

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

BASIC
FINANCIAL STATEMENTS

For the Year Ended
June 30, 2012

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 6
Financial Statements	
Statement of Net Assets	7
Statement of Activities	8
Balance Sheet - Governmental Funds	9
Reconciliation of the Balance Sheet - Governmental Funds to the Government-Wide Statement of Net Assets	10
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Funds to the Government-Wide Statement of Activities	12
Balance Sheets - Water Enterprise Fund	13
Statement of Revenues, Expenses and Fund Equity - Water Enterprise Fund	14
Statement of Cash Flows - Water Enterprise Fund	15
Notes to Financial Statements	16 - 32
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balances, Budget and Actual - General Fund	34
Pension Schedule of Funding Status - Other Post -Employment Benefits Obligation	35
Schedule of Revenues, Expenditures and Changes in Fund Equity, Budget and Actual - Water Enterprise Fund	36
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 <i>Government Auditing Standards</i>	37

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic 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 year ended June 30, 2012, 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 financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2012, on our consideration of the 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* and should be considered in assessing the results of our audit.

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 34 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion of the financial statements that collectively comprise the District's basic financial statements as a whole. The supplemental information on page 36 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Doran & Associates

September 26, 2012

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2012

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, 2012. 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 3.9%, or \$111,920 to \$2,980,185 as a result of this year's operations
- Total revenues decrease 3.3%, or \$29,693 from the prior year primarily due to a decrease in capital grants and contributions of \$14,435 and a decrease in new service fees of \$9,600.
- Total expenses decreased by 5.8%, or \$47,113, primarily due to a decrease in depreciation expense of \$23,620.

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 bases and the types of grants the District applies for to assets 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, 2012**

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 16 through 32.

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 34 through 35.

Government-wide Financial Analysis

Statement of Net Assets

The following table is a condensed summary of the statement of net assets at June 30, 2012 with prior year comparative information:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Assets:						
Current and other assets	\$ 1,377,767	\$ 1,441,898	\$ 252,177	\$ 306,081	\$ 1,629,944	\$ 1,747,979
Capital assets, net	194,903	159,954	1,227,051	1,210,705	1,421,954	1,370,659
Total assets	<u>1,572,670</u>	<u>1,601,852</u>	<u>1,479,228</u>	<u>1,516,786</u>	<u>3,051,898</u>	<u>3,118,638</u>
Liabilities:						
Current liabilities	1,258	6,961	59,449	59,737	60,707	66,698
Non-current liabilities	67,275	38,895	55,651	32,860	122,926	71,755
Total liabilities	<u>68,533</u>	<u>45,856</u>	<u>115,100</u>	<u>92,597</u>	<u>183,633</u>	<u>138,453</u>
Net assets:						
Net investment in capital assets	194,903	159,954	1,227,051	1,210,705	1,421,954	1,370,659
Board-designated / committed net assets	-	841,804	-	744,252	-	1,586,056
Unrestricted	1,309,234	554,238	137,077	(530,768)	1,446,311	23,470
Total net assets	<u>\$ 1,504,137</u>	<u>\$ 1,555,996</u>	<u>\$ 1,364,128</u>	<u>\$ 1,424,189</u>	<u>\$ 2,868,265</u>	<u>\$ 2,980,185</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2012**

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 \$2,980,185 as of June 30, 2012. Compared to the prior year, net assets of the District increased by 3.9% or \$111,920. The District's net assets are made-up of three components: (1) net investment in capital assets, (2) Board-designated/committed net assets, and (3) unrestricted net assets.

