

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

BASIC
FINANCIAL STATEMENTS

For the Years Ended
June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S 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 the Inverness Public Utility District (a California special district) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and the State 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Minimum Audit Requirements for Special Districts*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion on the District's Defined Benefit Plan Balances

The input data related to the District's defined benefit plans, as prepared by the plan administrator, CalPERS, was identified as having errors totaling approximately \$45,000 per year which impact the resulting plan balances. As a result, we were unable to obtain sufficient appropriate audit evidence about the balances reported as of and for the years ended June 30, 2016 and 2015, related to the defined benefit pension plans. Consequently, we were unable to determine whether any adjustments to those amounts were necessary.

The balances reported in these financial statements associated with the defined benefit plans are:

	2016	2015
Deferred outflows of resources (asset)	\$ 86,603	\$ 58,518
Net pension liability (liability)	\$ 277,362	\$ 321,909
Deferred inflows of resources	\$ 63,175	\$ 64,507
Impact to net position (net position)	\$ -	\$ (339,681)
Pension plan expense / (income)	\$ (7,829)	\$ 46,735

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the "Basis for Qualified Opinion on District's Defined Benefit Plan Balances" paragraph, 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 of the Inverness Public Utility District as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America and the State 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, pension plan information, schedule of funding status-other post-employment benefits obligation, and budgetary comparison information on pages 3-6 and 42-46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2017, on our consideration of Inverness Public Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Inverness Public Utility District's internal control over financial reporting and compliance.

Doran & Associates

January 13, 2017

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2016**

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, 2016. 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 increased 6.3%, or \$201,288 to \$3,406,986 as a result of this year's operations and increase in general revenues.
- Total revenues increased 0.0%, or \$714 from the prior year.
- Total expenses decreased by 4.6%, or \$35,959, primarily due to decreases in employee benefit accruals.

Using This Financial Report

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

Government-wide Financial Statements

Statements of Net Position and Statements of Activities

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

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2016**

Fund Financial Statements

Balance Sheets and Statements 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 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 20 through 40.

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 42 through 46.

Government-wide Financial Analysis

Statements of Net Position

The following table is a condensed summary of the statements of net position at June 30, 2016, with prior year comparative information:

	Governmental Activities		Business-type Activities		Total District	
	2016	2015	2016	2015	2016	2015
Assets:						
Current and other assets	\$ 1,859,335	\$ 1,722,982	\$ (60,675)	\$ (1,416)	\$ 1,798,660	\$ 1,721,566
Capital assets, net	45,497	56,218	1,770,677	1,731,503	1,816,174	1,787,721
Deferred outflows of resources	103,459	109,514	147,492	123,751	250,951	233,265
Total assets and deferred outflows of resources	2,008,291	1,888,714	1,857,494	1,853,838	3,865,785	3,742,552
Liabilities:						
Current liabilities	2,166	10,480	-	16,673	2,166	27,153
Non-current liabilities	104,649	125,069	228,193	259,112	332,842	384,181
Total liabilities	106,815	135,549	228,193	275,785	335,008	411,334

**INVERNESS PUBLIC UTILITY DISTRICT
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2016**

Statement of Net Position (Continued)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Deferred inflows of resources	28,690	24,826	95,101	100,694	123,791	125,520
Net position:						
Net investment in capital assets	45,497	56,218	1,770,677	1,731,503	1,816,174	1,787,721
Board-designated / committed net position	808,928	886,527	733,199	733,199	1,542,127	1,619,726
Unrestricted	1,018,361	785,594	(969,670)	(987,343)	48,685	(201,749)
Total net position	<u>\$ 1,872,786</u>	<u>\$ 1,728,339</u>	<u>\$ 1,534,200</u>	<u>\$ 1,477,359</u>	<u>\$ 3,406,986</u>	<u>\$ 3,205,698</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$3,406,986 as of June 30, 2016. Compared to the prior year, net position of the District increased by 6.3% or \$201,288. The District's net position are made-up of three components: (1) net investment in capital assets, (2) Board-designated/committed net position, and (3) unrestricted net position.

Statement of Activities

The following table is a condensed summary of the statements of activities for the year ended June 30, 2016, with prior year comparative information:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues:						
Charges for services	\$ 68,270	\$ 70,321	\$ 414,813	\$ 431,295	\$ 483,083	\$ 501,616
Operating grants	3,260	17,490	-	-	3,260	17,490
General revenues:						
Property taxes	446,980	427,875	-	-	446,980	427,875
Interest gains and losses	12,173	3,035	4,556	(678)	16,729	2,357
Total revenues	<u>530,683</u>	<u>518,721</u>	<u>419,369</u>	<u>430,617</u>	<u>950,052</u>	<u>949,338</u>
Expenses:						
District operations and fire protection	386,236	431,605	-	-	386,236	431,605
Water	-	-	362,528	353,118	362,528	353,118
Total expenses	<u>386,236</u>	<u>431,605</u>	<u>362,528</u>	<u>353,118</u>	<u>748,764</u>	<u>784,723</u>
Change in net position	<u>144,447</u>	<u>87,116</u>	<u>56,841</u>	<u>77,499</u>	<u>201,288</u>	<u>164,615</u>
Net position, beginning of year, original	1,728,339	1,752,031	1,477,359	1,628,733	3,205,698	3,380,764
Prior period adjustment	-	(110,808)	-	(228,873)	-	(339,681)
Net position, beginning of year, as adjusted	<u>1,728,339</u>	<u>1,641,223</u>	<u>1,477,359</u>	<u>1,399,860</u>	<u>3,205,698</u>	<u>3,041,083</u>
Net position, end of year	<u>\$ 1,872,786</u>	<u>\$ 1,728,339</u>	<u>\$ 1,534,200</u>	<u>\$ 1,477,359</u>	<u>\$ 3,406,986</u>	<u>\$ 3,205,698</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2016**

Statement of Activities (Continued)

Governmental and Business-type activities increased the District's net position by \$201,288, thereby accounting for the 6.3% increase in the net position of the District. The District's total revenues decreased 0.0% or \$714 from the prior year. In addition, the District's total expenses decreased by 4.6% or \$35,949 primarily due to decreases in employee benefit accruals.

