way
Inverness, CA 94937 • (415) 669-1414**

Inverness Public Utility District
Annual Financial Report
For the Fiscal Year Ended June 30, 2011

**Inverness Public Utility District
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Financial Section



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA
Christopher J. Brown, CPA

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Independent Auditor's Report

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 (District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit 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; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective 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, 2011, and the respective changes in net assets and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1.B to the basic financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011.

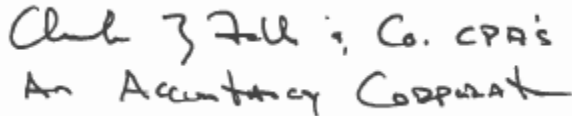
In accordance with *Government Auditing Standards*, we have also issued a report dated September 1, 2011 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. That report can be found on page 33.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the required supplementary information on pages 30 and 31 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.

Independent Auditor's Report, continued

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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The supplemental information on page 32 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



Charles Z. Fedak and Company, CPA's
An Accountancy Corporation

Charles Z. Fedak and Company, CPA's – An Accountancy Corporation
Cypress, California
September 1, 2011

**Inverness Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

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, 2011. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- Net assets increased 3.4% or \$94,500 to \$2,868,265 as a result of this year's operations.
- Total revenues decreased 24.3% or \$293,424 from the prior year due to a decrease in capital grants and contributions of \$292,107.
- Total expenses decreased by 10.6% or \$96,628 due primarily to a decrease in fire protection expenses of \$46,183 and a decrease in water service expenses of \$50,445.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provides information about the activities and performance of the District using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). 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 Statement of Activities. This statement measures the success of the District's operations over the past year and can be used to determine the District's profitability and credit worthiness.

Government-wide Financial Statements

Statement of Net Assets and Statement 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 Statement of Net Assets and the Statement 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 assets* and changes in them. Think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets 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 base and the types of grants the District applies for to assess the *overall financial health* of the District.

**Inverness Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

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 Basic 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 14 through 29

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 30 and 31.

Government-wide Financial Analysis

Statement of Net Assets

The following table is a summary of the statement of net assets at June 30, 2011.

	Condensed Statement of Net Assets					
	Governmental Activities		Business-type Activities		Total District	
	2011	2010	2011	2010	2011	2010
Assets:						
Current and other assets	\$ 1,377,767	1,269,834	252,177	415,547	1,629,944	1,685,381
Capital assets, net	194,903	224,418	1,227,051	1,292,149	1,421,954	1,516,567
Total assets	1,572,670	1,494,252	1,479,228	1,707,696	3,051,898	3,201,948
Liabilities:						
Current liabilities	1,258	3,568	59,449	77,264	60,707	80,832
Non-current liabilities	67,275	37,427	55,651	309,924	122,926	347,351
Total liabilities	68,533	40,995	115,100	387,188	183,633	428,183
Net assets:						
Net investment in capital assets	194,903	224,418	1,227,051	1,014,149	1,421,954	1,238,567
Unrestricted	1,309,234	1,228,839	137,077	306,359	1,446,311	1,535,198
Total net assets	\$ 1,504,137	1,453,257	1,364,128	1,320,508	2,868,265	2,773,765

**Inverness Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

As noted earlier, net assets 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 \$2,868,265 as of June 30, 2011. Compared to prior year, net assets of the District increased 3.4% or \$94,500. The District's net assets are made-up of two components: (1) net investment in capital assets and (2) unrestricted net assets.

Statement of Activities

The following table is a summary of the statement of activities for the year ended June 30, 2011.

