

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

INVERNESS, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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 Inverness Public Utility District (a California special district), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Inverness Public Utility District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information and, where applicable, cash flows of Inverness Public Utility District, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America and the State Controller's *Minimum Audit Requirements for Special Districts*.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3-7) and the pension plan information, schedule of funding status - other post-employment benefits obligation, and budgetary comparison information (pages 34-38), as listed in the table of contents, 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.

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
July 18, 2019

Inverness Public Utility District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Inverness Public Utility District (the District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2018. 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 position decreased \$514,803 to \$2,866,674 as a result of this year's operations and increase in expenses.
- Total governmental revenues increased \$27,491 from the prior year. Business-type activity revenue increased \$50,191 from the prior year.
- Total governmental expenses increased by \$117,391 and business type expenses increased \$449,585 primarily due to employment benefit costs and equipment disposals.

Using This Financial Report

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

Government-wide Financial Statements

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

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.

Inverness Public Utility District
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2018

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 sheets and the governmental fund statements 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 17 through 33.

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, pension plan information, and schedule of funding progress - other post-employment benefits obligation. Required supplementary information can be found on pages 34 through 38.

Government-wide Financial Analysis - **Governmental Activities**

Statement of Net Position

The following table is a condensed summary of the statements of net position at June 30, 2018, with prior year comparative information:

Table 1
Governmental Net Position at June 30

	2018	2017
Current assets	\$ 1,962,746	\$ 1,907,178
Capital assets, net of depreciation	27,109	36,661
Total assets	1,989,855	1,943,839
Deferred outflows	196,825	145,069
Current liabilities	50,938	19,124
Long-term liabilities	291,613	146,429
Total liabilities	342,551	165,553
Deferred inflows	9,687	24,791
Net position:		
Invested in capital assets, net of debt	27,109	36,661
Unrestricted	1,807,333	1,861,903
Total net position	\$ 1,834,442	\$ 1,898,564

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$1,834,442 as of June 30, 2018. Compared to the prior year, net position of the District decreased \$64,122. The District's net position is made-up of two components: (1) net investment in capital assets, (2) unrestricted net position.

Inverness Public Utility District
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2018

Statement of Activities

The following table is a condensed summary of the statement of activities for the year ended June 30, 2018, with prior year comparative information

Table 2
Changes in Governmental Net Position

	Governmental Activities 2018	Governmental Activities 2017
<u>Expenses</u>		
General government (operations and fire protection)	\$ 232,236	\$ 543,023
Public safety	428,178	-
Total expenses	<u>660,414</u>	<u>543,023</u>
<u>Revenues</u>		
Program revenues:		
Charges for services	-	68,142
Operating grants and contributions	-	2,304
Total program revenues	<u>-</u>	<u>70,446</u>
General revenues:		
Taxes	571,890	484,970
Other revenues	20,330	-
Interest income	4,072	13,385
Total general revenues	<u>596,292</u>	<u>498,355</u>
Total revenues	<u>596,292</u>	<u>568,801</u>
Change in net position	<u>\$ (64,122)</u>	<u>\$ 25,778</u>

Table 3
Business-type Net Position at June 30

	Business-type 2018	Business-type 2017
Current assets	\$ (496,639)	\$ (102,648)
Capital assets, net of accumulated depreciation	<u>1,857,197</u>	<u>1,768,965</u>
Total assets	<u>1,360,558</u>	<u>1,666,317</u>
Deferred outflows	<u>459,258</u>	<u>178,842</u>
Current liabilities	69,002	906
Long-term debt outstanding	<u>695,978</u>	<u>287,625</u>
Total liabilities	<u>764,980</u>	<u>288,531</u>
Deferred inflows	<u>22,604</u>	<u>73,715</u>
Net position:		
Invested in capital assets	1,857,197	1,768,965
Unrestricted	<u>(824,965)</u>	<u>(286,052)</u>
Total net position	<u>\$ 1,032,232</u>	<u>\$ 1,482,913</u>

Inverness Public Utility District
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2018