Statement of Activities

The following table is a condensed summary of the statement of activities for the year ended June 30, 2012 with prior year comparative information:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Revenues:						
Program revenues:						
Charges for services	\$ 79,618	\$ 79,284	\$ 408,531	\$ 402,511	\$ 488,149	\$ 481,795
Operating grants	23,129	8,694	-	-	23,129	8,694
Capital assets	-	-	12,600	-	12,600	-
General revenues:						
Property taxes	380,819	386,106	-	-	380,819	386,106
Interest earnings	6,185	6,163	1,569	-	7,754	6,163
Total revenues	<u>489,751</u>	<u>480,247</u>	<u>422,700</u>	<u>402,511</u>	<u>912,451</u>	<u>882,758</u>
Expenses:						
District operations and fire protection	438,871	428,388	-	-	438,871	428,388
Water	-	-	379,080	342,450	379,080	342,450
Total expenses	<u>438,871</u>	<u>428,388</u>	<u>379,080</u>	<u>342,450</u>	<u>817,951</u>	<u>770,838</u>
Change in net assets	50,880	51,859	43,620	60,061	94,500	111,920
Net assets, beginning of year	<u>1,453,257</u>	<u>1,504,137</u>	<u>1,320,508</u>	<u>1,364,128</u>	<u>2,773,765</u>	<u>2,868,265</u>
Net assets, end of year	<u>\$ 1,504,137</u>	<u>\$ 1,555,996</u>	<u>\$ 1,364,128</u>	<u>\$ 1,424,189</u>	<u>\$ 2,868,265</u>	<u>\$ 2,980,185</u>

Governmental and Business-type activities increased the District's net assets by \$111,920 thereby accounting for the 3.9% increase in the net assets of the District. The District's total revenues' decreased 3.3% or \$29,693 from the prior year primarily due to a decrease in capital grants and contributions of \$14,435 and a decrease in new service fees of \$9,600. In addition, the District's total expenses decreased by 5.8% or \$47,113 primarily due to a decrease in depreciation expense of \$23,620.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2012**

Capital Asset Administration

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Capital assets:						
Non-depreciable assets	\$ -	\$ 905,518	\$ 139,762	\$ 173,538	\$ 139,762	\$ 173,538
Depreciable assets	<u>901,392</u>	<u>-</u>	<u>2,881,103</u>	<u>2,882,404</u>	<u>3,782,495</u>	<u>3,787,922</u>
Total capital assets	901,392	905,518	3,020,865	3,055,942	3,922,257	3,961,460
Accumulated depreciation	<u>(706,489)</u>	<u>(745,564)</u>	<u>(1,793,814)</u>	<u>(1,845,237)</u>	<u>(2,500,303)</u>	<u>(2,590,801)</u>
Total capital assets, net	<u>\$ 194,903</u>	<u>\$ 159,954</u>	<u>\$ 1,227,051</u>	<u>\$ 1,210,705</u>	<u>\$ 1,421,954</u>	<u>\$ 1,370,659</u>

At June 30, 2012, the District's investment in capital assets amounted to \$1,370,659, 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.

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 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)**

**STATEMENT OF NET ASSETS
June 30, 2012**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash, cash equivalents and investments (Notes 1 and 2)	\$ 1,404,141	\$ 235,794	\$ 1,639,935
Accrued interest receivable	1,416	-	1,416
Accounts receivable (Note 1)	8,694	70,287	78,981
Property taxes	3,092	-	3,092
Total current assets	1,417,343	306,081	1,723,424
Loan receivable from State of California (Note 3)	24,555	-	24,555
Capital assets, net of accumulated depreciation of \$2,590,801 (Notes 1 and 4)	159,954	1,210,705	1,370,659
Total assets	\$ 1,601,852	\$ 1,516,786	\$ 3,118,638
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable and accrued expenses	\$ 4,359	\$ 4,076	\$ 8,435
Deferred revenue (Note 1)	-	54,069	54,069
Employee benefits payable	2,602	1,592	4,194
Total current liabilities	6,961	59,737	66,698
Accrued compensated absences	18,245	14,384	32,629
Other post-employment benefits payable (Note 5)	20,650	18,476	39,126
Total liabilities	45,856	92,597	138,453
Net assets (Note 1):			
Net investment in capital assets	159,954	1,210,705	1,370,659
Board-designated/committed net assets (Note 6)	841,804	744,252	1,586,056
Unrestricted net assets	554,238	(530,768)	23,470
Total net assets	1,555,996	1,424,189	2,980,185
Total liabilities and net assets	\$ 1,601,852	\$ 1,516,786	\$ 3,118,638

