



Inverness Public Utility District
Annual Financial Report
June 30, 2007



Our Mission Statement

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

Inverness Public Utility District

Board of Directors

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term Expires</u>
Scoby A. Zook	President	Elected	11/2009
Michael D. McEneany	Vice President	Elected	11/2011
Laura B. Alderdice	Treasurer	Elected	11/2011
Mark R. Kriss	Director	Elected	11/2011
Kenneth J. Emanuels	Director	Elected	11/2009

**Inverness Public Utility District
Kaaren S. Gann, General Manager
50 Inverness Way
Inverness, CA 94937 • (415) 669-1414**

Inverness Public Utility District
Annual Financial Report
For the Year Ended June 30, 2007

**Inverness Public Utility District
Annual Financial Report
For The Fiscal Year Ended June 30, 2007**

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Financial Section



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An Accountancy Corporation

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Independent Auditor's Report

Board of Directors
Inverness Public Utility District
Inverness, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Inverness Public Utility District (District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Inverness Public Utility District as of June 30, 2007, and the respective changes in net assets and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 20, 2007 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. This report can be found on page 30.

Management's discussion and analysis and the budgetary comparison information are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying supplemental information section listed in that table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

October 20, 2007
Cypress, California

Charles Z. Fedak, CPA, MBA
An Accountancy Corporation

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**Inverness Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2007**

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, 2007. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- Net assets increased 7.48% or \$155,982 to \$2,241,511 as a result of this year's operations.
- Total revenues decreased 2.55% or \$22,239 from the prior year due to a decrease in operating and capital grants.
- Total expenses increased by 9.54% or \$60,370 due to an increase in various expenditure categories.

Using This Financial Report

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

Government-wide Financial Statements

Statement of Net Assets and Statement of Activities

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

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

**Inverness Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2007**

Fund Financial Statements

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

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

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 13 through 27.

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 for its pension plans. Required supplementary information can be found on page 28.

Government-wide Financial Analysis

Statement of Net Assets

The following table is a summary of the statement of net assets at June 30, 2007.

	Condensed Statement of Net Assets					
	Governmental Activities		Business-type Activities		Total District	
	2007	2006	2007	2006	2007	2006
Assets:						
Current and other assets	\$ 1,080,571	898,771	422,774	428,877	1,503,345	1,327,648
Capital assets, net	162,473	134,381	1,070,928	1,097,343	1,233,401	1,231,724
Total assets	1,243,044	1,033,152	1,493,702	1,526,220	2,736,746	2,559,372
Liabilities:						
Current liabilities	2,371	2,799	157,468	117,066	159,839	119,865
Non-current liabilities	8,198	7,129	327,198	346,849	335,396	353,978
Total liabilities	10,569	9,928	484,666	463,915	495,235	473,843
Net assets:						
Net investment in capital assets	162,473	134,381	737,539	745,387	900,012	879,768
Restricted for debt service	-	-	41,991	41,991	41,991	41,991
Unrestricted	1,070,002	888,843	229,506	274,927	1,299,508	1,163,770
Total net assets	\$ 1,232,475	1,023,224	1,009,036	1,062,305	2,241,511	2,085,529

**Inverness Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2007**

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 \$2,241,511 as of June 30, 2007. Compared to prior year, net assets of the District increased 7.48% or \$155,982. The District's net assets are made-up of three components: (1) net investment in capital assets, (2) restricted net assets and (3) unrestricted net assets.

Statement of Activities

The following table is a summary of the statement of activities for the year ended June 30, 2007.

	Condensed Statement of Activities					
	Governmental Activities		Business-type Activities		Total District	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 16,412	10,903	329,560	320,689	345,972	331,592
Operating grants and contributions	5,396	99,639	29,873	-	35,269	99,639
Capital grants and contributions	-	-	-	20,380	-	20,380
General revenues:						
Property taxes	404,764	379,518	-	-	404,764	379,518
Interest earnings	45,549	27,477	17,852	13,039	63,401	40,516
Total revenues	<u>472,121</u>	<u>517,537</u>	<u>377,285</u>	<u>354,108</u>	<u>849,406</u>	<u>871,645</u>
Expenses:						
Fire protection	262,870	263,200	-	-	262,870	263,200
Water	-	-	430,554	369,864	430,554	369,864
Total expenses	<u>262,870</u>	<u>263,200</u>	<u>430,554</u>	<u>369,864</u>	<u>693,424</u>	<u>633,064</u>
Change in net assets	209,251	254,337	(53,269)	(15,756)	155,982	238,581
Net assets, beginning of year	<u>1,023,224</u>	<u>768,887</u>	<u>1,062,305</u>	<u>1,078,061</u>	<u>2,085,529</u>	<u>1,846,948</u>
Net assets, end of year	<u>\$ 1,232,475</u>	<u>1,023,224</u>	<u>1,009,036</u>	<u>1,062,305</u>	<u>2,241,511</u>	<u>2,085,529</u>