Capital Asset Administration

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Capital assets:						
Non-depreciable assets	\$ -	\$ -	\$ 879,773	\$ 830,774	\$ 879,773	\$ 830,774
Depreciable assets	<u>905,518</u>	<u>905,518</u>	<u>2,932,022</u>	<u>2,888,894</u>	<u>3,837,540</u>	<u>3,794,412</u>
Total capital assets	905,518	905,518	3,811,795	3,719,668	4,717,313	4,625,186
Accumulated depreciation	<u>(860,021)</u>	<u>(849,300)</u>	<u>(2,041,118)</u>	<u>(1,988,165)</u>	<u>(2,901,139)</u>	<u>(2,837,465)</u>
Total capital assets, net	<u>\$ 45,497</u>	<u>\$ 56,218</u>	<u>\$ 1,770,677</u>	<u>\$ 1,731,503</u>	<u>\$ 1,816,174</u>	<u>\$ 1,787,721</u>

At June 30, 2016, the District's investment in capital assets amounted to \$1,816,174, 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.

The CA Department of Public Health is mandating that all water systems comply with the new Disinfection Byproducts Rule. IPUD will address this requirement by improving its treatment process. These improvements involve replacing aging filter units, and adding advanced Nano-filtration Units. The cost estimate for this Project is \$814,000. IPUD has this funding set aside in reserves, and anticipates completing the Project by March 31, 2017.

Conditions Affecting Current Financial Position

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

Requests for Information

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

STATEMENTS OF NET POSITION
June 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash, cash equivalents and investments (Notes 1 and 2)	\$ 1,857,940	\$ (142,290)	\$ 1,715,650
Prepaid expenses	700	-	700
Accounts receivable (Note 1)	-	81,615	81,615
Property taxes receivable	695	-	695
Total current assets	<u>1,859,335</u>	<u>(60,675)</u>	<u>1,798,660</u>
Capital assets, net of accumulated depreciation of \$2,901,139 (Notes 1 and 3)	<u>45,497</u>	<u>1,770,677</u>	<u>1,816,174</u>
Total assets	<u>1,904,832</u>	<u>1,710,002</u>	<u>3,614,834</u>
Deferred outflows of resources:			
Prepaid other post-employment benefits (Note 4)	93,804	70,544	164,348
Pension plan (Note 5)	9,655	76,948	86,603
Total deferred outflows of resources	<u>103,459</u>	<u>147,492</u>	<u>250,951</u>
Total assets and deferred outflows of resources	<u>\$ 2,008,291</u>	<u>\$ 1,857,494</u>	<u>\$ 3,865,785</u>
LIABILITIES AND NET POSITION			
Current liabilities:			
Accounts payable and accrued expenses	<u>\$ 2,166</u>	<u>\$ -</u>	<u>\$ 2,166</u>
Total current liabilities	2,166	-	2,166
Accrued compensated absences	27,740	27,740	55,480
Net pension liability (Note 5)	<u>76,909</u>	<u>200,453</u>	<u>277,362</u>
Total liabilities	<u>106,815</u>	<u>228,193</u>	<u>335,008</u>
Deferred inflows of resources:			
Deferred revenue (Note 1)	-	60,616	60,616
Pension plan (Note 5)	<u>28,690</u>	<u>34,485</u>	<u>63,175</u>
Total deferred inflows of resources	<u>28,690</u>	<u>95,101</u>	<u>123,791</u>
Net position (Note 1):			
Net investment in capital assets	45,497	1,770,677	1,816,174
Board-designated/committed net position (Note 6)	808,928	733,199	1,542,127
Unrestricted net position	<u>1,018,361</u>	<u>(969,676)</u>	<u>48,685</u>
Total net position	<u>1,872,786</u>	<u>1,534,200</u>	<u>3,406,986</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 2,008,291</u>	<u>\$ 1,857,494</u>	<u>\$ 3,865,785</u>

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

STATEMENTS OF NET POSITION (CONTINUED)
June 30, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash, cash equivalents and investments (Notes 1 and 2)	\$ 1,711,560	\$ (68,635)	\$ 1,642,925
Accrued interest receivable	1,126	-	1,126
Accounts receivable (Note 1)	7,490	67,219	74,709
Property taxes receivable	2,806	-	2,806
Total current assets	<u>1,722,982</u>	<u>(1,416)</u>	<u>1,721,566</u>
Capital assets, net of accumulated depreciation of \$2,837,465 (Notes 1 and 3)	56,218	1,731,503	1,787,721
Total assets	<u>1,779,200</u>	<u>1,730,087</u>	<u>3,509,287</u>
Deferred outflows of resources:			
Prepaid other post-employment benefits (Note 4)	99,653	75,094	174,747
Pension plan	9,861	48,657	58,518
Total deferred outflows of resources	<u>109,514</u>	<u>123,751</u>	<u>233,265</u>
Total assets and deferred outflows of resources	<u>\$ 1,888,714</u>	<u>\$ 1,853,838</u>	<u>\$ 3,742,552</u>
LIABILITIES AND NET POSITION			
Current liabilities:			
Accounts payable and accrued expenses	\$ 10,480	\$ 16,673	\$ 27,153
Total current liabilities	<u>10,480</u>	<u>16,673</u>	<u>27,153</u>
Accrued compensated absences	34,196	28,076	62,272
Net pension liability	90,873	231,036	321,909
Total liabilities	<u>135,549</u>	<u>275,785</u>	<u>411,334</u>
Deferred inflows of resources:			
Deferred revenue (Note 1)	-	61,013	61,013
Pension plan	24,826	39,681	64,507
Total deferred inflows of resources	<u>24,826</u>	<u>100,694</u>	<u>125,520</u>
Net position (Note 1):			
Net investment in capital assets	56,218	1,731,503	1,787,721
Board-designated/committed net position	886,527	733,199	1,619,726
Unrestricted net position	785,594	(987,343)	(201,749)
Total net position	<u>1,728,339</u>	<u>1,477,359</u>	<u>3,205,698</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 1,888,714</u>	<u>\$ 1,853,838</u>	<u>\$ 3,742,552</u>