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

STATEMENT OF ACTIVITIES
For the year ended June 30, 2012

	Governmental Activities: District Operations and Fire Protection	Business-Type Activities: Water- Enterprise Fund	Total
EXPENSES	<u>\$ 428,388</u>	<u>\$ 342,450</u>	<u>\$ 770,838</u>
PROGRAM REVENUES			
Charges for services	79,284	402,511	481,795
Operating grants and contributions	<u>8,694</u>	<u>-</u>	<u>8,694</u>
Total program revenues	<u>87,978</u>	<u>402,511</u>	<u>490,489</u>
Net Operating (Expense) Revenue	<u>(340,410)</u>	<u>60,061</u>	<u>(280,349)</u>
GENERAL REVENUES			
Property taxes (Note 7)	386,106	-	386,106
Interest	<u>6,163</u>	<u>-</u>	<u>6,163</u>
Total general revenues	<u>392,269</u>	<u>-</u>	<u>392,269</u>
Change in net assets	51,859	60,061	111,920
Total net assets, beginning of year	<u>1,504,137</u>	<u>1,364,128</u>	<u>2,868,265</u>
Total net assets, end of year	<u>\$ 1,555,996</u>	<u>\$ 1,424,189</u>	<u>\$ 2,980,185</u>

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

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

**BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012**

	Major Funds General Fund	Total Governmental Funds
ASSETS		
Current assets:		
Cash, cash equivalent and investments	\$ 1,404,141	\$ 1,404,141
Accrued interest receivable	1,416	1,416
Accounts receivable, other	8,694	8,694
Property taxes	3,092	3,092
Total assets	\$ 1,417,343	\$ 1,417,343
LIABILITIES AND FUND BALANCES		
Current liabilities:		
Accounts payable	\$ 4,359	\$ 4,359
Employee benefits payable	2,602	2,602
Total liabilities	6,961	6,961
Fund balances:		
Committed (Note 6)	841,804	841,804
Assigned (Note 6)	38,895	38,895
Unassigned	529,683	529,683
Total fund balances	1,410,382	1,410,382
Total liabilities and fund balances	\$ 1,417,343	\$ 1,417,343

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2012

Total fund balances - total governmental funds	<u>\$1,410,382</u>
Amounts reported for Governmental Activities on the Statement of Net Assets are different because:	
The loan receivable from the State of California will not be collected in the current period	
	<u>24,555</u>
Capital assets used in governmental activities are not current financial resources. Therefore, they are not reported on the Balance Sheet - Governmental Funds:	
Capital assets	905,518
Less: accumulated depreciation	<u>(745,564)</u>
	<u>159,954</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 Statement of Net Assets:	
Compensated absences	(18,245)
Other post-employment benefits payable	<u>(20,650)</u>
Total net assets	<u>\$1,555,996</u>

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

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

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the year ended June 30, 2011**

	<u>Major Funds</u> General Fund	Total Governmental Funds
REVENUES:		
Property taxes	\$ 386,106	\$ 386,106
Grant revenue	8,694	8,694
Interest earnings	5,682	5,682
Special assessments	68,888	68,888
Charges for service	<u>10,396</u>	<u>10,396</u>
Total revenue	<u>479,766</u>	<u>479,766</u>
EXPENDITURES		
Salaries and benefits	299,368	299,368
Dispatch and communications	23,548	23,548
Repairs and maintenance	780	780
Office and administration	54,775	54,775
Supplies and inventory	10,580	10,580
Training and education	5,341	5,341
Fuel reduction and fire prevention program	11,500	11,500
Utilities	3,231	3,231
Vehicle operation	8,570	8,570
Capital outlay	<u>4,126</u>	<u>4,126</u>
Total expenditures	<u>421,819</u>	<u>421,819</u>
Net change in fund balances	57,947	57,947
Fund balances, beginning of year	<u>1,352,435</u>	<u>1,352,435</u>
Fund balances, end of year	<u><u>\$ 1,410,382</u></u>	<u><u>\$ 1,410,382</u></u>