Table 4
Changes in Business-Type Net Position

	Business-Type Activities 2018	Business-Type Activities 2017
<u>Expenses</u>		
Water	\$ 905,863	\$ 456,278
Total expenses	905,863	456,278
<u>Revenues</u>		
Program revenues:		
Charges for services	445,239	391,606
Total program revenues	445,239	391,606
General revenues:		
Interest income	9,943	13,385
Total general revenues	9,943	13,385
Total revenues	455,182	404,991
Change in net position	\$ (450,681)	\$ (51,287)

Table 5
Capital Assets at Year-end

	Balance at June 30, 2018	Balance at June 30, 2017
<u>Governmental Activities</u>		
Buildings	\$ 227,528	\$ 227,528
Tankers and vehicles	381,811	381,811
Equipment and furnishings	296,179	296,179
Less: accumulated depreciation	(878,409)	(868,857)
Governmental activity capital assets, net	\$ 27,109	\$ 36,661
<u>Business-type Activities</u>		
Non-depreciable assets	\$ 164,334	\$ 140,433
Wells	71,499	71,499
Plant and equipment	3,822,241	3,673,976
Less: accumulated depreciation	(2,200,877)	(2,116,943)
Business-type activity capital assets, net	\$ 1,857,197	\$ 1,768,965

At June 30, 2018, the District's investment in capital assets amounted to \$1,884,306, 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 3 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 position, or operating results in terms of past, present and future.

Inverness Public Utility District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

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 Administrator at P.O Box 469, Inverness, California 94937 or (415) 669-1414.

Inverness Public Utility District
STATEMENT OF NET POSITION

June 30, 2018

	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Cash and investments	\$ 1,357,898	\$ -	\$ 1,357,898
Accounts receivable	13,558	81,960	95,518
Interfund accounts	586,939	(586,939)	-
Prepaid items	4,351	8,340	12,691
Non-depreciable capital assets	-	164,334	164,334
Depreciable capital assets, net	27,109	1,692,863	1,719,972
Total assets	1,989,855	1,360,558	3,350,413
<u>DEFERRED OUTFLOWS</u>			
Deferred outflows related to pensions	196,825	459,258	656,083
<u>LIABILITIES</u>			
Accounts payable	12,801	570	13,371
Deposits	-	7,641	7,641
Unearned income		60,791	60,791
Compensated absences	38,137	15,547	53,684
Long-term liabilities			
OPEB Liability	170,484	397,795	568,279
Net pension liability	121,129	282,636	403,765
Total liabilities	342,551	764,980	1,107,531
<u>DEFERRED INFLOWS</u>			
Deferred inflows related to pensions	9,687	22,604	32,291
<u>NET POSITION</u>			
Investment in capital assets, net of related debt	27,109	1,857,197	1,884,306
Unrestricted net position	1,807,333	(824,965)	982,368
Total net position	\$ 1,834,442	\$ 1,032,232	\$ 2,866,674

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

Inverness Public Utility District
STATEMENT OF ACTIVITIES
For the year ended June 30, 2018

<u>Functions/Programs</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:						
General government	\$ 232,236	\$ -	\$ -	\$ (232,236)		\$ (232,236)
Public safety	428,178	-	-	(428,178)		(428,178)
Total governmental activities	660,414	-	-	(660,414)		(660,414)
Business-type activities:						
Water	905,863	445,239	-		\$ (460,624)	(460,624)
Total business-type activities	905,863	445,239	-		(460,624)	(460,624)
Total	\$ 1,566,277	\$ 445,239	\$ -	(660,414)	(460,624)	(1,121,038)
General revenues:						
Property taxes				571,890	-	571,890
Other revenues				20,330	-	20,330
Interest income				4,072	9,943	14,015
Total general revenues				596,292	9,943	606,235
Change in net position				(64,122)	(450,681)	(514,803)
Net position beginning of period				1,898,564	1,482,913	3,381,477
Net position ending of period				\$ 1,834,442	\$ 1,032,232	\$ 2,866,674

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

Inverness Public Utility District
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2018

ASSETS

Cash and investments	\$ 1,357,898
Accounts receivable	13,558
Prepaid items	4,351
Due from other funds	<u>586,939</u>
Total assets	<u><u>\$ 1,962,746</u></u>