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

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

**STATEMENTS OF ACTIVITIES
For the year ended June 30, 2016**

	Governmental Activities: District Operations and Fire Protection	Business-Type Activities: Water- Enterprise Fund	Total
EXPENSES	<u>\$ 386,236</u>	<u>\$ 362,528</u>	<u>\$ 748,764</u>
PROGRAM REVENUES			
Charges for services	68,270	414,813	483,083
Operating grants, contributions, and other revenue	<u>3,260</u>	<u>-</u>	<u>3,260</u>
	<u>71,530</u>	<u>414,813</u>	<u>486,343</u>
Net Operating (Expense) Revenue	<u>(314,706)</u>	<u>52,285</u>	<u>(262,421)</u>
GENERAL REVENUES			
Property taxes (Note 7)	446,980	-	446,980
Interest, gain, and (loss)	<u>12,173</u>	<u>4,556</u>	<u>16,729</u>
Total general revenues	<u>459,153</u>	<u>4,556</u>	<u>463,709</u>
Change in net position	144,447	56,841	201,288
Total net position, beginning of year, original	<u>1,728,339</u>	<u>1,477,359</u>	<u>3,205,698</u>
Total net position, end of year	<u>\$ 1,872,786</u>	<u>\$ 1,534,200</u>	<u>\$ 3,406,986</u>

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

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

**STATEMENTS OF ACTIVITIES (CONTINUED)
For the year ended June 30, 2015**

	Governmental Activities: District Operations and Fire Protection	Business-Type Activities: Water- Enterprise Fund	Total
EXPENSES	<u>\$ 431,605</u>	<u>\$ 353,118</u>	<u>\$ 784,723</u>
PROGRAM REVENUES			
Charges for services	70,321	431,295	501,616
Operating grants and contributions	<u>17,490</u>	<u>-</u>	<u>17,490</u>
	<u>87,811</u>	<u>431,295</u>	<u>519,106</u>
Net Operating (Expense) Revenue	<u>(343,794)</u>	<u>78,177</u>	<u>(265,617)</u>
GENERAL REVENUES			
Property taxes (Note 7)	427,875	-	427,875
Interest, gain, and (loss)	<u>3,035</u>	<u>(678)</u>	<u>2,357</u>
Total general revenues	<u>430,910</u>	<u>(678)</u>	<u>430,232</u>
Change in net position	<u>87,116</u>	<u>77,499</u>	<u>164,615</u>
Total net position, beginning of year, original	1,752,031	1,628,733	3,380,764
Prior period adjustment (Note 8)	<u>(110,808)</u>	<u>(228,873)</u>	<u>(339,681)</u>
Total net position, beginning of year, as adjusted	<u>1,641,223</u>	<u>1,399,860</u>	<u>3,041,083</u>
Total net position, end of year	<u>\$ 1,728,339</u>	<u>\$ 1,477,359</u>	<u>\$ 3,205,698</u>

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

BALANCE SHEETS - GOVERNMENTAL FUNDS
June 30, 2016

	<u>Major Funds</u> General Fund	Total Governmental Funds
ASSETS		
Current assets:		
Cash, cash equivalents, and investments	\$ 1,857,940	\$ 1,857,940
Prepaid expenses	700	700
Property taxes	695	695
Total assets	\$ 1,859,335	\$ 1,859,335
LIABILITIES AND FUND BALANCES		
Current liabilities:		
Accounts payable	\$ 2,166	\$ 2,166
Total liabilities	2,166	2,166
Fund balances:		
Committed (Note 6)	808,928	808,928
Assigned (Note 6)	27,740	27,740
Unassigned	1,020,501	1,020,501
Total fund balances	1,857,169	1,857,169
Total liabilities and fund balances	\$ 1,859,335	\$ 1,859,335

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

BALANCE SHEETS - GOVERNMENTAL FUNDS (CONTINUED)
June 30, 2015

	Major Funds General Fund	Total Governmental Funds
ASSETS		
Current assets:		
Cash, cash equivalents, and investments	\$ 1,711,560	\$ 1,711,560
Accrued interest receivable	1,126	1,126
Accounts receivable	7,490	7,490
Property taxes	2,806	2,806
Total assets	\$ 1,722,982	\$ 1,722,982
LIABILITIES AND FUND BALANCES		
Current liabilities:		
Accounts payable	\$ 10,480	\$ 10,480
Total liabilities	10,480	10,480
Fund balances:		
Committed	886,527	886,527
Assigned	34,196	34,196
Unassigned	791,779	791,779
Total fund balances	1,712,502	1,712,502
Total liabilities and fund balances	\$ 1,722,982	\$ 1,722,982

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

RECONCILIATION OF THE BALANCE SHEETS - GOVERNMENTAL FUNDS
TO THE GOVERNMENT-WIDE STATEMENTS OF NET POSITION
June 30, 2016 and 2015

	2016	2015
Total fund balances - total governmental funds	<u>\$ 1,857,169</u>	<u>\$ 1,712,502</u>
Amounts reported for Governmental Activities on the Statements of Net Position are different because:		
Deferred outflows of resources related to prepaid other post-employment benefits (OPEB) are not reported on the Balance Sheets - Governmental Funds	<u>93,804</u>	<u>99,653</u>
Capital assets used in governmental activities are not current financial resources. Therefore, they are not reported on the Balance Sheets - Governmental Funds:		
Capital assets	905,518	905,518
Less: accumulated depreciation	<u>(860,021)</u>	<u>(849,300)</u>
	<u>45,497</u>	<u>56,218</u>
Deferred outflows of resources, pension plan do not provide current financial resources; therefore it is not reported on the Balance Sheet - Governmental Funds	<u>9,655</u>	<u>9,861</u>
Long-term liabilities applicable to the District are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported on the Statement of Net Position:		
Compensated absences	<u>(27,740)</u>	<u>(34,196)</u>
Net pension liability does not require current financial resources; therefore it is not reported on the Balance Sheet - Governmental Funds	<u>(76,909)</u>	<u>(90,873)</u>
Deferred inflows of resources, pension plan does not require current financial resources; therefore it is not reported on the Balance Sheet - Governmental Funds	<u>(28,690)</u>	<u>(24,826)</u>
Total net position	<u>\$ 1,872,786</u>	<u>\$ 1,728,339</u>