	Condensed Statement of Activities					
	Governmental Activities		Business-type Activities		Total District	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 79,618	73,853	408,531	389,139	488,149	462,992
Operating grants	23,129	13,575	-	29,791	23,129	43,366
Capital grants	-	-	12,600	304,707	12,600	304,707
General revenues:						
Property taxes	380,819	383,998	-	-	380,819	383,998
Interest earnings	6,185	8,680	1,569	2,132	7,754	10,812
Total revenues	<u>489,751</u>	<u>480,106</u>	<u>422,700</u>	<u>725,769</u>	<u>912,451</u>	<u>1,205,875</u>
Expenses:						
Fire protection	438,871	485,054	-	-	438,871	485,054
Water	-	-	379,080	429,525	379,080	429,525
Total expenses	<u>438,871</u>	<u>485,054</u>	<u>379,080</u>	<u>429,525</u>	<u>817,951</u>	<u>914,579</u>
Change in net assets	50,880	(4,948)	43,620	296,244	94,500	291,296
Net assets, beginning of year	<u>1,453,257</u>	<u>1,458,205</u>	<u>1,320,508</u>	<u>1,024,264</u>	<u>2,773,765</u>	<u>2,482,469</u>
Net assets, end of year	<u>\$ 1,504,137</u>	<u>1,453,257</u>	<u>1,364,128</u>	<u>1,320,508</u>	<u>2,868,265</u>	<u>2,773,765</u>

Government and Business-type activities increased the District's net assets by \$94,500 thereby accounting for the 3.4% increase in the net assets of the District. The District's total revenues decreased 24.3% or \$293,424 from the prior year due to a decrease in capital grants and contributions of \$292,107. In addition, the District's total expenses decreased by 10.6% or \$96,628 due primarily to a decrease in fire protection expenses of \$46,183 and a decrease in water service expenses of \$50,445.

**Inverness Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

Capital Asset Administration

	Governmental Activities		Business-type Activities		Total District	
	2011	2010	2011	2010	2011	2010
Capital assets:						
Non-depreciable assets	\$ -	-	139,762	134,728	139,762	134,728
Depreciable assets	901,392	926,473	2,881,103	2,881,103	3,782,495	3,807,576
Total capital assets	901,392	926,473	3,020,865	3,015,831	3,922,257	3,942,304
Accumulated depreciation	(706,489)	(702,055)	(1,793,814)	(1,723,682)	(2,500,303)	(2,425,737)
Total capital assets, net	\$ 194,903	224,418	1,227,051	1,292,149	1,421,954	1,516,567

At the end of fiscal year 2011, the District's investment in capital assets amounted to \$1,421,954 (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.

Long-Term Debt Administration

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Long-term debt:						
Bonds payable	\$ -	-	-	278,000	-	278,000

Long-term debt decreased by \$278,000 due to the District paying-off its bonds in fiscal year 2011. (See Note 6 for further information.)

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 assets 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 District's financial operations and financial condition. 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.

Basic Financial Statements

Inverness Public Utility District
Statement of Net Assets
June 30, 2011

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents (note 2)	\$ 1,341,498	177,784	1,519,282
Accrued interest receivable	1,372	358	1,730
Accounts receivable – water sales and service	-	74,035	74,035
Accounts receivable – other	7,490	-	7,490
Property taxes receivable	3,333	-	3,333
Note receivable – property taxes from state (note 3)	24,074	-	24,074
Capital assets – not being depreciated (note 4)	-	139,761	139,761
Capital assets – being depreciated, net (note 4)	194,903	1,087,290	1,282,193
	<u>1,572,670</u>	<u>1,479,228</u>	<u>3,051,898</u>
Total assets			
Liabilities:			
Accounts payable and accrued expenses	1,258	277	1,535
Customer deposits	-	4,500	4,500
Deferred revenue	-	54,672	54,672
Long-term liabilities – due in more than one year:			
Compensated absences (note 5)	17,364	15,166	32,530
Other post-employment benefits payable (note 7)	49,911	40,485	90,396
	<u>68,533</u>	<u>115,100</u>	<u>183,633</u>
Total liabilities			
Net assets:			
Net investment in capital assets	194,903	1,227,051	1,421,954
Unrestricted	1,309,234	137,077	1,446,311
	<u>1,504,137</u>	<u>1,364,128</u>	<u>2,868,265</u>
Total net assets	\$		