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

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

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE GOVERNMENTAL-WIDE STATEMENT OF ACTIVITIES
For the year ended June 30, 2012**

Net change in fund balances - total governmental funds \$ 57,947

Amounts reported for Governmental Activities
on the Statement of Activities are different because:

Some revenues reported on the Statement of Activities are not
current financial resources and therefore are not reported as
revenues in governmental funds:

Interest earned on loan receivable from State of California 481

Governmental funds report capital outlays as expenditures.
However, on the Statement of Activities the costs of
those assets are allocated over their estimated useful lives
and recorded as depreciation expense:

Capital outlay 4,126
Less: depreciation expense (39,075)
(34,949)

Some expenses reported on 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 (882)
Net change in other post-employment benefits payable 29,262

Change in net assets \$ 51,859

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

**BALANCE SHEET - WATER ENTERPRISE FUND
June 30, 2012**

ASSETS

Current assets:	
Cash, cash equivalents and investments	\$ 235,794
Accounts receivable	70,287
Total current assets	<u>306,081</u>
Capital assets, net of accumulated depreciation of \$1,845,237	<u>1,210,705</u>
Total assets	<u>\$ 1,516,786</u>

LIABILITIES AND FUND EQUITY

Current liabilities:	
Accounts payable and accrued expenses	\$ 4,076
Deferred revenue	54,069
Employee benefits payable	1,592
Total current liabilities	<u>59,737</u>
Accrued compensated absences	14,384
Other post-employment benefits payable	18,476
Total liabilities	<u>92,597</u>
Fund equity:	
Net investment in capital assets	1,210,705
Board-designated	744,252
Unrestricted	<u>(530,768)</u>
Total fund equity	<u>1,424,189</u>
Total liabilities and fund equity	<u>\$ 1,516,786</u>

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

STATEMENT OF REVENUES, EXPENSES AND FUND EQUITY-
WATER ENTERPRISE FUND
For the year ended June 30, 2012

OPERATING REVENUES	
Water consumption sales	\$ 92,022
Readiness-to-serve charges	304,800
Other revenue	<u>5,689</u>
Total operating revenues	<u>402,511</u>
OPERATING EXPENSES	
Collection and treatment	13,908
Laboratory and monitoring	6,624
Storage and distribution	18,407
Supplies and inventory	6,768
Vehicle operation	7,466
Training and licensing	626
General and administrative	<u>237,228</u>
Total operating expenses	<u>291,027</u>
Operating income before depreciation	111,484
Depreciation	<u>51,423</u>
Net operating income	60,061
Total fund equity, beginning of year	<u>1,364,128</u>
Total fund equity, end of year	<u><u>\$ 1,424,189</u></u>

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

STATEMENT OF CASH FLOWS - WATER ENTERPRISE FUND
For the year ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 401,156
Cash paid to employees	(230,322)
Cash paid to suppliers and vendors	<u>(78,105)</u>
Net cash provided by operating activities	<u>92,729</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>358</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES	
Acquisition and construction of capital assets	<u>(35,077)</u>
Increase in cash and cash equivalents	58,010
Cash and cash equivalents, beginning of year	<u>177,784</u>
Cash and cash equivalents, end of year	<u>\$ 235,794</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net operating income	<u>\$ 60,061</u>
Changes in assets and liabilities:	
Depreciation	51,423
Accounts receivable	3,748
Accounts payable and accrued expenses	3,799
Deferred revenue	(603)
Customer deposits	(4,500)
Accrued benefits payable	<u>(21,199)</u>
Total adjustments	<u>32,668</u>
Net cash provided by operating activities	<u>\$ 92,729</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 year ended June 30, 2012

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

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 they are earned, while expenses 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.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

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

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 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.

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.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

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

Fund Financial Statements (Continued) - 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.

Net Assets -The government-wide financial statements utilize a net asset presentation. Net asset categories 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 debt outstanding against the acquisition, construction or improvement of those assets.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

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

Net Assets (Continued) -

- Restricted Net Assets - This component of net assets 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 Assets - This component of net assets consist of net assets 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 year ended June 30, 2012

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 year ended June 30, 2012

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 Statement of Net Assets as those are payable from future resources and within the Balance Sheet - 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 year ended June 30, 2012

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

Investments and Investment Policy - 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.