LIABILITIES

Accounts payable	<u>\$ 12,801</u>
Total liabilities	<u>12,801</u>

FUND BALANCES

Assigned for:	
Specific purposes	1,744,126
Unassigned	<u>205,819</u>
Total fund balances	<u>1,949,945</u>
Total liabilities and fund balances	<u><u>\$ 1,962,746</u></u>

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

Inverness Public Utility District
 Reconciliation of the
GOVERNMENTAL FUNDS - BALANCE SHEET
 with the Governmental Activities
STATEMENT OF NET POSITION
 For the year ended June 30, 2018

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	1,949,945
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Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

Capital Assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.		27,109
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LONG-TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

Deferred outflows		196,825
Deferred inflows		(9,687)
OPEB Liability		(170,484)
Net pension liability		(121,129)
Non-current portion of compensated absences		<u>(38,137)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>1,834,442</u>
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The accompanying notes are an integral part of these financial statements.

Inverness Public Utility District
 GOVERNMENTAL FUNDS
STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
 For the year ended June 30, 2018

Revenues:	
Taxes	\$ 571,890
Interest income	4,072
Other revenues	<u>20,330</u>
Total revenues	<u>596,292</u>
Expenditures:	
Current:	
General government	232,236
Public safety	<u>302,165</u>
Total expenditures	<u>534,401</u>
Excess (deficit) of revenues over (under) expenditures	61,891
Fund balances, beginning of period	<u>1,888,054</u>
Fund balances, end of period	<u>\$ 1,949,945</u>

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

Inverness Public Utility District
 Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the
STATEMENT OF ACTIVITIES
 For the year ended June 30, 2018

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	61,891
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Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense is deducted from the fund balance		(9,552)
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ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in the governmental funds (net change):

OPEB		(170,484)
Pension expense		52,660
Long-term compensated absences		<u>1,363</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>(64,122)</u>
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The accompanying notes are an integral part of these financial statements.

Inverness Public Utility District
 PROPRIETARY FUNDS
STATEMENT OF NET POSITION
 June 30, 2018

	Water
<u>ASSETS</u>	
Current assets:	
Cash and investments	\$ -
Accounts receivable	81,960
Prepaid items	8,340
Total current assets	90,300
Non-current assets:	
Capital assets, net of accumulated depreciation	1,857,197
Total assets	1,947,497
<u>DEFERRED OUTFLOWS</u>	
Deferred outflows related to pensions	459,258
<u>LIABILITIES</u>	
Current liabilities:	
Accrued expenses	570
Customer deposits	7,641
Unearned income	60,791
Compensated absences	15,547
Due to other funds	586,939
Total current liabilities	671,488
Long-term liabilities	
OPEB liability	397,795
Net pension liability	282,636
Total liabilities	1,351,919
<u>DEFERRED INFLOWS</u>	
Deferred inflows related to pensions	22,604
<u>NET POSITION</u>	
Invested in capital assets, net of related debt	1,857,197
Unrestricted	(824,965)
Total net position	\$ 1,032,232

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

Inverness Public Utility District
 PROPRIETARY FUNDS
STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN FUND NET POSITION
 For the year ended June 30, 2018

	Water
Operating revenues:	
Charges for services	\$ 445,239
Total operating revenues	445,239
Operating expenses:	
Personnel services	416,884
Collection and Treatment	57,978
Distribution	63,433
Depreciation	343,419
Administration	24,149
Total operating expenses	905,863
Operating income (loss)	(460,624)
Nonoperating revenues and expenses:	
Interest income	9,943
Change in net position	(450,681)
Net position, beginning of period	1,482,913
Net position, end of period	\$ 1,032,232

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

Inverness Public Utility District
 PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
 For the year ended June 30, 2018