See accompanying notes to the basic financial statements

**Inverness Public Utility District
Statement of Activities
For the Year Ended June 30, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities:							
Fire protection	\$ 438,871	79,618	23,129	-	(336,124)	-	(336,124)
Business-type activities:							
Water enterprise fund	379,080	408,531	-	12,600	-	42,051	42,051
Total	<u>\$ 817,951</u>	<u>488,149</u>	<u>23,129</u>	<u>12,600</u>	<u>(336,124)</u>	<u>42,051</u>	<u>(294,073)</u>
General revenues:							
Property taxes					\$ 380,819	-	380,819
Interest earnings					6,185	1,569	7,754
Total general revenues					<u>387,004</u>	<u>1,569</u>	<u>388,573</u>
Change in net assets					50,880	43,620	94,500
Net assets, beginning of year					<u>1,453,257</u>	<u>1,320,508</u>	<u>2,773,765</u>
Net assets, end of year					<u>\$ 1,504,137</u>	<u>1,364,128</u>	<u>2,868,265</u>

See accompanying notes to the basic financial statements

**Inverness Public Utility District
Balance Sheet – Governmental Funds
June 30, 2011**

	<u>General Fund</u>
Assets:	
Cash and cash equivalents	\$ 1,341,498
Accrued interest receivable	1,372
Property taxes receivable	7,490
Accounts receivable – other	3,333
Total assets	<u><u>1,353,693</u></u>
Liabilities:	
Accounts payable and accrued expenses	<u>1,258</u>
Total liabilities	<u>1,258</u>
Fund balance: (note 8)	
Assigned	67,275
Unassigned	<u>1,285,160</u>
Total fund balance	<u>1,352,435</u>
Total liabilities and fund balance	<u><u>\$ 1,353,693</u></u>
Reconciliation:	
Fund balance of governmental funds	\$ 1,352,435
Amounts reported for governmental activities in the statement of net assets is different because:	
Long-term assets are not current financial resources, and, therefore, are not reported in the governmental funds balance sheet.	24,074
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	194,903
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 in the Statement of Net Assets.	
Compensated absences	(17,364)
Other post-employment benefits payable	<u>(49,911)</u>
Net assets of governmental activities	<u><u>\$ 1,504,137</u></u>

See accompanying notes to the basic financial statements

Inverness Public Utility District
Statement of Revenues, Expenditures and Changes in Fund Balances– Governmental Funds
For the Year Ended June 30, 2011

	<u>General Fund</u>
Revenues:	
Property taxes	\$ 380,819
Grant revenue	23,129
Interest earnings	5,537
Special assessment	68,875
Charges for services	<u>10,743</u>
Total revenues	<u>489,103</u>
Expenditures:	
Salaries and benefits	248,596
Dispatch and communications	21,906
Repairs and maintenance	2,810
Professional services	4,200
Supplies	16,898
Training and education	7,423
Fuel reduction and fire prevention program	12,187
Utilities	3,229
Vehicle operation	7,628
General and administrative	44,474
Capital outlay	<u>10,159</u>
Total expenditures	<u>379,510</u>
Net change in fund balance	109,593
Fund balance, beginning of year	<u>1,242,842</u>
Fund balance, end of year	<u>\$ 1,352,435</u>
Reconciliation:	
Net changes in fund balance of governmental fund	\$ 109,593
Amounts reported for governmental activities in the statement of activities is different because:	
Some revenues reported in the Statement of Activities are not current financial resources and therefore are not reported as revenues in governmental funds as follows:	
Interest earned on note receivable – property taxes from state	648
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Capital outlay	10,159
Depreciation expense	(39,672)
Some expenses reported in the Statement 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	(3,788)
Net change in other post-employment benefits payable	<u>(26,060)</u>
Change in net assets of governmental activities	<u>\$ 50,880</u>

See accompanying notes to the basic financial statements

Inverness Public Utility District
Statement of Net Assets – Water Enterprise Fund
June 30, 2011

	Water Fund
Assets:	
Cash and cash equivalents	\$ 177,784
Accrued interest receivable	358
Accounts receivable – water sales and services, net	74,035
Capital assets – not being depreciated	139,761
Capital assets, net – being depreciated	<u>1,087,290</u>
Total assets	<u><u>1,479,228</u></u>
 Liabilities:	
Accounts payable and accrued expenses	277
Customer deposits	4,500
Deferred revenue	54,672
Long-term liabilities – due in more than one year:	
Compensated absences	15,166
Post employment benefits payable	<u>40,485</u>
Total liabilities	<u><u>115,100</u></u>
 Net assets:	
Net investment in capital assets	1,227,051
Unrestricted	<u>137,077</u>
Total net assets	<u><u>\$ 1,364,128</u></u>