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the year ended June 30, 2016

	Major Funds General Fund	Total Governmental Funds
REVENUES:		
Property taxes	\$ 446,980	\$ 446,980
Interest earnings	12,173	12,173
Special assessments	68,270	68,270
Other	3,260	3,260
Total revenue	530,683	530,683
EXPENDITURES		
Salaries and benefits	282,933	282,933
Dispatch and communications	26,429	26,429
Repairs and maintenance	780	780
Office and administration	49,370	49,370
Supplies and inventory	9,776	9,776
Training and education	1,412	1,412
Fuel reduction and fire prevention program	5,140	5,140
Utilities	3,169	3,169
Vehicle operation	7,007	7,007
Total expenditures	386,016	386,016
Net change in fund balances	144,667	144,667
Fund balances, beginning of year	1,712,502	1,712,502
Fund balances, end of year	\$ 1,857,169	\$ 1,857,169

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

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

**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)
For the year ended June 30, 2015**

	<u>Major Funds</u> General Fund	Total Governmental Funds
REVENUES:		
Property taxes	\$ 427,875	\$ 427,875
Grant revenue	17,490	17,490
Interest earnings	3,035	3,035
Special assessments	68,800	68,800
Other	<u>1,521</u>	<u>1,521</u>
Total revenue	<u>518,721</u>	<u>518,721</u>
EXPENDITURES		
Salaries and benefits	281,053	281,053
Dispatch and communications	23,835	23,835
Repairs and maintenance	864	864
Office and administration	48,363	48,363
Supplies and inventory	9,992	9,992
Training and education	3,769	3,769
Fuel reduction and fire prevention program	22,760	22,760
Utilities	2,667	2,667
Vehicle operation	<u>10,090</u>	<u>10,090</u>
Total expenditures	<u>403,393</u>	<u>403,393</u>
Net change in fund balances	115,328	115,328
Fund balances, beginning of year	<u>1,597,174</u>	<u>1,597,174</u>
Fund balances, end of year	<u>\$ 1,712,502</u>	<u>\$ 1,712,502</u>

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

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

**RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE GOVERNMENTAL-WIDE STATEMENT OF ACTIVITIES
For the years ended June 30, 2016 and 2015**

	2016	2015
Net change in fund balances - total governmental funds	<u>\$ 144,667</u>	<u>\$ 115,328</u>
Amounts reported for Governmental Activities on the Statement of Activities are different because:		
Some revenues reported on the Statement of Activities are not current financial resources and therefore are not reported as revenues in governmental funds:		
Governmental funds report capital outlays as expenditures. However, on the Statement of Activities the costs of those assets are allocated over their estimated useful lives and recorded as depreciation expense:		
Capital outlay	-	-
Less: depreciation expense	<u>(10,721)</u>	<u>(12,822)</u>
	<u>(10,721)</u>	<u>(12,822)</u>
Some expenses reported on the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenses in governmental funds as follows:		
Net change in compensated absences	<u>6,456</u>	<u>(7,812)</u>
Net change in other post-employment benefits prepaid	<u>(5,849)</u>	<u>(12,548)</u>
Governmental funds report cash outlays for the pension plan as expenditures. However, on the Statement of Activities, the costs of those activities include amortizations of deferred inflows and other long-term transactions:		
Deferred outflows of resources	(206)	9,861
Net pension liability	13,964	(90,873)
Deferred inflows of resources	(3,864)	(24,826)
Prior period adjustment to accrue long-term pension balances	-	110,808
	<u>9,894</u>	<u>4,970</u>
Change in net position	<u>\$ 144,447</u>	<u>\$ 87,116</u>

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

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

**STATEMENTS OF NET POSITION - WATER ENTERPRISE FUND
June 30, 2016 and 2015**

	2016	2015
ASSETS		
Current assets:		
Cash, cash equivalents, and investments	\$ (142,290)	\$ (68,635)
Accounts receivable	81,615	67,219
Total current assets	(60,675)	(1,416)
Capital assets, net of accumulated depreciation of \$2,041,118 at 2016 and \$1,988,165 at 2015	1,770,677	1,731,503
Total assets	1,710,002	1,730,087
Deferred outflows of resources:		
Prepaid other post-employment benefits	70,544	75,094
Pension plan expenses	76,948	48,657
Total deferred outflows of resources	147,492	123,751
Total assets and deferred outflows of resources	\$ 1,857,494	\$ 1,853,838
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable and accrued expenses	\$ -	\$ 16,673
Total current liabilities	-	16,673
Accrued compensated absences	27,740	28,076
Net pension liability	200,453	231,036
Total liabilities	228,193	275,785
Deferred inflows of resources:		
Deferred revenue	60,616	61,013
Pension plan	34,485	39,681
Total deferred inflows of resources	95,101	100,694
Net position:		
Net investment in capital assets	1,770,677	1,731,503
Board-designated	733,199	733,199
Unrestricted	(969,676)	(987,343)
Total net position	1,534,200	1,477,359
Total liabilities, deferred inflows of resources, and net position	\$ 1,857,494	\$ 1,853,838