Accounting Pronouncements - Effective July 1, 2003, the District adopted the provisions of GASB No. 34, issued in June 1999; GASB No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* ("GASB No. 37") issued in June 2001; and GASB No. 38, *Certain Financial Statement Disclosures* ("GASB No. 38") issued in June 2001.

The Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" establishes a new financial reporting model for state and local governments. This new model requires that at a minimum the basic financial statements of a government include: (1) Management's Discussion and Analysis (MD&A) as a component of Required Supplementary Information (RSI), (2) both government-wide financial statements and fund financial statements for entities other than enterprise funds, (3) notes to the financial statements, and (4) RSI other than MD&A.

Subsequent Events - Subsequent events have been evaluated through September 26, 2012, 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 year ended June 30, 2012

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, 2012, the balances were as follows:

Cash on hand	\$ 2
Deposits held with financial institutions	53,876
Deposits held with LAIF	<u>1,586,056</u>
Total cash, cash equivalents and investments	<u>\$ 1,639,934</u>

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. The funds are expected to be repaid to the District within a three-year period. There is no allowance for doubtful accounts, as management believes the amount will be collected in full, and consideration of a present value discount was de minimus. The balance of this receivable, including accrued interest, as of June 30, 2012, was \$24,555.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 4 CAPITAL ASSETS

Capital assets consisted of the following at June 30, 2012:

Governmental Activities

	<u>Balance</u> 2011	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance</u> 2012
<u>Depreciable assets</u>				
Buildings	\$ 227,528	\$ -	\$ -	\$ 227,528
Tankers and vehicles	381,811	-	-	381,811
Furnishings and equipment	<u>292,053</u>	<u>4,126</u>	<u>-</u>	<u>296,179</u>
Total depreciable assets	<u>901,392</u>	<u>4,126</u>	<u>-</u>	<u>905,518</u>
<u>Accumulated depreciation</u>				
Buildings	(184,061)	(6,305)	-	(190,366)
Tankers and vehicles	(292,864)	(15,205)	-	(308,069)
Furnishings and equipment	<u>(229,564)</u>	<u>(17,565)</u>	<u>-</u>	<u>(247,129)</u>
Total accumulated depreciation	<u>(706,489)</u>	<u>(39,075)</u>	<u>-</u>	<u>(745,564)</u>
Total capital assets, net	<u>\$ 194,903</u>	<u>\$ (34,949)</u>	<u>\$ -</u>	<u>\$ 159,954</u>

Depreciation expense under governmental activities (district operations and fire protection) totaled \$39,075.

Business-Type Activities

<u>Non-depreciable assets</u>				
Land	\$ 66,320	\$ -	\$ -	\$ 66,320
Construction in progress	<u>73,442</u>	<u>33,776</u>	<u>-</u>	<u>107,218</u>
Total non-depreciable assets	<u>139,762</u>	<u>33,776</u>	<u>-</u>	<u>173,538</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	<u>80,839</u>	<u>1,301</u>	<u>-</u>	<u>82,140</u>
Total depreciable assets	<u>2,881,103</u>	<u>1,301</u>	<u>-</u>	<u>2,882,404</u>

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 4 CAPITAL ASSETS (Continued)

	<u>Balance</u> <u>2011</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance</u> <u>2012</u>
<u>Accumulated depreciation</u>				
Collection system	(196,565)	(9,441)	-	(206,006)
Distribution system	(594,285)	(21,424)	-	(615,709)
Tanks	(135,107)	(14,616)	-	(149,723)
Water treatment	(733,081)	(3,505)	-	(736,586)
Wells	(53,937)	(2,337)	-	(56,274)
Vehicles and equipment	<u>(80,839)</u>	<u>(100)</u>	<u>-</u>	<u>(80,939)</u>
Total accumulated depreciation	<u>(1,793,814)</u>	<u>(51,423)</u>	<u>-</u>	<u>(1,845,237)</u>
Total depreciable assets, net	<u>1,087,289</u>	<u>(50,122)</u>	<u>-</u>	<u>1,037,167</u>
Total capital assets, net	<u>\$ 1,227,051</u>	<u>\$ (16,346)</u>	<u>\$ -</u>	<u>\$ 1,210,705</u>

Capital asset additions in the business-type activities area include \$33,776 to projects still under construction at year-end. Depreciation expense under business-type activities (retail water enterprise) totaled \$51,423.