Government and Business-type activities increased the District's net assets by \$155,982 thereby accounting for the 7.48% increase in the net assets of the District. The District's total revenues decreased 2.55% or \$22,239 from the prior year due to a decrease in operating and capital grants. In addition, total expenses increased by 9.54% or \$60,370 due to an increase in various expenditure categories.

Fund Financial Analysis

The General Fund balance increased by \$182,228, mainly due to a decrease in capital outlay in 2007.

Capital Asset Administration

	Capital Assets					
	Governmental Activities		Business-type Activities		Total District	
	2007	2006	2007	2006	2007	2006
Capital assets:						
Non-depreciable assets	\$ 50,978	11,185	200,439	167,714	251,417	178,899
Depreciable assets	731,357	729,036	2,406,098	2,398,130	3,137,455	3,127,166
Total capital assets	782,335	740,221	2,606,537	2,565,844	3,388,872	3,306,065
Accumulated depreciation	<u>(619,862)</u>	<u>(605,840)</u>	<u>(1,535,609)</u>	<u>(1,468,501)</u>	<u>(2,155,471)</u>	<u>(2,074,341)</u>
Total capital assets, net	<u>\$ 162,473</u>	<u>134,381</u>	<u>1,070,928</u>	<u>1,097,343</u>	<u>1,233,401</u>	<u>1,231,724</u>

**Inverness Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2007**

At the end of fiscal year 2007, the District's investment in capital assets amounted to \$1,233,401 (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. Major capital asset additions in the governmental activities area included the purchase of a new rescue vehicle. Major capital asset additions in the business-type activities area included transmission and distribution system upgrades and various other projects. A significant portion of these additions were constructed by the District and/or sub-contractors and transferred out of construction-in-process upon completion of these various projects. The capital assets of the District are more fully analyzed in Note 4 to the basic financial statements.

Long-Term Debt Administration

	Long-term Debt					
	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Long-term debt:						
Bonds payable	\$ -	-	339,000	358,000	339,000	358,000

Long-term debt decreased due to regular debt payments. The long-term debt position of the District is more fully analyzed in Note 7 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 condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager at 50 Inverness Way, Inverness, California 94937 or (415) 669-1414.

Basic Financial Statements

Inverness Public Utility District
Statement of Net Assets
June 30, 2007

<i>Assets</i>	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents (note 3)	\$ 1,065,352	311,649	1,377,001
Cash and cash equivalents – restricted (note 3)	-	41,991	41,991
Accrued interest receivable	13,253	4,891	18,144
Accounts receivable – water sales and service	-	58,632	58,632
Property taxes receivable	1,966	-	1,966
Prepaid expenses and other deposits	-	-	-
Deferred bond expenses, net (note 5)	-	5,611	5,611
Capital assets – not being depreciated (note 4)	50,978	200,440	251,418
Capital assets – being depreciated, net (note 4)	111,495	870,488	981,983
Total assets	1,243,044	1,493,702	2,736,746
<i>Liabilities and Net Assets</i>			
Liabilities:			
Accounts payable and accrued expenses	2,371	48,129	50,500
Customer deposits	-	50,580	50,580
Deferred revenue	-	38,759	38,759
Long-term liabilities – due within one year:			
Bonds payable (note 7)	-	20,000	20,000
Long-term liabilities – due in more than one year:			
Compensated absences (note 6)	8,198	8,198	16,396
Bonds payable (note 7)	-	319,000	319,000
Total liabilities	10,569	484,666	495,235
Net assets:			
Net investment in capital assets (note 8)	162,473	737,539	900,012
Restricted for debt service	-	41,991	41,991
Unrestricted	1,070,002	229,506	1,299,508
Total net assets	\$ 1,232,475	1,009,036	2,241,511