	Business-type Activities Enterprise Funds <u>Water</u>
Cash flows from operating activities:	
Receipts from customers	\$ 431,382
Payments to suppliers	447,237
Payments to employees	<u>(279,109)</u>
Net cash provided (used) by operating activities	<u>599,510</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(431,651)</u>
Net cash provided (used) by capital and related financing activities	<u>(431,651)</u>
Cash flows from investing activities:	
Interest income	<u>9,943</u>
Net increase (decrease) in cash and cash equivalents	177,802
Cash and cash equivalents - beginning of period	<u>(177,802)</u>
Cash and cash equivalents - end of period	<u>\$ -</u>
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:	
Operating income (loss)	<u>\$ (460,624)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	343,419
Changes in certain assets and liabilities:	
Accounts receivable	(13,857)
Prepaid items	(1,289)
Accounts payable	(336)
Deposits	(53,308)
Unearned income	60,791
Due to/from other funds	586,939
Compensated absences	(25,382)
OPEB	397,795
Pension expense	<u>(234,638)</u>
Total adjustments	<u>1,060,134</u>
Net cash provided (used) by operating activities	<u>\$ 599,510</u>

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

Inverness Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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.

B. 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. The District has no blended or discretely-presented component units.

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

Government-wide 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 Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred. The 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 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 position presented in the Government-wide Financial Statements.

Inverness Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting and Measurement Focus (concluded)

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 the 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.

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.

D. Major Funds

GASB Statement 34 defines major funds and requires that the District's major governmental and business-type funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The District may also select other funds it believes should be presented as major funds.

Inverness Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Major Funds (concluded)

The District reported the following major governmental funds in the accompanying financial statements:

General Fund: This fund accounts for the operations of the District. The General Fund is used for all the general revenues of the District not specifically levied or collected for other District funds and the related expenditures. The General Fund accounts for all financial resources of a governmental unit that are not accounted for in another fund.

Fire Department Fund: This fund accounts for the fire protection activities of the District.

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

E. Net Position

Net Position is the excess of all the District's assets over all its liabilities, regardless of fund. Net Position is divided into three captions under GASB Statement 34. These captions apply only to Net Position, which is determined only at the Government-wide level, and are described below:

Invested in Capital, net of related debt describes the portion of Net Position that is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued for the acquisition, construction or improvement of those assets.

Restricted describes the portion of Net Position that is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions that the District cannot unilaterally alter.

Unrestricted describes the portion of Net Position that does 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.

F. 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 includes 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 includes 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 includes 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.

Inverness Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Fund Balance (concluded)

Assigned fund balance includes 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 is 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 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.

G. 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.

H. 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 BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. 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.

J. 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.

K. 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 Position as those are payable from future resources and within the Balance Sheet - Water Enterprise Fund for amounts relating to the proprietary fund type.

L. 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 \$1,000 (\$3,000 prior to June 30, 2017). 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

Inverness Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Capital Assets (concluded)

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

M. 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. 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.

N. 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.

O. Use of Estimates

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles, and as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those amounts.

Inverness Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

P. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Inverness Public Utility District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Q. Subsequent Events

Subsequent events have been evaluated through the date the financial statements were available to be issued.

R. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, the District recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period.

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 1M, Investments and Investment Policy).

These funds have been segregated into various accounts and, at June 30, 2018 the balances were as follows:

Deposits held with LAIF	\$ 1,337,172
Deposits held with financial institutions	<u>20,726</u>
Total cash, cash equivalents, and investments	<u>\$ 1,357,898</u>

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for deposits and 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.

Inverness Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (concluded)

California Law requires banks and savings and loan associations to pledge government securities with a market value of 110% of the District's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law, this collateral is held in the District's name and places the District ahead of general creditors of the institution.

Fair Value Reporting - Investments

The District categorizes the fair value measurements of its investments within the fair value hierarchy established by GAAP. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. These levels are determined by the District's investment manager based on a review of the investment class, structure and what kind of securities are held in the portfolio. The District's holdings are classified in Level 1 of the fair value hierarchy.

NOTE 3 - CAPITAL ASSETS

Capital assets consisted of the following at June 30, 2018:

<i>Governmental Activities</i>	Balance 7/1/17	Additions	Deletions/ Transfers	Balance 6/30/18
<u>Depreciable assets</u>				
Buildings	\$ 227,528	\$ -	\$ -	\$ 227,528
Vehicles	381,811	-	-	381,811
Furnishings and equipment	296,179	-	-	296,179
Total depreciable assets	<u>905,518</u>	<u>\$ -</u>	<u>\$ -</u>	<u>905,518</u>
Total accumulated depreciation	<u>(868,857)</u>			<u>(878,409)</u>
Total capital assets, net	<u>\$ 36,661</u>			<u>\$ 27,109</u>

Depreciation expense under governmental activities (district operations/fire protection) totaled \$9,552.