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

STATEMENTS OF REVENUES, EXPENSES AND FUND EQUITY-
WATER ENTERPRISE FUND
For the years ended June 30, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Water consumption sales	\$ 92,637	\$ 90,725
Readiness-to-serve charges	310,384	311,518
Other revenue	11,792	29,052
Total operating revenues	<u>414,813</u>	<u>431,295</u>
OPERATING EXPENSES		
Collection and treatment	14,366	11,036
Laboratory and monitoring	15,577	9,571
Storage and distribution	15,199	15,584
Supplies and inventory	22,257	20,668
Vehicle operation	5,588	9,737
Training and licensing	2,837	60
General and administrative	233,751	238,990
Total operating expenses	<u>309,575</u>	<u>305,646</u>
Operating income before general revenues and depreciation	105,238	125,649
GENERAL REVENUES		
Interest, gains, and losses	4,556	(678)
Depreciation	<u>(52,953)</u>	<u>(47,472)</u>
Change in net position	<u>56,841</u>	<u>77,499</u>
Total net position, beginning of year, original	1,477,359	1,628,733
Prior period adjustment	<u>-</u>	<u>(228,873)</u>
Total net position, beginning of year, adjusted	<u>1,477,359</u>	<u>1,399,860</u>
Total net position, end of year	<u>\$ 1,534,200</u>	<u>\$ 1,477,359</u>

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

STATEMENTS OF CASH FLOWS - WATER ENTERPRISE FUND
For the years ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 400,020	\$ 439,386
Cash paid to employees	(128,282)	(204,196)
Cash paid to suppliers and vendors	<u>(257,822)</u>	<u>(90,438)</u>
Net cash provided by operating activities	<u>13,916</u>	<u>144,752</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	<u>4,556</u>	<u>(678)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES		
Acquisition and construction of capital assets	<u>(92,127)</u>	<u>(435,012)</u>
Decrease in cash and cash equivalents	(73,655)	(290,938)
Cash and cash equivalents, beginning of year	<u>(68,635)</u>	<u>222,303</u>
Cash and cash equivalents, end of year	<u>\$ (142,290)</u>	<u>\$ (68,635)</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	\$ 56,841	\$ 77,499
Depreciation	52,953	47,472
Interest income reported as investing activity	(4,556)	678
Changes in assets and liabilities:		
Accounts receivable	(14,396)	6,042
Prepaid other post-employment benefits	4,550	9,759
Deferred outflows of resources, pension plan	(28,291)	(48,657)
Accounts payable and accrued expenses	(16,673)	2,162
Deferred revenue	(397)	2,049
Accrued benefits payable	(336)	5,904
Net pension liability	(30,583)	2,163
Deferred inflows of resources, pension plan	(5,196)	39,681
Total adjustments	<u>(42,925)</u>	<u>67,253</u>
Net cash provided by operating activities	<u>\$ 13,916</u>	<u>\$ 144,752</u>

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

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

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

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

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

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

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

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

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

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

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

The funds of the financial reporting entity are described below:

Governmental Fund:

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

Proprietary Fund:

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

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

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

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

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

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

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

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

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

Fund Balance Policy

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

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

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

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

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

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

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

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

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

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

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

Governmental Activities

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

Business-Type Activities

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

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

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

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

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

Local Agency Investment Fund

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

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

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

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

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.

Subsequent Events - Subsequent events have been evaluated through January 13, 2017, which is the date the financial statements were available to be issued.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

These funds have been segregated into various accounts and, at June 30, 2016 and 2015, the balances were as follows:

	2016	2015
Deposits held with financial institutions	\$ 173,522	\$ 23,199
Deposits held with LAIF	1,542,128	1,619,726
Total cash, cash equivalents, and investments	\$ 1,715,650	\$ 1,642,925

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

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

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

NOTE 3 CAPITAL ASSETS

Capital assets consisted of the following at June 30, 2016:

Governmental Activities

	Balance 2015	Additions	Deletions/ Transfers	Balance 2016
<u>Depreciable assets</u>				
Buildings	\$ 227,528	\$ -	\$ -	\$ 227,528
Tankers and vehicles	381,811	-	-	381,811
Furnishings and equipment	296,179	-	-	296,179
Total depreciable assets	905,518	-	-	905,518
<u>Accumulated depreciation</u>				
Buildings	(205,619)	(4,189)	-	(209,808)
Tankers and vehicles	(359,522)	(4,798)	-	(364,320)
Furnishings and equipment	(284,159)	(1,734)	-	(285,893)
Total accumulated depreciation	(849,300)	(10,721)	-	(860,021)
Total capital assets, net	\$ 56,218	\$ (10,721)	\$ -	\$ 45,497

Depreciation expense under governmental activities (district operations and fire protection) totaled \$10,721.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE 3 CAPITAL ASSETS (Continued)

Business-Type Activities

<u>Non-depreciable assets</u>	Balance 2015	Additions	Deletions/ Transfers	Balance 2016
Land	\$ 66,320	\$ -	\$ -	\$ 66,320
Construction in progress	764,454	85,259	(36,260)	813,453
Total non-depreciable assets	<u>830,774</u>	<u>85,259</u>	<u>(36,260)</u>	<u>879,773</u>
<u>Depreciable assets</u>				
Collection system	352,967	-	-	352,967
Distribution system	979,222	-	-	979,222
Tanks	589,174	36,260	-	625,434
Water treatment	807,402	6,868	-	814,270
Wells	71,499	-	-	71,499
Vehicles and equipment	88,630	-	-	88,630
Total depreciable assets	<u>2,888,894</u>	<u>43,128</u>	<u>-</u>	<u>2,932,022</u>
<u>Accumulated depreciation</u>				
Collection system	(234,961)	(9,601)	-	(244,562)
Distribution system	(668,532)	(16,234)	-	(684,766)
Tanks	(193,564)	(19,297)	-	(212,861)
Water treatment	(748,286)	(5,537)	-	(753,823)
Wells	(60,399)	(1,375)	-	(61,774)
Vehicles and equipment	(82,423)	(909)	-	(83,332)
Total accumulated depreciation	<u>(1,988,165)</u>	<u>(52,953)</u>	<u>-</u>	<u>(2,041,118)</u>
Total depreciable assets, net	<u>900,729</u>	<u>(9,825)</u>	<u>-</u>	<u>890,904</u>
Total capital assets, net	<u>\$ 1,731,503</u>	<u>\$ 75,434</u>	<u>\$ (36,260)</u>	<u>\$ 1,770,677</u>

Capital asset additions in the business-type activities area include \$85,259 to projects still under construction at year-end. Depreciation expense under business-type activities (retail water enterprise) totaled \$52,953.