See accompanying notes to the basic financial statements

**Inverness Public Utility District
Statement of Activities
For the Year Ended June 30, 2007**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Fire protection	\$ 262,870	16,412	5,396	-	(241,062)	-	(241,062)
Business-type activities:							
Water enterprise fund	430,554	329,560	29,873	-	-	(71,121)	(71,121)
Total	<u>\$ 693,424</u>	<u>345,972</u>	<u>35,269</u>	<u>-</u>	<u>(241,062)</u>	<u>(71,121)</u>	<u>(312,183)</u>
General revenues:							
Property taxes					\$ 404,764	-	404,764
Interest earnings					45,549	17,852	63,401
Total general revenues					<u>450,313</u>	<u>17,852</u>	<u>468,165</u>
Change in net assets					209,251	(53,269)	155,982
Net assets, beginning of year					<u>1,023,224</u>	<u>1,062,305</u>	<u>2,085,529</u>
Net assets, end of year					<u>\$ 1,232,475</u>	<u>1,009,036</u>	<u>2,241,511</u>

See accompanying notes to the basic financial statements

**Inverness Public Utility District
Balance Sheet – Governmental Funds
June 30, 2007**

	<u>Governmental Activities</u>
Assets:	
Cash and cash equivalents	\$ 1,065,352
Accrued interest receivable	13,253
Property taxes receivable	1,966
Prepaid expenses and other deposits	-
Total assets	<u><u>1,080,571</u></u>
Liabilities:	
Accounts payable and accrued expenses	<u>2,371</u>
Total liabilities	<u>2,371</u>
Fund balance:	
Unreserved:	
Designated for fire protection	<u>1,078,200</u>
Total fund balance	<u>1,078,200</u>
Total liabilities and fund balance	<u><u>1,080,571</u></u>
Reconciliation:	
Fund balance of governmental funds	\$ 1,078,200
Amounts reported for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	162,473
Long-term liabilities applicable to the District are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Assets.	
Compensated absences	<u>(8,198)</u>
Net assets of governmental activities	<u><u>\$ 1,232,475</u></u>

See accompanying notes to the basic financial statements

Inverness Public Utility District
Statement of Revenues, Expenditures and Changes in Fund Balances– Governmental Funds
For the Year Ended June 30, 2007

		<u>Governmental Activities</u>
Revenues:		
Property taxes	\$	404,764
Grant revenue		5,396
Interest earnings		45,549
Other revenues		16,412
Total revenues		<u>472,121</u>
Expenditures:		
Salaries and benefits		146,046
Dispatch and communications		27,271
Repairs and maintenance		4,635
Professional services		2,634
Supplies		12,671
Training and education		6,641
Utilities		4,554
Vehicle operation		4,005
General and administrative		39,322
Capital outlay		42,114
Total expenditures		<u>289,893</u>
Net change in fund balance		182,228
Fund balance, beginning of year		<u>895,972</u>
Fund balance, end of year	\$	<u><u>1,078,200</u></u>
Reconciliation:		
Net changes in fund balance of governmental fund	\$	182,228
Amounts reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation and expensed capital projects exceeded capital outlay in the current period.		28,092
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenses in governmental funds as follows:		
Net change in compensated absences		<u>(1,069)</u>
Change in net assets of governmental activities	\$	<u><u>209,251</u></u>

See accompanying notes to the basic financial statements

Inverness Public Utility District
Statement of Net Assets – Water Enterprise Fund
June 30, 2007

<i>Assets</i>	Business-Type Activities
Assets:	
Cash and cash equivalents	\$ 311,649
Cash and cash equivalents – restricted	41,991
Accrued interest receivable	4,891
Accounts receivable – water sales and services, net	58,632
Deferred bond expenses, net	5,611
Capital assets – not being depreciated	200,440
Capital assets, net – being depreciated	870,488
Total assets	1,493,702
<i>Liabilities and Net Assets</i>	
Liabilities:	
Accounts payable and accrued expenses	48,129
Customer deposits	50,580
Deferred revenue	38,759
Long-term liabilities – due within one year:	
Bonds payable	20,000
Long-term liabilities – due in more than one year:	
Compensated absences	8,198
Bonds payable	319,000
Total liabilities	484,666
Net assets:	
Net investment in capital assets	737,539
Restricted for debt service	41,991
Unrestricted	229,506
Total net assets	\$ 1,009,036

See accompanying notes to the basic financial statements

Inverness Public Utility District
Statement of Revenues, Expenses and Changes in Fund Net Assets – Water Enterprise Fund
For the Year Ended June 30, 2007