<i>Business-Type Activities</i>	Balance 7/1/17	Additions	Deletions/ Transfers	Balance 6/30/18
<u>Non-depreciable assets</u>				
Land	\$ 66,320	\$ -	\$ -	\$ 66,320
Construction in progress	74,113	23,901	-	98,014
Total non-depreciable assets	<u>140,433</u>	<u>23,901</u>	<u>-</u>	<u>164,334</u>
<u>Depreciable assets</u>				
Wells	71,499	-	-	71,499
Collection system	352,967	-	-	352,967
Distribution system	979,222	-	2,814	976,408
Tanks	625,434	439,842	3,000	1,062,276
Water treatment	1,627,723	-	255,824	1,371,899
Vehicles and equipment	88,630	-	29,939	58,691
Total depreciable assets	<u>1,628,532</u>	<u>\$ 439,842</u>	<u>\$ 291,577</u>	<u>3,893,740</u>
Total accumulated depreciation	<u>(2,116,943)</u>			<u>(2,200,877)</u>
Total depreciable assets, net	<u>1,628,532</u>			<u>1,692,863</u>
Total capital assets, net	<u>\$ 1,768,965</u>			<u>\$ 1,857,197</u>

Depreciation expense under business-type activities (retail water enterprise) totaled \$343,419.

Inverness Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 4 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) PREPAID/(PAYABLE)

Plan Description, Benefits

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

Plan Description, Eligibility

The District pays a portion of the cost of health insurance for retirees under any group plan offered by CalPERS, subject to certain restrictions as determined by the District. Membership in the OPEB plan consisted of the following members as of June 30, 2018.

Employees Covered by Benefit Terms

At June 30, 2018 (the census date), the benefit terms covered the following employees:

Active plan members	5
Retirees receiving benefits	<u>3</u>
Total	8

The District passed resolutions to participate in the California Employers Retirees Benefit Trust (CERBT), an irrevocable trust established to fund OPEB. CERBT is administrated by CalPERS, and is managed by an appointed board not under the control of the Board of Directors. These Trusts are not considered a component unit by the District and have been excluded from these financial statements. Separately issued financial statements for CERBT may be obtained from CalPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 30, 2018.

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation: 3.00%

Salary increases: Aggregate salary increases of 3.69%. Individual salary increases based on CalPERS.

Investment rate of return: 3.00%

Healthcare cost trend rates: 4.60% in the first year, trending up to 4.70% over 10 years.

Mortality rates were based on RP2000 mortality tables applied generationally.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.00%. The projection of cash flows used to determine the discount rate assumed that the District contribution will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to cover all future OPEB payments. Therefore, the discount rate was set equal to the long-term expected rate of return.

Inverness Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 4 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) PREPAID/(PAYABLE) (concluded)

Changes in the Net OPEB Liability

	Increases (Decreases)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/Asset
	(a)	(b)	(c)
Service cost	\$ 34,947	\$ -	\$ 34,947
Interest	8,327	-	8,327
Effects of economic/demographic gains or losses	688,136	-	688,136
Contributions	-	37,284	(37,284)
Net investment income	-	24,686	(24,686)
Benefits payments, including refunds of employee contributions	(37,284)	(37,284)	-
Administrative expenses	-	(739)	739
Effects of Assumptions changes or inputs	(101,900)	-	(101,900)
Net change in total OPEB liability	592,226	23,947	568,279
Total OPEB liability – beginning of year	399,940	399,940	-
Total OPEB liability – end of year	<u>\$ 992,166</u>	<u>\$ 423,887</u>	<u>\$ 568,279</u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The net OPEB Asset of the District, as well as what the District's net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (2.00%) or one percentage point higher (4.00%) follows:

Plan's Net OPEB Liability/(Asset)		
1% Decrease (2.0%)	Current Discount Rate (3.0%)	1% Increase (4.0%)
\$ 1,094,066	\$ 992,166	\$ 902,830

Sensitivity of the net OPEB asset to changes in the healthcare cost trend rates. The net OPEB asset of the District, as well as what the District's net OPEB asset would be if it were calculated using healthcare cost trend rates that are one percentage point lower (-1.00%) or one percentage point higher (1.00%) than current healthcare cost trend rates follows:

Plan's Net OPEB Liability/(Asset)		
1% Decrease	Current Discount Rate	1% Increase
\$ 878,396	\$ 992,166	\$ 1,123,789

OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized an OPEB expense of \$40,072. At June 30, 2018, the District reported no deferred outflows of resources and deferred inflows of resources related to OPEB.

Inverness Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 5 - PENSION PLANS

Plan Description: All qualified permanent and probationary employees are eligible to participate in the District's separate Safety (fire) and Miscellaneous (all other) Employee Pension Plans, cost sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan provisions and benefits in effect at June 30, 2018, are summarized as follows:

	District Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 63	52
Monthly benefits, as a % of eligible compensation	1.092% to 2.418%	1.092% to 2.418%
Required employee contribution rates	7%	6.25%
Required employer contribution rates	6.709%	6.533%
	District Safety	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2% @ 55	2% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	50 - 55
Monthly benefits, as a % of eligible compensation	1.426% to 2.0%	1.426% to 2.0%
Required employee contribution rates	7%	9.5%
Required employer contribution rates	11.530%	9.513%

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Inverness Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 5 - PENSION PLANS (continued)

For the year ended June 30, 2018, the contributions recognized as part of pension expense for each Plan were as follows:

	Miscellaneous	Safety
Contributions - employer	\$ 20,942	\$ 4,216

As of June 30, 2018, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Miscellaneous and Safety Plans as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 278,703
Safety	125,062
Total Net Pension Liability	\$ 403,765

The District's net pension liability for the Plans is measured as the proportionate share of the net pension liability. The net pension liability of the Plans is measured as of June 30, 2017 and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2017 and 2018 was as follows:

<u>All Plans</u>	Miscellaneous	Safety
Proportion - June 30, 2017	0.0071%	0.00206%
Proportion - June 30, 2018	0.00707%	0.00209%
Change – Increase (Decrease)	(0.00636%)	0.00003%

For the year ended June 30, 2018, the District recognized pension expense of \$25,158. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 28,667	\$ -
Differences between actual and expected experience	1,955	5,867
Changes in assumptions	518,757	5,355
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	5,913	18,966
Net differences between projected and actual earnings on plan investments	15,666	-
Change in proportion and differences between actual contributions and proportionate share of contributions	85,125	2,103
Total	\$ 656,083	\$ 32,291

Inverness Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 5 - PENSION PLANS (continued)

\$28,667 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	
2019	\$ 90,343
2020	41,119
2021	24,252
2022	(9,258)
Thereafter	-

Actuarial Assumptions - The total pension liabilities for the fiscal year ended June 30, 2016 were derived from the June 30, 2015 funding valuation report and were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.15% (1)
Mortality	Derived using CalPERS Membership Data for all Funds (2)

(1) Net of pension plan investment expenses, including inflation.

(2) The mortality table used was developed based on CalPERS' specific data. The table includes 5 years of mortality improvements using Society of Actuaries Scale AA. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS website.

Discount Rate - The discount rate used to measure the total pension liability was 7.15% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.15 percent investment return assumption used in this accounting valuation excludes administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return including administrative expenses would have been 7 percent.