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

**NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015**

NOTE 3 CAPITAL ASSETS (Continued)

Construction in Progress

The District has been involved in various construction projects for business-type activities throughout the year. The balances of the various construction projects that comprise the construction in progress balances at June 30, 2016, are as follows:

DBP Treatment facilities *	\$ 813,453
Construction in progress	<u>\$ 813,453</u>

* To comply with the California Department of Public Health, the District is installing a nano-filtration system, which requires an upgrade to the existing treatment chain. The total cost for the nano-filtration system is estimated to be \$814,000 and work is expected to be completed by March 31, 2017.

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, 2016:

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

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

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

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

Annual Cost - For the year ended June 30, 2016, the District's gross ARC cost is \$35,039. The District's net OPEB prepaid asset amounted to \$164,348 as of June 30, 2016. The District contributed \$14,226 in age-adjusted contributions for current retiree OPEB premiums during the year ended June 30, 2016.

The balance of OPEB prepaid asset/(payable obligation) at June 30, 2016, consisted of the following:

OPEB prepaid asset / (payable), beginning of year	\$ 174,747
Annual OPEB expense:	
Annual required contribution (ARC)	(35,039)
Interest on net OPEB obligation	10,414
Total annual OPEB expense, net	(24,625)
Change in net OPEB payable obligation:	
Age adjusted contributions made	14,226
Total change in net OPEB payable obligation	(10,399)
OPEB prepaid asset / (payable), end of year	\$ 164,348

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2015 and the four preceding years were as follows:

Fiscal Year Ended	(A) Annual OPEB Cost	(B) Age Adjusted Contribution	(C) CERBT Deposits Paid	[(B)+(C)]/(A) Percentage of Annual OPEB Cost Contributed	Net OPEB Prepaid / (Obligation Payable)
2016	\$ 45,453	\$ 14,226	\$ -	8.66%	\$ 164,348
2015	\$ 36,479	\$ 14,172	\$ -	38.85%	\$ 174,747
2014	\$ (12,753)	\$ 14,000	\$ 17,000	(243.08%)	\$ 197,054
2013	\$ 26,053	\$ 14,480	\$ 204,000	838.60%	\$ 153,301
2012	\$ 50,637	\$ 16,907	\$ 85,000	201.25%	\$ (39,126)

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

**NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015**

NOTE 5 PENSION PLANS

A. General Information about the Pension Plans

Plan Descriptions - 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 Local Government 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 Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>Miscellaneous</u>	
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013*</u>
Hire date	2% @ 60	N/A
Benefit formula	5 years service	N/A
Benefit vesting schedule	Monthly for life	N/A
Benefit payments	50 - 63	N/A
Retirement age	1.092% - 2.418%	N/A
Monthly benefits, as a % of eligible compensation	7%	N/A
Required employee contribution rates	6.709%	N/A
Required employer contribution rates		
	<u>Safety</u>	
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013*</u>
Hire date	2% @ 55	N/A
Benefit formula	5 years service	N/A
Benefit vesting schedule	Monthly for life	N/A
Benefit payments	50 - 55	N/A
Retirement age	1.426% - 2.0%	N/A
Monthly benefits, as a % of eligible compensation	7%	N/A
Required employee contribution rates	11.530%	N/A
Required employer contribution rates		

* No current employees were hired on/after January 1, 2013.

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

**NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015**

NOTE 5 PENSION PLANS (Continued)

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 both Plans is 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.

For the year ended June 30, 2016, the contributions recognized as part of pension expense for the Plan were as follows:

	Miscellaneous	Safety
Contributions - employer	\$ 36,882	\$ 8,936
Contributions - employee (paid by employer)	\$ 17,212	\$ 3,105

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 200,453
Safety	76,909
Total net pension liability	\$ 277,362

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2015, 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, 2014, rolled forward to June 30, 2015, 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.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE 5 PENSION PLANS (Continued)

The District's proportionate share of the net pension liability for each Plan as of June 30, 2015, was as follows:

	Miscellaneous	Safety
Proportion, June 30, 2014	0.00371%	0.00146%
Change - Increase (Decrease)	0.003251%	0.001243%
Proportion, June 30, 2015	0.006961%	0.002703%

For the year ended June 30, 2016 and 2015, the District recognized pension expense of (\$7,829) and \$46,735, respectively. At June 30, 2016, 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	\$ 66,135	\$ -
Differences between actual and expected experience	1,186	-
Changes in assumptions*	-	(23,873)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	19,282	-
Change in proportion	-	(27,311)
Net differences between projected and actual earnings on plan investments	-	(11,991)
Total	\$ 86,603	\$ (63,175)

* Changes of assumptions: the discount rate was exchanged from the 7.5% (net of administrative expense) to 7.65% to correct for an adjustment to exclude administrative expenses.

\$66,135 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ending June 30,			
2017		\$	(21,062)
2018			(17,648)
2019			(3,997)
		\$	(42,707)

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE 5 PENSION PLANS (Continued)

Actuarial Assumptions - The total pension liabilities for fiscal year 2014-2015 were derived from the June 30, 2012, funding valuation report and were determined using the following actuarial assumptions:

	Miscellaneous	Safety
Valuation date	June 30, 2014	June 30, 2014
Measurement date	June 30, 2015	June 30, 2015
Actuarial cost method	Entry-Age Normal Cost Method	
<i>Actuarial assumptions:</i>		
Discount rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll growth	3%	3%
Projected salary increase	(1)	(1)
Investment rate of return	7.5% (2)	7.5% (2)
Mortality	(3)	(3)

- (1) Varies by entry age and service
- (2) Net of pension plan investment expenses, including inflation
- (3) Derived using CalPERS membership data