		<u>Business-Type Activities</u>
Operating revenues:		
Water consumption sales	\$	94,742
Readiness-to-serve charges		231,874
Operating grant revenue		29,873
Other charges for services		2,944
Total operating revenues		<u>359,433</u>
Operating expenses:		
Collection and treatment		45,155
Laboratory and monitoring		11,683
Storage and distribution		11,521
Supplies and inventory		5,371
Vehicle operation		4,871
Training and licensing		1,807
General and administrative		264,705
Total operating expenses		<u>345,113</u>
Operating income before depreciation		14,320
Depreciation expense		<u>(67,108)</u>
Operating loss		<u>(52,788)</u>
Non-operating revenue(expense)		
Interest earnings		17,852
Deferred charges amortization		(433)
Interest expense		<u>(17,900)</u>
Total non-operating, net		<u>(481)</u>
Capital contributions		<u>-</u>
Change in net assets		(53,269)
Net assets, beginning of year		<u>1,062,305</u>
Net assets, end of year	\$	<u><u>1,009,036</u></u>

See accompanying notes to the basic financial statements

Inverness Public Utility District
Statement of Cash Flows – Water Enterprise Fund
For the Year Ended June 30, 2007

	<u>Business-Type Activities</u>
Cash flows from operating activities:	
Cash receipts from customers for water sales and services	\$ 352,387
Cash paid to employees for salaries and wages	(147,615)
Cash paid to vendors and suppliers for materials and services	<u>(139,818)</u>
Net cash provided by operating activities	<u>64,954</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(40,693)
Principal payments on bonds payable	(19,000)
Interest payments on bonds payable	<u>(17,900)</u>
Net cash used in capital and related financing activities	<u>(77,593)</u>
Cash flows from investing activities:	
Interest earnings	<u>16,939</u>
Net cash provided by investing activities	<u>16,939</u>
Net increase(decrease) in cash and cash equivalents	<u>4,300</u>
Cash and cash equivalents, beginning of year	<u>349,340</u>
Cash and cash equivalents, end of year	<u><u>\$ 353,640</u></u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets – Water Enterprise Fund:	
Cash and cash equivalents	\$ 311,649
Cash and cash equivalents – restricted	<u>41,991</u>
	<u><u>\$ 353,640</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	<u>\$ (52,788)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	67,108
Changes in assets and liabilities:	
(Increase)decrease in assets:	
Accounts receivable – water sales and services	(3,346)
Prepaid expenses and other deposits	14,229
Increase(decrease) in liabilities:	
Accounts payable and accrued expenses	43,102
Customer deposits	(3,700)
Compensated absences	<u>349</u>
Total adjustments	<u>117,742</u>
Net cash provided by operating activities	<u><u>\$ 64,954</u></u>
Noncash financing and investing activities:	
Amortization of deferred charges	<u><u>\$ (433)</u></u>

See accompanying notes to the basic financial statements

Inverness Public Utility District
Notes to the Basic Financial Statements
June 30, 2007

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Inverness Public Utility District (District) was formed in 1948 pursuant to the Public Utility District Act of the Public Utilities Code of the State of California to provide fire protection to the unincorporated community of Inverness, California. The water system was purchased in 1980. The District is governed by a five-member Board of Directors who serve four-year terms and are elected at large. The directors entrust the responsibility for the efficient execution of District policies to their designated representative, the General Manager.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of No. 14). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The District has no blended or discretely-presented component units.

B. 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 the liability is incurred. The Statement of Activities demonstrates the degree to which the operating expenses of a given function are offset by operating revenues. Operating expenses are those that are clearly identifiable with a specific function. The types of transactions reported as operating revenues for the District are charges for services directly related to the operations of the District. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the District. Taxes, operating grants and other items not properly included among operating revenues are reported instead as non-operating revenues. Contributed capital and capital grants are included as capital contributions.

Fund Financial Statements

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

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2007

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

B. Basis of Accounting and Measurement Focus, continued

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

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

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

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

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

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2007

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

B. Basis of Accounting and Measurement Focus, 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 governmental and proprietary categories. A fund is considered major if it is the primary operation fund of the District or meets the following criteria:

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

The funds of the financial reporting entity are described below:

Governmental Fund

General Fund – This fund accounts for the fire protection operations of the District.

Proprietary Fund

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

C. Financial Statement Elements

1. Cash and Cash Equivalents

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

2. Investments and Investment Policy

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

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

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

Local Agency Investment Fund

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

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

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2007

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

C. Financial Statement Elements, continued

3. Property Taxes and Assessments

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

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

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

4. Accounts Receivable

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

5. Prepaid Expenses

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

6. Deferred Charges

The deferred charges are from issuance costs, and unamortized premiums and discounts on the District's bonds that will be amortized over the remaining life of the bonds.

7. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$1,000. Donated assets are recorded at estimated fair market value at the date of donation and/or historical cost. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Governmental Activities

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

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2007

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

C. Financial Statement Elements, continued

7. Capital Assets, continued

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

8. Compensated Absences

The District's policy is to permit employees to accumulate an unlimited amount of earned vacation leave. Accumulated vacation time is accrued at year-end to account for the District's obligation to the employees for the amount owed. Sick leave is limited to 40 days per year – is unearned – and does not carry over to the following fiscal year.

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

9. 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.

10. Net Assets/Fund Balances

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

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

In the fund financial statements, reserves and designations segregate portions of fund balances that are either not available or have been earmarked for specific purposes. Reservations and designations of fund balance are described below:

- **Reserved** – Some of the assets reported in governmental funds are not available for spending in the subsequent year's budget. Fund balance also is reserved to indicate situations where a position of fund balance is not available for spending on any and all purposes of the fund.
- **Unreserved Designated** – Designations essentially reflect a government's self imposed limitations on the use of otherwise available current financial resources.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2007

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

C. Financial Statement Elements, continued

11. Water Sales

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

12. Capital Contributions

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

13. Use of Estimates

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

14. Budgetary Policies

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each April, the District's General Manager prepares and submits a capital and operating budget to the Board of Directors 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. The Adopted Original Budget is also the Final Budget as there was no supplemental budget appropriations for the fiscal year ended June 30, 2006.

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2007, are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$	1,377,001
Cash and cash equivalents – restricted		41,991
Total	\$	<u>1,418,992</u>

Cash and cash equivalents as of June 30, 2007, consist of the following:

Cash on hand	\$	240
Deposits held with financial institutions		41,981
Deposits held with California Local Agency Investment Fund (LAIF)		1,376,771
Total	\$	<u>1,418,992</u>

As of June 30, 2007, the District's authorized deposits had the following maturities:

Deposits held with the California Local Agency Investment Fund (LAIF)	176 days
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Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2007

(2) Cash and Cash Equivalents, continued

Authorized Deposits and Investments

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

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. The District had deposits with a bank balance of \$61,361 as of June 30, 2007. Of the bank balance, up to \$100,000 is federally insured.

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

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The District's deposit portfolio with governmental agencies, LAIF, is 97% as of June 30, 2007, of the District's total depository and investment portfolio. There were no investments in any one non-governmental issuer that represent 5% or more of the District's total investments.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2007

(4) Capital Assets

Governmental Activities

Changes in capital assets for the year were as follows:

	<u>Balance 2006</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2007</u>
Non-depreciable assets:				
Construction in progress	\$ 11,185	42,114	(2,320)	50,979
Total non-depreciable assets	<u>11,185</u>	<u>42,114</u>	<u>(2,320)</u>	<u>50,979</u>
Depreciable assets:				
Buildings	179,066	-	-	179,066
Fire apparatus	333,835	-	-	333,835
Furnishings and equipment	216,135	2,320	-	218,455
Total depreciable assets	<u>729,036</u>	<u>2,320</u>	<u>-</u>	<u>731,356</u>
Accumulated depreciation:				
Buildings	(160,601)	(1,245)	-	(161,846)
Fire apparatus	(234,150)	(10,735)	-	(244,885)
Furnishings and equipment	(211,089)	(2,042)	-	(213,131)
Total accumulated depreciation	<u>(605,840)</u>	<u>(14,022)</u>	<u>-</u>	<u>(619,862)</u>
Total depreciable assets, net	<u>123,196</u>	<u>(11,702)</u>	<u>-</u>	<u>111,494</u>
Total capital assets, net	<u>\$ 134,381</u>			<u>162,473</u>

Major capital asset additions in the governmental activities area include firehouse refurbishments and equipment for a rescue vehicle. A significant portion of these additions were constructed by the District and/or sub-contractors and transferred out of construction-in-process upon completion of these various projects. Depreciation expense under governmental activities, fire protection, totaled \$14,022.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2007

(4) Capital Assets, continued

Business-Type Activities

Changes in capital assets for the year were as follows:

	<u>Balance 2006</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2007</u>
Non-depreciable assets:				
Land	\$ 66,320	-	-	66,320
Construction in progress	101,394	44,420	(11,694)	134,120
Total non-depreciable assets	<u>167,714</u>	<u>44,420</u>	<u>(11,694)</u>	<u>200,440</u>
Depreciable assets:				
Collection system	352,967	-	-	352,967
Distribution system	966,540	2,027	-	968,567
Tanks	178,646	-	-	178,646
Water treatment	747,639	5,940	-	753,579
Wells	71,499	-	-	71,499
Vehicles and equipment	80,839	-	-	80,839
Total depreciable assets	<u>2,398,130</u>	<u>7,967</u>	<u>-</u>	<u>2,406,097</u>
Accumulated depreciation:				
Collection system	(148,009)	(9,738)	-	(157,747)
Distribution system	(487,353)	(20,618)	-	(507,971)
Tanks	(91,680)	(4,432)	-	(96,112)
Water treatment	(621,872)	(24,253)	-	(646,125)
Wells	(48,024)	(1,375)	-	(49,399)
Vehicles and equipment	(71,563)	(6,692)	-	(78,255)
Total accumulated depreciation	<u>(1,468,501)</u>	<u>(67,108)</u>	<u>-</u>	<u>(1,535,609)</u>
Total depreciable assets, net	<u>929,629</u>	<u>(59,141)</u>	<u>-</u>	<u>870,488</u>
Total capital assets, net	<u>\$ 1,097,343</u>			<u>1,070,928</u>

Major capital asset additions in the business-type activities area include transmission and distribution system upgrades and various other projects. A significant portion of these additions were constructed by the District and/or sub-contractors and transferred out of construction-in-process upon completion of these various projects. Depreciation expense under business-type activities, retail water enterprise, totaled \$67,108.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2007

(4) Capital Assets, continued

Construction-In-Process

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

Governmental Activities

The balance at June 30, consists of the following projects:

	<u>2006</u>	<u>2007</u>
Rescue vehicle	\$ -	3,513
Communications upgrade	2,320	-
Fire equipment	449	449
Shell Beach fire hydrants	2,027	-
Firehouse remodel	6,389	47,016
Construction-in-process	<u>\$ 11,185</u>	<u>50,978</u>

Business-Type Activities

The balance at June 30, consists of the following projects:

	<u>2006</u>	<u>2007</u>
System improvements	\$ 40,564	42,037
Customer work	60,830	92,083
Construction-in-process	<u>\$ 101,394</u>	<u>134,120</u>

(5) Deferred Bond Expenses

Deferred bond expenses relate to the issuance costs of the District's bonds payable and are being amortized over the length of the debt service.

The balance at June 30, 2007, consists of the following:

Deferred charges	\$ 12,990
Accumulated amortization	<u>(7,379)</u>
Deferred charges, net	<u>\$ 5,611</u>

(6) Compensated Absences

Changes in compensated absences were as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Balance at beginning of year	\$ 7,129	7,849
Additions	3,622	4,857
Payments to employees	<u>(2,553)</u>	<u>(4,508)</u>
Balance at end of year	<u>\$ 8,198</u>	<u>8,198</u>

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2007

(7) Bonds Payable

The following is a summary of the District's bonds payable as of June 30th:

Changes in long-term debt in 2007 were as follows:

	<u>Balance</u> <u>2006</u>	<u>Additions</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>2007</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
Bonds payable	\$ 358,000	-	(19,000)	339,000	20,000	319,000

Bonds Payable

In December 1981, the District issued \$640,000 of water revenue bonds in order to acquire the water system that was serving residents within the service area of the District, and to provide improvements therein. Prior to the acquisition, the water system was operated by a private water company. The area residents passed a ballot measure that allowed the District to acquire the water system. The annual net revenue of the Water Enterprise Fund for any fiscal year is required by the revenue bond indenture to be not less than 120% of the principal and interest payments due within the fiscal year. Net revenues are defined as operating revenue less total operating expenses, exclusive of depreciation and bond interest. Interest payments are due on a semi-annual basis on January 1 and July 1 of each year. The interest rate on the bonds is 5%. Principal payments are due on July 1 of each year.

Bond Reserve

A debt service reserve in the amount of \$41,991 has been created to secure payment of principal and interest on the bonds. The reserve is not separately funded but is part of the cash funds held with LAIF.