Construction in Process

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 process balances at June 30, 2012, are as follows:

DBP Treatment facilities	\$ 70,958
Tenney tanks	<u>36,260</u>
Construction in process	<u>\$ 107,218</u>

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 5 OTHER POST-EMPLOYMENT BENEFITS (OPEB) 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, 2012:

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 year ended June 30, 2012, the District's ARC cost is \$43,891. The District's net OPEB payable obligation amounted to \$39,126 as of June 30, 2012. The District contributed \$85,000 under the CERBT program and \$16,907 in age-adjusted contributions for current retiree OPEB premiums during the year ended June 30, 2012.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 5 POST-EMPLOYMENT BENEFITS PAYABLE (Continued)

The balance of OPEB payable at June 30, 2012, consisted of the following:

Annual OPEB expense:	
Annual required contribution (ARC)	\$ 41,141
Interest on net OPEB obligation	2,902
Adjustment to annual required contribution	<u>6,594</u>
Total annual OPEB expense	50,637
Change in net OPEB payable obligation:	
CERBT deposits	(85,000)
Age adjusted contributions made	<u>(16,907)</u>
Total change in net OPEB payable obligation	(51,270)
OPEB payable, beginning of year	<u>90,396</u>
OPEB payable, end of year	<u><u>\$ 39,126</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 2012 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Age Adjusted Contribution</u>	<u>CERBT Deposits Paid</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation Payable</u>
2012	\$ 50,637	\$ 16,907	\$ 85,000	201.25%	\$ 39,126
2011	\$ 64,477	\$ 17,095	\$ -	26.51%	\$ 90,396
2010	\$ 61,908	\$ 18,894	\$ -	30.52%	\$ 43,014

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

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

As described in Note 1, Net Assets and Fund Balance the District has reserved certain equity amounts to be used for particular purposes as follows:

	Governmental Activities	Business-type Activities	Total
	(Committed fund balance)	(Board- designed fund equity)	
Capital projects	\$ -	\$ 119,868	\$ 119,868
Accrued vacation	18,245	14,384	32,629
Main replacements	-	15,000	15,000
Equipment replacements	-	210,000	210,000
Vehicle replacements	10,000	10,000	20,000
Emergency reserves	375,000	375,000	750,000
OPEB fund	221,000	-	221,000
Other reserves	217,559	-	217,559
	<u>\$ 841,804</u>	<u>\$ 744,252</u>	<u>\$ 1,586,056</u>
	<u>Assigned</u>		
Compensated absences	\$ 18,245		
Post employment benefits payable	20,650		
	<u>\$ 38,895</u>		

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.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 7 PROPERTY TAXES (Continued)

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, 2012.

NOTE 8 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 2012, 2011, and 2010, 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.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 8 **DEFINED BENEFIT PENSION PLAN (Continued)**

For fiscal years 2010, 2011, and 2012, 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>
2009-2010	\$ -	100%	\$ -	22.536%
2010-2011	\$ -	100%	\$ -	22.636%
2011-2012	\$ -	100%	\$ -	15.126%

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>
2009-2010	\$ 53,189	100%	\$ -	12.979%
2010-2011	\$ 40,649	100%	\$ -	12.457%
2011-2012	\$ 48,051	100%	\$ -	12.658%

NOTE 9 **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, 2012, 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.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 9 RISK MANAGEMENT (Continued)

- 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 2012. 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, 2012.

NOTE 10 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.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 10 COMMITMENTS AND CONTINGENCIES (Continued)

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 year ended June 30, 2012, the operating costs associated with the District's participation in the Authority were \$7,471.