See accompanying notes to the basic financial statements

Inverness Public Utility District
Statement of Revenues, Expenses and Changes in Fund Net Assets – Water Enterprise Fund
For the Year Ended June 30, 2011

	Water Fund
Operating revenues:	
Water consumption sales	\$ 98,462
Readiness-to-serve charges	303,900
Operating grant revenue	-
Other charges for services	6,169
Total operating revenues	408,531
Operating expenses:	
Collection and treatment	12,310
Laboratory and monitoring	6,314
Storage and distribution	8,167
Supplies and inventory	8,985
Vehicle operation	8,601
Training and licensing	335
General and administrative	252,973
Total operating expenses	297,685
Operating income before depreciation	110,846
Depreciation expense	(70,132)
Operating income	40,714
Non-operating revenue(expense)	
Interest earnings	1,569
Other revenue(expense)	3,000
Deferred charges amortization	(4,313)
Interest expense	(6,950)
Total non-operating, net	(6,694)
Net income before capital contributions	34,020
Capital contributions:	
Capital contributions	9,600
Change in net assets	43,620
Net assets, beginning of year	1,320,508
Net assets, end of year	\$ 1,364,128

See accompanying notes to the basic financial statements

Inverness Public Utility District
Statement of Cash Flows – Water Enterprise Fund
For the Year Ended June 30, 2011

	<u>Water Fund</u>
Cash flows from operating activities:	
Cash receipts from customers for water sales and services	\$ 395,708
Cash paid to employees for wages and related payables	(194,051)
Cash paid to vendors and suppliers for materials and services	<u>(88,322)</u>
Net cash provided by operating activities	<u>113,335</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(5,034)
Capital contributions	9,600
Principal payments on bonds payable	(278,000)
Interest payments on bonds payable	<u>(6,950)</u>
Net cash used in capital and related financing activities	<u>(280,384)</u>
Cash flows from investing activities:	
Interest earnings	<u>1,652</u>
Net cash provided by investing activities	<u>1,652</u>
Net decrease in cash and cash equivalents	(165,397)
Cash and cash equivalents, beginning of year	<u>343,181</u>
Cash and cash equivalents, end of year	<u>\$ 177,784</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ <u>40,714</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	70,132
Other revenue(expense)	3,000
Changes in assets and liabilities:	
(Increase)decrease in assets:	
Accounts receivable – water sales and services	(7,346)
Accounts receivable – other	923
Increase(decrease) in liabilities:	
Accounts payable and accrued expenses	(12,338)
Customer deposits	(5,100)
Deferred revenue	(377)
Compensated absences	2,405
Post employment benefits payable	<u>21,322</u>
Total adjustments	<u>72,621</u>
Net cash provided by operating activities	<u>\$ 113,335</u>
Noncash financing and investing activities:	
Amortization of deferred charges	\$ <u>(4,313)</u>
Contributed capital	<u>-</u>

See accompanying notes to the basic financial statements

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2011

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Inverness Public Utility District (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 Valley Fire District. 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 criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of No. 14). 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.

B. New Accounting Pronouncements

Government Accounting Standards Board Statement No. 54

For the fiscal year ended June 30, 2011, the District implemented Government Accounting Standards Board Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements of this statement are effective for the financial statement periods beginning after June 15, 2010.

GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It establishes balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. These classifications are described in the Fund Balance section of Note 1.D.10.

GASB 54 also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are also clarified by the provisions in this statement.

C. 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
Notes to the Basic Financial Statements, continued
June 30, 2011

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Basis of Accounting and Measurement Focus, 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 Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates 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 a Balance Sheet and a Statement 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 assets 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 Sheet. The Statement 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 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.

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 (receives) value without directly receiving (giving) value in exchange.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2011

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Basis of Accounting and Measurement Focus, continued

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and propriety fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

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 governmental and proprietary 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 fund 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 fire protection operations of the District.