Schedule Payments

Annual debt service requirements on the on the bonds payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 20,000	16,950	36,950
2009	20,000	15,950	35,950
2010	21,000	14,950	35,950
2011	22,000	13,900	35,900
2012	23,000	12,800	35,800
2013-2017	139,000	44,950	183,950
2018-2021	94,000	10,000	104,000
Total	339,000	129,500	468,500
Less: current portion	(20,000)		
Long-term portion	\$ 319,000		

Debt Service Ratio

The annual net revenue of the water enterprise fund for any fiscal year is required by the revenue bond indenture to be not less than one and two-tenths (1.20) times the average annual debt service remaining. Debt service means principal and interest accruing on the bonds and amount of any transfers required to be made to any funds from which such principal and interest are to be paid. Net revenue is operating revenue less total operating expenses, exclusive of depreciation and bond interest. Average annual debt service is based on total remaining debt service of \$468,500 to be repaid over the next 14 fiscal years (\$468,500/14 years = \$33,464). (Operating revenues of \$359,433 minus Operating expenses of \$345,113 = \$14,320/\$33,464 of annual average remaining debt service = 0.43 Times debt service). The District did not meet its debt service requirement for fiscal year 2007.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2007

(8) Net Investment in Capital Assets

This component of net assets consists of capital assets, net of accumulated depreciation, and amounts advanced to other funds to purchase assets reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

	Governmental Activities	Business-type Activities
The balance consists of the following:		
Capital assets – not being depreciated	\$ 50,978	200,440
Capital assets – being depreciated, net	111,495	870,488
Deferred bond expense, net	-	5,611
Bonds payable – current portion	-	(20,000)
Bonds payable – long-term portion	-	(319,000)
Total	\$ 162,473	737,539

(9) Defined Benefit Pension Plan

Plan Description

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

Funding Policy

The contribution rate for plan members in the CalPERS 2.0% at 55 Risk Pool Retirement Plan for Safety Employees is 7% and CalPERS 2.0% at 60 Risk Pool Retirement Plan for Miscellaneous Employees is 7% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates for fiscal years 2007 and 2006 were 22.036% and 24.822% for Safety Employees and 15.507% and 17.190% for Miscellaneous Employees, respectively. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal years 2007 and 2006, the District's annual contribution was \$35,007 and \$33,487, respectively, for CalPERS and was equal to the District's required and actual contributions for each year.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2007

(10) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2006, the District participated in the liability and property programs of the SDRMA as follows:

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

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

- Employee dishonesty coverage up to \$400,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage's.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$750 million per occurrence, subject to a \$2,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible per occurrence.
- Public officials personal liability up to \$500,000 each occurrence, with an annual aggregate of \$100,000 per each elected/appointed official to which this coverage applies, subject to the terms, with a deductible of \$500 per claim. Workers' compensation insurance up to \$100 million per occurrence and Employer's Liability Coverage up to \$5 million.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. There were no reductions in insurance coverage in fiscal year 2007. 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, 2007.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2007

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2007, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 45

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local government employers. This statement is not effective for this District until the fiscal year ended June 30, 2009. This statement is expected to have a significant impact on the presentation of the District's financial statements in future years.

Governmental Accounting Standards Board Statement No. 48

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This statement establishes criteria that governments will use to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings. This statement also includes disclosure requirements for future revenues that are pledged or sold. This statement is not effective for this District until the fiscal year ended June 30, 2008. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 49

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts. This statement is not effective for this District until the fiscal year ended June 30, 2009. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 50

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and 27*. This statement more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits (OPEB) and, in doing so, enhances information disclosed in the notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25 and 27, to conform with requirements of GASB Statements No. 43 and 45. This statement is not effective for this District until the fiscal year ended June 30, 2009. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 51

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This statement is not effective for this District until the fiscal year ended June 30, 2010. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2007

(12) Commitments and Contingencies

Nuclear Free Zone

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

Marin Emergency Radio Authority

During fiscal year 1999, the District became a member of the Marin Emergency Radio Authority (Authority). The Authority is a joint exercise of powers agency created on February 28, 1998, pursuant to the California Government Code and a Joint Powers Agreement, by and among the County of Marin and twenty-five local agencies within the County (collectively, the “Members”). The Authority’s purpose is to plan, finance, implement, manage, own and operate a multi-jurisdictional and County-wide public safety and emergency radio system. During 1999, the Authority issued bonds to finance the acquisition and installation of a County-wide public safety and emergency radio system (the “Project”), to fund a reserve fund, to fund capitalized interest on the 1999 bonds and to pay the costs incurred in issuing the 1999 bonds. The Project will be owned and operated by the Authority. The Members will use the radio service provided by the Project to carry out public safety and emergency functions in their individual service areas. The 1999 bonds are special obligations of the Authority payable solely from revenues consisting generally of the service payments to be made by the County and the Members within the County under an operating agreement. As of June 30, 2007, the District’s share of the total debt service payments was \$201,436. 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, 2007, the operating costs associated with the District’s participation in the Authority were \$7,470.