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.

NOTE 11 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, 2012, LAIF is 97% 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, 2012

	Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Budgetary Basis	Variance Positive (Negative)
REVENUES					
Property taxes	\$ 334,509	\$ -	\$ 334,509	\$ 386,106	\$ 51,597
Grant revenue	7,490	-	7,490	8,694	1,204
Interest earnings	4,488	-	4,488	5,682	1,194
Special assessments	67,000	-	67,000	68,888	1,888
Charges for services	4,300	-	4,300	10,396	6,096
Total revenues	<u>417,787</u>	<u>-</u>	<u>417,787</u>	<u>479,766</u>	<u>61,979</u>
EXPENDITURES					
Salaries and benefits	282,619	-	282,619	299,368	(16,749)
Dispatch and communications	26,373	-	26,373	23,548	2,825
Repairs and maintenance	3,100	-	3,100	780	2,320
Professional services	2,400	-	2,400	-	2,400
Supplies and inventory	16,000	-	16,000	10,580	5,420
Training and education	-	-	-	5,341	(5,341)
Fuel reduction and fire prevention program	22,000	-	22,000	11,500	10,500
Utilities	3,000	-	3,000	3,231	(231)
Vehicle operation	8,000	-	8,000	8,570	(570)
General and administrative	49,942	-	49,942	54,775	(4,833)
Capital outlay	-	-	-	4,126	(4,126)
Total expenditures	<u>413,434</u>	<u>-</u>	<u>413,434</u>	<u>421,819</u>	<u>(8,385)</u>
Net change in fund balance	4,353	<u>\$ -</u>	4,353	57,947	<u>\$ 53,594</u>
Fund balance, beginning of year	<u>1,257,596</u>		<u>1,257,596</u>	<u>1,352,435</u>	
Fund balance, end of year	<u>\$ 1,261,949</u>		<u>\$ 1,261,949</u>	<u>\$ 1,410,382</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, 2012

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 Accrued 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%

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 (annually 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 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, 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 Increases	3.00%
Inflation - Discount Rate	7.00%
Individual Salary Growth	District annual COLA

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - WATER ENTERPRISE FUND
For the year ended June 30, 2012

	Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Accrual Basis	Variance Positive (Negative)
OPERATING REVENUES					
Water consumption sales	\$ 82,000	\$ -	\$ 82,000	\$ 92,022	\$ 10,022
Readiness-to-serve charges	304,200	-	304,200	304,800	600
Other revenue	2,120	-	2,120	5,689	3,569
Total operating revenues	<u>388,320</u>	<u>-</u>	<u>388,320</u>	<u>402,511</u>	<u>14,191</u>
OPERATING EXPENSES					
Collection and treatment	16,000	-	16,000	13,908	2,092
Laboratory and monitoring	10,000	-	10,000	6,624	3,376
Storage and distribution	12,000	-	12,000	18,407	(6,407)
Supplies and inventory	12,000	-	12,000	6,768	5,232
Vehicle operation	8,000	-	8,000	7,466	534
Training and licensing	1,000	-	1,000	626	374
General and administrative	272,051	-	272,051	237,228	34,823
Total operating expenses	<u>331,051</u>	<u>-</u>	<u>331,051</u>	<u>291,027</u>	<u>40,024</u>
Operating income before depreciation	57,269	-	57,269	111,484	54,215
Depreciation expense	<u>57,277</u>	<u>-</u>	<u>57,277</u>	<u>51,423</u>	<u>5,854</u>
Change in net assets	(8)	<u>\$ -</u>	(8)	60,061	<u>\$ 60,069</u>
Net assets, beginning of year	<u>1,376,857</u>		<u>1,376,857</u>	<u>1,364,128</u>	
Net assets, end of year	<u>\$ 1,376,849</u>		<u>\$ 1,376,849</u>	<u>\$ 1,424,189</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 the basic financial statements of the Inverness Public Utility District (a California Special District) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 26, 2012. 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 audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 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* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's 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 audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Doran & Associates

September 26, 2012