The underlying mortality assumptions and all other actuarial assumptions used in the valuation were based on the results of a 2010 CalPERS experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate - The discount rate used to measure the total pension liability was 7.65% for the Plans. 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 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 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 7.65 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 7.5 percent.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

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 2017-18 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 (geometric) returns were calculated 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 (a)</u>	<u>Real Return Years 11+ (b)</u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE 5 PENSION PLANS (Continued)

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:

	Miscellaneous	Safety
1% Decrease	6.65%	6.65%
Net Pension Liability	\$ 336,174	\$ 123,311
Current Discount Rate	7.65%	7.65%
Net Pension Liability	\$ 200,453	\$ 76,909
1% Increase	8.65%	8.65%
Net Pension Liability	\$ 88,400	\$ 38,860

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

E. Payable to the Pension Plan

At June 30, 2016 and 2015, respectively, the District reported a payable of \$259 and \$5,148 for the outstanding amount of contributions to the pension plans required for the years ended June 30, 2016 and 2015.

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

As described in Note 1, Net Position and Fund Balance the District has reserved certain equity amounts to be used for particular purposes as follows as of June 30, 2016:

	Governmental Activities	Business-type Activities (Board- designed fund equity)	Total
Capital projects	\$ 100,000	\$ 257,936	\$ 357,936
Customer deposits	-	7,188	7,188
Accrued vacation	34,196	28,075	62,271
Main replacements	-	35,000	35,000
Vehicle replacements	30,000	30,000	60,000
Emergency reserves	375,000	375,000	750,000
Other reserves	269,732	-	269,732
	\$ 808,928	\$ 733,199	\$ 1,542,127
	Assigned		
Compensated absences	\$ 27,740		

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE 7 PROPERTY TAXES

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

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

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

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

Effective July 1, 1993, the District, in addition to other districts, entered into an agreement (hereafter known as the "Teeter Plan") with the County of Marin whereby the County agreed to purchase without recourse all previously outstanding (net of all adjustments) secured delinquent property tax and special assessment receivables, penalties and interest of the districts as of June 30, 1993. Additionally, the County agreed to advance each district its share of the annual gross levy of secured property taxes and special assessments (net of adjustments) billed through the County's Tax Collector for the fiscal year ended June 30, 1996, and for each subsequent fiscal year of the agreement. In consideration, the District gives the County of Marin its right to penalties and interest on delinquent property tax receivables and actual proceeds collected. This agreement is still operational as of the fiscal year ended June 30, 2016.

NOTE 8 PRIOR PERIOD ADJUSTMENT

In June 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, to revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The new standard was effective for the year ended June 30, 2015.

As a result of the implementation of this new accounting pronouncement, a prior period adjustment of \$339,681 was recorded, reducing the total net position as of June 30, 2014.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE 9 RELATED PARTY TRANSACTIONS

The District employs a relative of a member of management staff. This transaction is approved annually by the Board of Directors as part of the budget process. For the years ended June 30, 2016 and 2015, \$75,441 and \$72,471, respectively, was paid in salaries under his employment.

NOTE 10 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Special District Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs from California Special Districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2015, 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.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE 10 RISK MANAGEMENT (Continued)

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 2016 and 2015. 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, 2016 or 2015.

NOTE 11 COMMITMENTS AND CONTINGENCIES

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

Marin Emergency Radio Authority - During fiscal year 1999, the District became a member of the Marin Emergency Radio Authority (Authority). The Authority is a joint exercise of powers agency created on February 28, 1998, pursuant to the California Government Code and a Joint Powers Agreement, by and among the County of Marin and twenty-five local agencies within the County (collectively, the “Members”). The Authority’s purpose is to plan, finance, implement, manage, own and operate a multi-jurisdictional and County-wide public safety and emergency radio system. During 1999, the Authority issued bonds to finance the acquisition and installation of a County-wide public safety and emergency radio system (the “Project”), to fund a reserve fund, to fund capitalized interest on the 1999 bonds and to pay the costs incurred in issuing the 1999 bonds. The Project will be owned and operated by the Authority. The Members will use the radio service provided by the Project to carry out public safety and emergency functions in their individual service areas. The 1999 bonds are special obligations of the Authority payable solely from revenues consisting generally of the service payments to be made by the County and the Members within the County under an operating agreement. Scheduled payments began in August 2001. In addition, the District is obligated to pay a share of the Authority’s annual operating costs. For the years ended June 30, 2016 and 2015, the operating costs associated with the District’s participation in the Authority were \$9,024 and \$8,508, respectively.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE 11 COMMITMENTS AND CONTINGENCIES (Continued)

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 12 CONCENTRATION OF CREDIT RISK

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. Within the District's deposit portfolio with governmental agencies as of June 30, 2016, LAIF is 90% of the District's total depository and investment portfolio. There were no investments in any one non-governmental issuer that represents 5% or more of the District's total investments.

SUPPLEMENTARY INFORMATION

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For the year ended June 30, 2016

	Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Budgetary Basis	Variance Positive (Negative)
REVENUES					
Property taxes	\$ 404,288	\$ -	\$ 404,288	\$ 446,980	\$ 42,692
Grant revenue	7,490	-	7,490	-	(7,490)
Interest earnings	3,800	-	3,800	12,173	8,373
Special assessments	68,000	-	68,000	68,270	270
Other	3,100	-	3,100	3,260	160
Total revenues	<u>486,678</u>	<u>-</u>	<u>486,678</u>	<u>530,683</u>	<u>44,005</u>
EXPENDITURES					
Salaries and benefits	344,075	-	344,075	282,933	61,142
Dispatch and communications	25,000	-	25,000	26,429	(1,429)
Repairs and maintenance	2,500	-	2,500	780	1,720
Professional services	2,700	-	2,700	-	2,700
Supplies and inventory	12,500	-	12,500	9,776	2,724
Training and education	-	-	-	1,412	(1,412)
Fuel reduction and fire prevention program	23,000	-	23,000	5,140	17,860
Utilities	3,000	-	3,000	3,169	(169)
Vehicle operation	8,000	-	8,000	7,007	993
General and administrative	41,095	-	41,095	49,370	(8,275)
Capital outlay	-	-	-	-	-
Total expenditures	<u>461,870</u>	<u>-</u>	<u>461,870</u>	<u>386,016</u>	<u>75,854</u>
Net change in fund balance	24,808	<u>\$ -</u>	24,808	144,667	<u>\$ 119,859</u>
Fund balance, beginning of year	<u>1,243,681</u>		<u>1,243,681</u>	<u>1,712,502</u>	
Fund balance, end of year	<u>\$ 1,268,489</u>		<u>\$ 1,268,489</u>	<u>\$ 1,857,169</u>	