Inverness Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 5 - PENSION PLANS (continued)

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2016-17 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculate over the short-term (first 10 years) and the long term (11-60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10</u>	<u>Real Return Years 11+</u>
Global Equity	47%	4.90%	5.38%
Global Fixed Income	19%	0.80	2.27%
Inflation Sensitive	6%	0.60	1.39%
Private Equity	12%	6.60	6.63%
Real Estate	11%	2.80	5.21%
Infrastructure and Forestland	3%	3.90	5.36%
Liquidity	<u>2%</u>	(0.40)	(0.90)%
Total	<u>100%</u>		

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.15%	6.15%
Net Pension Liability	\$434,457	\$200,505
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$278,703	\$125,062
1% Increase	8.15%	8.15%
Net Pension Liability	\$149,705	\$213,097

Inverness Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 5 - PENSION PLANS (concluded)

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 6 - PROPERTY TAXES

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

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

Unsecured property taxes are levied throughout the year beginning March 1 on the assessed value of personal property as of March 1. For unsecured property tax bills issued between March 1 and June 30, the amount is payable by August 31. For unsecured property tax bills issued after June 30, the amount of the tax is due 30 days after the bill is issued, but no later than February 28/29. Special assessment charges are incorporated on the property tax bill, and therefore are attached as an enforceable lien on real property located within the District.

Special assessment charges are due in two installments on December 10 and April 10 following the assessment date. The special assessments are collected and distributed to the District by the County of Marin.

Effective July 1, 1993, the District, in addition to other districts, entered into an agreement (hereafter known as the "Teeter Plan") with the County of Marin whereby the County agreed to purchase without recourse all previously outstanding (net of all adjustments) secured delinquent property tax and special assessment receivables, penalties and interest of the districts as of June 30, 1993. Additionally, the County agreed to advance each district its share of the annual gross levy of secured property taxes and special assessments (net of adjustments) billed through the County's Tax Collector for the fiscal year ended June 30, 1996, and for each subsequent fiscal year of the agreement. In consideration, the District gives the County of Marin its right to penalties and interest on delinquent property tax receivables and actual proceeds collected. This agreement is still operational as of the fiscal year ended June 30, 2018.

NOTE 7 - RELATED PARTY TRANSACTIONS

The District employs a relative of a member of management staff. This transaction is approved annually by the Board of Directors as part of the budget process. For the year ended June 30, 2018, \$83,753 was paid in salaries under his employment.

Inverness Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 - 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, 2018, the District participated in the liability and property programs of the SDRMA as follows:

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

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

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

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years.

There were no reductions in insurance coverage in fiscal years 2018 and 2017. 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, 2018.

NOTE 9 - 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
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 9 - COMMITMENTS AND CONTINGENCIES (concluded)

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, 2018, the debt service costs associated with the District's participation in the Authority were \$11,996.

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 10 - 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, 2017, LAIF is 91% 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.

NOTE 11 - CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ending June 30, 2018. The implementation of the statement required the District to record beginning total OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the District related to OPEB during the measurement period (fiscal year ended June 30, 2017). Beginning deferred outflows and inflows of resources associated with the implementation were excluded from the restatement. As a result, net position for the governmental activities and business-type activities did not change.

REQUIRED SUPPLEMENTARY INFORMATION

Inverness Public Utility District
Required Supplemental Information
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Budget and Actual
For the year ended June 30, 2018
(Unaudited)

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 522,419	\$ 522,419	\$ 571,890	\$ 49,471
Use of money and property	3,800	3,800	4,072	272
Other revenues	<u>2,600</u>	<u>2,600</u>	<u>20,330</u>	<u>17,730</u>
Total revenues	<u>528,819</u>	<u>528,819</u>	<u>596,292</u>	<u>67,473</u>
Expenditures:				
Current:				
General government	250,026	250,026	232,236	17,790
Public safety	<u>562,856</u>	<u>562,856</u>	<u>302,165</u>	<u>260,691</u>
Total expenditures	<u>812,882</u>	<u>812,882</u>	<u>534,401</u>	<u>278,481</u>
Excess of revenues over (under) expenditures	<u>\$ (284,063)</u>	<u>\$ (284,063)</u>	61,891	<u>\$ 345,954</u>
Fund balance, beginning of period			<u>1,888,054</u>	
Fund balance, end of period			<u>\$ 1,949,945</u>	