Proprietary Fund

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

D. Financial Statement Elements

1. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2011

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Financial Statement Elements, continued

2. 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)

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. Investments 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.

3. Property Taxes and Assessments

The County of Marin Assessor's Office assesses all real and personal property within the County each year. The County of Marin Tax Collector's Office bills and collects the District's share of property taxes and/or tax assessments. The County of Marin Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes and tax assessments collected by the County of Marin, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and February 1
Collection dates	December 10 and April 10

4. Accounts Receivable

The District extends credit to customers in the normal course of operations. Management deems all accounts receivable as collectible at year-end. Accordingly, an allowance for doubtful accounts has not been recorded.

5. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2011

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Financial Statement Elements, continued

6. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting 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 accumulated 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

7. 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 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 leave 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 in the Statement of Net Assets as those are payable from future resources and within the Statement of Net Assets for amounts relating to the proprietary fund type.

8. 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.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2011

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Financial Statement Elements, continued

9. Net Assets

The government-wide financial statements utilize a net assets presentation. Net assets categorizes are as follows:

- **Net Investment in Capital Assets** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt outstanding against the acquisition, construction or improvement of those assets.
- **Restricted Net Assets** – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – This component of net assets consists of net assets that do not meet the definition of *restricted* or *net investment in capital assets*.

10. Fund Balance

The financial statements, governmental funds report fund balance 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.

The Board of Directors established, 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.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2011

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Financial Statement Elements, continued

10. Fund Balance, continued

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.

11. Water Sales

Water sales are billed on a bi-monthly cyclical basis. Estimated unbilled water revenue through June 30 has been accrued at year-end for the water enterprise fund.

12. 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.

13. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.

14. 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.

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.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2011

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2011, consist of the following:

Cash on hand	\$	100
Deposits held with financial institutions		39,122
Deposits held with California Local Agency Investment Fund		<u>1,480,060</u>
Total	\$	<u><u>1,519,282</u></u>

As of June 30, 2011, the District's authorized deposits had the following maturities:

Deposits held with the California Local Agency Investment Fund	237 days
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Authorized Deposits and Investments

The District's investment policy only authorizes deposits and investments in certain items as listed in Note 1(C)(2) to the financial statements. The District's investment policy does not contain any specific provisions intended to limit its exposure to interest rate risk, credit risk, custodial risk, and concentration of credit risk.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balance, up to \$250,000 is federally insured.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contains legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization; however, LAIF is not rated.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2011

(2) Cash and Cash Equivalents, continued

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. The District's deposit portfolio with governmental agencies, LAIF, is 97% as of June 30, 2011, of the District's total depository and investment portfolio. There were no investments in any one non-governmental issuer that represent 5% or more of the District's total investments.

(3) Note Receivable – Property Tax from State

Under the provisions of the State of California Proposition 1A and as part of the 2010 fiscal year State of California budget package passed by the California State Legislature on July 28, 2009, the State of California borrowed 8.0% of the amount of property tax revenue apportioned to cities, counties and special districts. The State of California is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California State Legislature may consider only one additional borrowing within a ten-year period. The amount of the borrowing pertaining to the District was \$23,426 in property taxes and \$648 in accrued interest for a total of \$24,074. The borrowing by the State of California was recognized as a note receivable in the accompanying financial statements.

(4) Capital Assets

Governmental Activities

Changes in capital assets for the year were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2011</u>
Non-depreciable assets:				
Construction in progress	\$ -	-	-	-
Total non-depreciable assets	-	-	-	-
Depreciable assets:				
Buildings	227,528	-	-	227,528
Tankers and vehicles	381,811	-	-	381,811
Furnishings and equipment	317,134	10,159	(35,240)	292,053
Total depreciable assets	926,473	10,159	(35,240)	901,392
Accumulated depreciation:				
Buildings	(177,756)	(6,305)	-	(184,061)
Tankers and vehicles	(277,661)	(15,203)	-	(292,864)
Furnishings and equipment	(246,640)	(18,164)	35,240	(229,564)
Total accumulated depreciation	(702,055)	(39,672)	35,240	(706,489)
Total depreciable assets, net	224,418	(29,513)	-	194,903
Total capital assets, net	\$ 224,418			194,903