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

Litigation

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

Grant Awards

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

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Required Supplementary Information

Inverness Public Utility District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – General Fund
For the Year Ended June 30, 2007

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Property taxes	\$ 345,733	-	345,733	404,764	59,031
Grant revenue	31,137	-	31,137	5,396	(25,741)
Interest earnings	15,608	-	15,608	45,549	29,941
Charges for services	7,825	-	7,825	16,412	8,587
Total revenues	<u>400,303</u>	<u>-</u>	<u>400,303</u>	<u>472,121</u>	<u>71,818</u>
Expenditures:					
Salaries and benefits	95,415	-	95,415	146,046	(50,631)
Dispatch and communications	24,694	-	24,694	27,271	(2,577)
Repairs and maintenance	3,063	-	3,063	4,635	(1,572)
Professional services	2,400	-	2,400	2,634	(234)
Supplies	9,978	-	9,978	12,671	(2,693)
Training and education	9,000	-	9,000	6,641	2,359
Utilities	3,001	-	3,001	4,554	(1,553)
Vehicle operation	3,609	-	3,609	4,005	(396)
General and administrative	60,301	-	60,301	39,322	20,979
Capital outlay	83,194	-	83,194	42,114	41,080
Total expenditures	<u>294,655</u>	<u>-</u>	<u>294,655</u>	<u>289,893</u>	<u>4,762</u>
Net change in fund balance	<u>105,648</u>	<u>-</u>	<u>105,648</u>	<u>182,228</u>	<u>76,580</u>
Fund balance, beginning of year	<u>895,972</u>		<u>895,972</u>	<u>895,972</u>	
Fund balance, end of year	<u>\$ 1,001,620</u>		<u>1,001,620</u>	<u>1,078,200</u>	

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Supplemental Information

Inverness Public Utility District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Enterprise Fund
For the Year Ended June 30, 2007

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Operating revenues:					
Water consumption sales	\$ 83,750	-	83,750	94,742	10,992
Readiness-to-serve charges	231,693	-	231,693	231,874	181
Operating grant revenue	20,381	-	20,381	29,873	9,492
Other charges for services	8,669	-	8,669	2,944	(5,725)
Total operating revenues	<u>344,493</u>	<u>-</u>	<u>344,493</u>	<u>359,433</u>	<u>14,940</u>
Operating expenses:					
Collection and treatment	13,072	-	13,072	45,155	(32,083)
Laboratory and monitoring	7,115	-	7,115	11,683	(4,568)
Storage and distribution	7,432	-	7,432	11,521	(4,089)
Supplies and inventory	6,731	-	6,731	5,371	1,360
Vehicle operation	3,759	-	3,759	4,871	(1,112)
Training and licensing	420	-	420	1,807	(1,387)
General and administrative	217,943	-	217,943	264,705	(46,762)
Total operating expenses	<u>256,472</u>	<u>-</u>	<u>256,472</u>	<u>345,113</u>	<u>(88,641)</u>
Operating income before depreciation	88,021	-	88,021	14,320	(73,701)
Depreciation expense	(66,320)	-	(66,320)	(67,108)	(788)
Operating income(loss)	<u>21,701</u>	<u>-</u>	<u>21,701</u>	<u>(52,788)</u>	<u>(74,489)</u>
Non-operating revenue(expense)					
Interest earnings	12,000	-	12,000	17,852	5,852
Deferred charges amortization	(433)	-	(433)	(433)	-
Interest expense	(18,850)	-	(18,850)	(17,900)	950
Total non-operating, net	<u>(7,283)</u>	<u>-</u>	<u>(7,283)</u>	<u>(481)</u>	<u>6,802</u>
Capital contributions	-	-	-	-	-
Change in net assets	14,418	-	14,418	(53,269)	<u>(67,687)</u>
Net assets, beginning of year	<u>1,062,305</u>	<u>-</u>	<u>1,078,061</u>	<u>1,062,305</u>	
Net assets, end of year	<u>\$ 1,076,723</u>	<u>-</u>	<u>1,092,479</u>	<u>1,009,036</u>	

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Report on Compliance and Internal Controls



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

Board of Directors
Inverness Public Utility District
Inverness, California

We have audited the basic financial statements of the Inverness Public Utility District (District) as of and for the year ended June 30, 2007, and have issued our report thereon dated October 20, 2007. 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 grants, 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 that are required to be reported under *Government Auditing Standards*.

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

October 20, 2007
Cypress, California

Charles Z. Fedak, CPA, MBA
An Accountancy Corporation