Inverness Public Utility District

As of June 30, 2018

Last 4 Years

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Schedule of the Proportionate Share of the Net Pension Liability	Miscellaneous		Miscellaneous		Miscellaneous		Miscellaneous	
	Safety Plan 2018	Plan 2018	Safety Plan 2017	Plan 2017	Safety Plan 2016	Plan 2016	Safety Plan 2015	Plan 2015
Proportion of the net pension liability	0.2090%	0.7070%	0.0027%	0.0071%	0.0027%	0.0070%	0.0015%	0.0037%
Proportionate share of the net pension liability	\$ 125,062	\$ 278,703	\$ 106,929	\$ 246,696	\$ 76,909	\$ 200,453	\$ 90,873	\$ 231,036
Covered - employee payroll	\$ 126,949	\$ 270,881	\$ 218,410	\$ 93,762	\$ 44,712	\$ 236,606	\$ 87,737	\$ 257,863
Proportionate share of the net pension liability as a percentage of covered-employee payroll	98.51%	102.89%	48.96%	263.11%	172.01%	84.72%	103.57%	89.60%
Plan fiduciary net position as a percentage of the total pension liability	76.81%	75.39%	78.72%	75.76%	84.31%	78.89%	81.46%	74.15%

NOTES TO SCHEDULE:

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Inverness Public Utility District
As of June 30, 2018
Last 4 Years
SCHEDULE OF CONTRIBUTIONS

<u>SCHEDULE OF CONTRIBUTIONS</u>	Safety Plan 2018	Miscellaneous Plan 2018	Safety Plan 2017	Miscellaneous Plan 2017	Safety Plan 2016	Miscellaneous Plan 2016	Safety Plan 2015	Miscellaneous Plan 2015
Contractually required contribution (actuarially determined)	\$ 4,216	\$ 20,942	\$ 23,601	\$ 8,518	\$ 12,041	\$ 54,094	\$ 6,663	\$ 31,622
Contributions in relation to the actuarially determined contributions	<u>(4,216)</u>	<u>(20,942)</u>	<u>(23,601)</u>	<u>(8,518)</u>	<u>(12,041)</u>	<u>(54,094)</u>	<u>(6,663)</u>	<u>(31,622)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll during the fiscal year	\$ 126,949	\$ 270,881	\$ 218,410	\$ 93,762	\$ 44,712	\$ 236,606	\$ 87,737	\$ 257,863
Contributions as a percentage of covered-employee payroll	3.32%	7.73%	10.81%	9.08%	26.93%	22.86%	7.59%	12.26%

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Inverness Public Utility District
SCHEDULE OF CHANGE IN THE NET OPEB LIABILITY
AND RELATED RATIOS

For the year ended June 30, 2018

Total OPEB Liability	<u>2018</u>
Service cost	\$ 34,947
Interest	8,327
Effects of economic/demographic gains or losses	688,136
Benefit payments, included refunds of employee contributions	(37,284)
Effects of Assumptions changes or inputs	<u>(101,900)</u>
Net change in total OPEB liability	592,226
Total OPEB liability - beginning of year	<u>399,940</u>
Total OPEB liability - end of year	<u><u>\$ 992,166</u></u>
Plan Fiduciary Net Position	
Net investment income	\$ 24,686
Contributions	
Employer - explicit subsidy	37,284
Employer - implicit subsidy	-
Benefit payments, included refunds of employee contributions	(37,284)
Implicit rate subsidy fulfilled	-
Administrative expense	<u>(739)</u>
Net change in plan fiduciary net position	23,947
Plan fiduciary net position - beginning of year	<u>399,940</u>
Plan fiduciary net position - end of year	<u><u>\$ 423,887</u></u>
District's net OPEB liability - end of year	<u><u>\$ 568,279</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	42.72%
Covered-employee payroll	\$ 397,830
Net OPEB liability as a percentage of covered-employee payroll	142.84%

The schedules present information to illustrate changes in the District's changes in the net OPEB liability over a ten year period when the information is available.

Inverness Public Utility District
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS - OPEB
For the year ended June 30, 2018

	2018
Actuarially determined contribution	\$ -
Contributions in relation to the actuarially determined contribution	-
Contribution deficiency (excess)	\$ -
Covered payroll	\$ 397,830
Contributions as a percentage of covered payroll	0.00%

The schedules present information to illustrate changes in the District's contributions over a ten year period when the information is available.