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
As of June 30, 2015 and 2014
Last 10 Years*

	2016	
	<u>Miscellaneous</u>	<u>Safety</u>
Proportion of the net pension liability	0.006961%	0.002703%
Proportionate share of the net pension liability	\$200,453	\$76,909
Covered - employee payroll	\$236,606	\$44,712
Proportionate Share of the net pension liability as percentage of covered-employee payroll	84.72%	172.01%
Plan's fiduciary net position	\$748,994	\$413,192
Plan fiduciary net position as a percentage of the total pension liability	78.89%	84.31%
	2015	
	<u>Miscellaneous</u>	<u>Safety</u>
Proportion of the net pension liability	0.00371%	0.00146%
Proportionate share of the net pension liability	\$231,036	\$90,873
Covered - employee payroll	\$257,863	\$87,737
Proportionate Share of the net pension liability as percentage of covered-employee payroll	89.60%	103.57%
Plan's fiduciary net position	\$662,813	\$399,237
Plan fiduciary net position as a percentage of the total pension liability	74.15%	81.46%

* Fiscal year 2015 was the 1st year of implementation; therefore only two years are shown

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

SCHEDULE OF PENSION CONTRIBUTIONS
As of June 30, 2016 and 2015
Last 10 Years*

	2016	
	Miscellaneous	Safety
Contractually required contribution (actuarially determined)	\$ 54,094	\$ 12,041
Contributions in relation to the actuarially determined contributions	54,094	12,041
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 236,606	\$ 44,712
Contributions as a percentage of covered-employee payroll	22.86%	26.93%
	2015	
	Miscellaneous	Safety
Contractually required contribution (actuarially determined)	\$ 31,622	\$ 6,663
Contributions in relation to the actuarially determined contributions	31,622	6,663
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 257,863	\$ 87,737
Contributions as a percentage of covered-employee payroll	12.26%	7.59%
Notes to Schedule		
Valuation date	6/30/2013	6/30/2013
Methods and assumptions used to determine contribution rates:		
Single and Agent Employers Example	Entry age	Entry age
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed
Remaining amortization period	5 years	5 years
Asset valuation method	5-year straight-line	5-year straight-line
Inflation	2.75%	2.75%
Salary increases	Varies by entry age and service	Varies by entry age and service
Investment rate of return	7.75%, net of pension plan investment expense, including inflation	7.75%, net of pension plan investment expense, including inflation
Retirement age	50-63	50-55
Mortality	Derived from CalPERS' Membership Data	Derived from CalPERS' Membership Data

* Fiscal year 2015 was the 1st year of implementation; therefore only two years are shown

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

**SCHEDULE OF FUNDING STATUS - OTHER POST-EMPLOYMENT BENEFITS OBLIGATION
For the year ended June 30, 2016**

Funded Status and Funding Progress of the Plan

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

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/10	\$ -	\$ 586,436	\$ 586,436	0.00%	\$ 269,460	217.63%
6/30/13	\$ 306,000	\$ 545,921	\$ 239,921	56.05%	\$ 285,862	83.93%
6/30/15	\$ 359,218	\$ 554,211	\$ 184,993	64.82%	\$ 321,310	60.69%

The most recent valuation (dated June 30, 2015) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$554,211.

Actuarial Methods and Assumptions

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

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

Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	30 Years as of the Valuation Date
Asset Valuation Method	30 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	6.125%
Projected Salary Increases	2.000%
Inflation - Discount Rate	6.125%
Individual Salary Growth	District annual COLA

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - WATER ENTERPRISE FUND
For the year ended June 30, 2016

	Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Accrual Basis	Variance Positive (Negative)
OPERATING REVENUES					
Water consumption sales	\$ 75,000	\$ -	\$ 75,000	\$ 92,637	\$ 17,637
Readiness-to-serve charges	305,400	-	305,400	310,384	4,984
Other revenue	2,300	-	2,300	11,792	9,492
Total operating revenues	<u>382,700</u>	<u>-</u>	<u>382,700</u>	<u>414,813</u>	<u>32,113</u>
OPERATING EXPENSES					
Collection and treatment	15,000	-	15,000	14,366	634
Laboratory and monitoring	9,800	-	9,800	15,577	(5,777)
Storage and distribution	14,000	-	14,000	15,199	(1,199)
Supplies and inventory	16,000	-	16,000	22,257	(6,257)
Vehicle operation	8,000	-	8,000	5,588	2,412
Training and licensing	1,000	-	1,000	2,837	(1,837)
General and administrative	276,056	-	276,056	233,751	42,305
Total operating expenses	<u>339,856</u>	<u>-</u>	<u>339,856</u>	<u>309,575</u>	<u>30,281</u>
Operating income before general revenues and depreciation	42,844	-	42,844	105,238	62,394
Interest, gain and losses	-	-	-	4,556	4,556
Depreciation expense	(51,247)	-	(51,247)	(52,953)	(1,706)
Change in net assets	(8,403)	<u>\$ -</u>	(8,403)	56,841	<u>\$ 65,244</u>
Net assets, beginning of year	<u>1,423,327</u>		<u>1,423,327</u>	<u>1,477,359</u>	
Net assets, end of year	<u>\$ 1,414,924</u>		<u>\$ 1,414,924</u>	<u>\$ 1,534,200</u>	



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Inverness Public Utility District (a California Special District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 13, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Doran & Associates

January 13, 2017