Major capital asset additions in the governmental activities area include a thermal imaging camera totaling \$10,159. Depreciation expense under governmental activities, fire protection, totaled \$39,672.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2011

(4) Capital Assets, continued

Business-Type Activities

Changes in capital assets for the year were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2011</u>
Non-depreciable assets:				
Land	\$ 66,320	-	-	66,320
Construction in progress	68,408	5,034	-	73,442
Total non-depreciable assets	<u>134,728</u>	<u>5,034</u>	<u>-</u>	<u>139,762</u>
Depreciable assets:				
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	80,839	-	-	80,839
Total depreciable assets	<u>2,881,103</u>	<u>-</u>	<u>-</u>	<u>2,881,103</u>
Accumulated depreciation:				
Collection system	(186,703)	(9,862)	-	(196,565)
Distribution system	(571,547)	(22,738)	-	(594,285)
Tanks	(120,440)	(14,667)	-	(135,107)
Water treatment	(712,130)	(20,951)	-	(733,081)
Wells	(52,023)	(1,914)	-	(53,937)
Vehicles and equipment	(80,839)	-	-	(80,839)
Total accumulated depreciation	<u>(1,723,682)</u>	<u>(70,132)</u>	<u>-</u>	<u>(1,793,814)</u>
Total depreciable assets, net	<u>1,157,421</u>	<u>(70,132)</u>	<u>-</u>	<u>1,087,289</u>
Total capital assets, net	<u>\$ 1,292,149</u>			<u>1,227,051</u>

Capital asset additions in the business-type activities area include \$5,034 to projects still under construction. Depreciation expense under business-type activities, retail water enterprise, totaled \$70,132.

Construction-In-Process

The District has been involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-process balances at year-end are as follows:

Business-Type Activities

	<u>2010</u>	<u>2011</u>
The balance at June 30, consists of the following projects:		
DBP Treatment facilities	\$ 32,177	37,182
Tenney tanks	36,231	36,260
Construction-in-process	<u>\$ 68,408</u>	<u>73,442</u>

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2011

(5) Compensated Absences

Changes in compensated absences were as follows:	Governmental	Business-type
	Activities	Activities
Balance at beginning of year	\$ 13,576	12,761
Additions	8,631	7,495
Payments to employees	(4,843)	(5,090)
Balance at end of year	<u>\$ 17,364</u>	<u>15,166</u>

(6) Bonds Payable

In December 1981, the District issued \$640,000 of water revenue bonds in order to acquire the water system that was serving residents within the service area of the District, and to provide improvements therein. Prior to the acquisition, the water system was operated by a private water company. The area residents passed a ballot measure that allowed the District to acquire the water system. In 2011, the District paid-off the remaining balance on the bonds to reduce the District's total debt service payments over the next eleven years by \$89,650 and to obtain an economic gain of \$166,817.

(7) Post Employment Benefits Payable

During the fiscal year ended June 30, 2011, the District implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for post employment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The new reporting requirements for these benefit programs as they pertain to the District are set forth below.

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:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Active plan members	5	5	6
Retirees and beneficiaries receiving benefits	4	4	3
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	<u>9</u>	<u>9</u>	<u>9</u>

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. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors.

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. The current ARC rate is 23.0% of the annual covered payroll.

The District will pay 100% of the cost of the post-employment benefit plan. The District funds the plan on a pay-as-you-go basis and maintains reserves (and records a liability) for the difference between pay-as-you-go and the actuarially determined ARC cost.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2011

(7) Post Employment Benefits Payable, continued

Annual Cost

For the year ended June 30, 2011, the District's ARC cost is \$64,447. The District's net OPEB payable obligation amounted to \$43,014 for the year ended June 30, 2011. The District contributed \$17,095 in age adjusted contributions for current retiree OPEB premiums for the year ended June 30, 2011.

The balance at June 30, consists of the following:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 61,908	61,908	-
Interest on net OPEB obligation	3,011	-	-
Adjustment to annual required contribution	(442)	-	-
Total annual OPEB expense	<u>64,477</u>	<u>61,908</u>	<u>-</u>
Change in net OPEB payable obligation:			
Age adjusted contributions made	(17,095)	(18,894)	-
Total change in net OPEB payable obligation	<u>47,382</u>	<u>43,014</u>	<u>-</u>
OPEB payable – beginning of year	<u>43,014</u>	<u>-</u>	<u>-</u>
OPEB payable – end of year	<u>\$ 90,396</u>	<u>43,014</u>	<u>-</u>

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 2011 and the two preceding years were as follows:

Three-Year History of Net OPEB Obligation

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Age Adjusted Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation Payable</u>
2011	\$ 64,477	17,095	26.51%	\$ 90,396
2010	61,908	18,894	30.52%	43,014
2009	*	-	0.00%	-

* The information for this year is unavailable.
 GASB No. 45 was implemented in fiscal year 2010.

(8) Fund Balance

Fund balances are presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned (See Note 1.D.10 for a description of these categories). A detailed schedule of fund balances and their funding composition at June 30, 2011 is as follows:

<u>Description</u>	<u>Balance</u>
Assigned:	
Compensated absences	\$ 17,364
Post employment benefits payable	49,911
Total assigned	<u>67,275</u>
Unassigned:	
Designated for fire protection	1,285,160
Total fund balance	<u>\$ 1,352,435</u>

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2011

(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 report 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 2011, 2010 and 2009 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 2011, 2010 and 2009, 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>
2008-2009	\$ -	100%	-	22.036%
2009-2010	-	100%	-	22.536%
2010-2011	-	100%	-	22.636%

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>
2008-2009	\$ 50,799	100%	-	14.707%
2009-2010	53,189	100%	-	12.979%
2010-2011	40,649	100%	-	12.457%

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2011

(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 Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for 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, 2011, 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 limits 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 coverage's.
- 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 year 2011. 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, 2011.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2011

(11) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2011, that has effective dates that may impact future financial presentations.

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2011, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 60

In November 2010, the GASB issued Statement No.60, *Accounting and Financial Reporting for Service Concession Arrangements*. This standard address how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 61

In November 2010, the GASB issued Statement No.61, *The Financial Reporting Entity, Omnibus*. This standard is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and local Governments*. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 64

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. This standard is designed to improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or swap counterparty's credit support provider, is replaced. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2011

(12) 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 or 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. At June 30, 2011, the District’s share of the total debt service payments since inception is \$124,719. 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 year ended June 30, 2011, the operating costs associated with the District’s participation in the Authority were \$7,454.

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, California 94903.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

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.

(13) Subsequent Events

Events occurring after June 30, 2011 have been evaluated for possible adjustment to the financial statements or disclosure as of September 1, 2011, which is the date the financial statements were available to be issued.

Required Supplementary Information

Inverness Public Utility District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – General Fund
For the Year Ended June 30, 2011

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Property taxes	\$ 327,151	-	327,151	380,819	53,668
Grant revenue	7,490	-	7,490	23,129	15,639
Interest earnings	6,444	-	6,444	5,537	(907)
Special assessment	67,000	-	67,000	68,875	1,875
Charges for services	4,300	-	4,300	10,743	6,443
Total revenues	<u>412,385</u>	<u>-</u>	<u>412,385</u>	<u>489,103</u>	<u>76,718</u>
Expenditures:					
Salaries and benefits	266,251	-	266,251	248,596	17,655
Dispatch and communications	24,258	-	24,258	21,906	2,352
Repairs and maintenance	3,100	-	3,100	2,810	290
Professional services	9,600	-	9,600	4,200	5,400
Supplies	14,000	-	14,000	16,898	(2,898)
Training and education	5,000	-	5,000	7,423	(2,423)
Fuel reduction and fire prevention program	15,000	-	15,000	12,187	2,813
Utilities	2,800	-	2,800	3,229	(429)
Vehicle operation	8,000	-	8,000	7,628	372
General and administrative	49,622	-	49,622	44,474	5,148
Capital outlay	-	-	-	10,159	(10,159)
Total expenditures	<u>397,631</u>	<u>-</u>	<u>397,631</u>	<u>379,510</u>	<u>18,121</u>
Net change in fund balance	<u>14,754</u>	<u>-</u>	<u>14,754</u>	<u>109,593</u>	<u>94,839</u>
Fund balance, beginning of year	<u>1,242,842</u>		<u>1,242,842</u>	<u>1,242,842</u>	
Fund balance, end of year	<u>\$ 1,257,596</u>		<u>1,257,596</u>	<u>1,352,435</u>	

Inverness Public Utility District
Schedule of Funding Status – Other Post-Employment Benefits Obligation
For the Fiscal Year Ended June 30, 2011

Funded Status and Funding Progress of the Plan

Required Supplemental Information – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2010	\$ -	586,436	586,436	0.00%	\$ 269,460	217.63%

The most recent valuation (dated June 30, 2010) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$586,436. There are no plan assets because the District funds on a pay-as-you-go basis. No trend information is reported because the year ended June 30, 2010, is the first year the District implemented GASB 45. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2010 was \$269,460. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 217.63%.

Actuarial Methods and Assumptions

Actuarial valuations involve 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, 2010
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	30 Years as of the valuation date
Asset valuation method	30 Year smoothed market
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increase	3.00%
Inflation - discount rate	7.00%
Individual salary growth	District annual COLA

Supplemental Information

Inverness Public Utility District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Water Fund
For the Year Ended June 30, 2011

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Final Budget</u>	<u>Actual Accrual Basis</u>	<u>Variance Positive (Negative)</u>
Operating revenues:					
Water consumption sales	\$ 81,000	-	81,000	98,462	17,462
Readiness-to-serve charges	303,600	-	303,600	303,900	300
Operating grant revenue	-	-	-	-	-
Other charges for services	2,520	-	2,520	6,169	3,649
Total operating revenues	<u>387,120</u>	<u>-</u>	<u>387,120</u>	<u>408,531</u>	<u>21,411</u>
Operating expenses:					
Collection and treatment	16,000	-	16,000	12,310	3,690
Laboratory and monitoring	10,000	-	10,000	6,314	3,686
Storage and distribution	12,000	-	12,000	8,167	3,833
Supplies and inventory	12,000	-	12,000	8,985	3,015
Vehicle operation	8,000	-	8,000	8,601	(601)
Training and licensing	200	-	200	335	(135)
General and administrative	260,919	-	260,919	252,973	7,946
Total operating expenses	<u>319,119</u>	<u>-</u>	<u>319,119</u>	<u>297,685</u>	<u>21,434</u>
Operating income before depreciation	68,001	-	68,001	110,846	42,845
Depreciation expense	-	-	-	(70,132)	(70,132)
Operating income(loss)	<u>68,001</u>	<u>-</u>	<u>68,001</u>	<u>40,714</u>	<u>(27,287)</u>
Non-operating revenue(expense):					
Interest earnings	2,148	-	2,148	1,569	(579)
Other revenue(expense)	100	-	100	3,000	2,900
Deferred charges amortization	-	-	-	(4,313)	(4,313)
Interest expense	(13,900)	-	(13,900)	(6,950)	6,950
Total non-operating, net	<u>(11,652)</u>	<u>-</u>	<u>(11,652)</u>	<u>(6,694)</u>	<u>4,958</u>
Net income(loss)	<u>56,349</u>	<u>-</u>	<u>56,349</u>	<u>34,020</u>	<u>(22,329)</u>
Capital contributions:					
Capital contributions	-	-	-	9,600	9,600
Change in net assets	<u>56,349</u>	<u>-</u>	<u>56,349</u>	<u>43,620</u>	<u>(12,729)</u>
Net assets, beginning of year	<u>1,320,508</u>		<u>1,320,508</u>	<u>1,320,508</u>	
Net assets, end of year	<u>\$ 1,376,857</u>		<u>1,376,857</u>	<u>1,364,128</u>	

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Report on Compliance and Internal Controls



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Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
 Inverness Public Utility District
 Inverness, California

We have audited the basic financial statements of the Inverness Public Utility District (District) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 1, 2011. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control over financial reporting 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

*Charles Z. Fedak & Co. CPAs
 An Accountancy Corporation*

Charles Z. Fedak and Company, CPA's – An Accountancy Corporation
 Cypress, California
 September 1, 2011