

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

BASIC
FINANCIAL STATEMENTS

For the Year Ended
June 30, 2017

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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 year ended June 30, 2017, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Minimum Audit Requirements for Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Inverness Public Utility District as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America and the State Controller's *Minimum Audit Requirements for Special Districts*.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension plan information, schedule of funding status-other post-employment benefits obligation, and budgetary comparison information on pages 3-6 and 37-42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2018, 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

May 8, 2018

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2017**

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, 2017. We encourage readers to consider the information presented here in conjunction with the Independent Auditor's Report and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- Net position decreased 0.7%, or \$25,509 to \$3,381,477 as a result of this year's operations and increase in expenses.
- Total revenues increased 2.5%, or \$23,740 from the prior year.
- Total expenses increased by 33.5%, or \$250,537, primarily due to employment costs.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies. The Statement of Net Position 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 Statement of Activities. These statements measure the success of the District's operations and can be used to determine the District's profitability and credit worthiness.

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

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

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

**INVERNESS PUBLIC UTILITY DISTRICT
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2017**

Fund Financial Statements

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance 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 16 through 35.

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 37 through 42.

Government-wide Financial Analysis

Statement of Net Position

The following table is a condensed summary of the statements of net position at June 30, 2017, with prior year comparative information:

	Governmental Activities		Business-type Activities		Total District	
	2017	2016	2017	2016	2017	2016
Assets:						
Current and other assets	\$ 1,907,178	\$ 1,859,335	\$ (102,648)	\$ (60,675)	\$ 1,804,530	\$ 1,798,660
Capital assets, net	36,661	45,497	1,768,965	1,770,677	1,805,626	1,816,174
Deferred outflows of resources	145,069	103,459	178,842	147,492	323,911	250,951
Total assets and deferred outflows of resources	2,088,908	2,008,291	1,845,159	1,857,494	3,934,067	3,865,785
Liabilities:						
Current liabilities	19,124	2,166	906	-	20,030	2,166
Non-current liabilities	146,429	104,649	287,625	228,193	434,054	332,842
Total liabilities	165,553	106,815	288,531	228,193	454,084	335,008

**INVERNESS PUBLIC UTILITY DISTRICT
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2017**

Statement of Net Position (Continued)

	Governmental Activities		Business-type Activities		Total District	
	2017	2016	2017	2016	2017	2016
Deferred inflows of resources	24,791	28,690	73,715	95,101	98,506	123,791
Net position:						
Net investment in capital assets	36,661	45,497	1,768,965	1,770,677	1,805,626	1,816,174
Board-designated / committed net position	808,928	808,928	756,900	733,199	1,565,828	1,542,127
Unrestricted	1,052,975	1,018,361	(1,042,952)	(969,670)	10,023	48,685
Total net position	<u>\$ 1,898,564</u>	<u>\$ 1,872,786</u>	<u>\$ 1,482,913</u>	<u>\$ 1,534,200</u>	<u>\$ 3,381,477</u>	<u>\$ 3,406,986</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 \$3,381,477 as of June 30, 2017. Compared to the prior year, net position of the District decreased by 0.7% or \$25,509. 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 statement of activities for the year ended June 30, 2017, with prior year comparative information:

	Governmental Activities		Business-type Activities		Total District	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 68,142	\$ 68,270	\$ 391,606	\$ 414,813	\$ 459,748	\$ 483,083
Operating grants, etc.	2,304	3,260	-	-	2,304	3,260
General revenues:						
Property taxes	484,970	446,980	-	-	484,970	446,980
Interest gains and losses	13,385	12,173	13,385	4,556	26,770	16,729
Total revenues	<u>568,801</u>	<u>530,683</u>	<u>404,991</u>	<u>419,369</u>	<u>973,792</u>	<u>950,052</u>
Expenses:						
District operations and fire protection	543,023	386,236	-	-	543,023	386,236
Water	-	-	456,278	362,528	456,278	362,528
Total expenses	<u>543,023</u>	<u>386,236</u>	<u>456,278</u>	<u>362,528</u>	<u>999,301</u>	<u>748,764</u>
Change in net position	25,778	144,447	(51,287)	56,841	(25,509)	201,288
Net position, beginning 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>
Net position, end of year	<u>\$ 1,898,564</u>	<u>\$ 1,872,786</u>	<u>\$ 1,482,913</u>	<u>\$ 1,534,200</u>	<u>\$ 3,381,477</u>	<u>\$ 3,406,986</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2017**

Statement of Activities (Continued)

Governmental and Business-type activities decreased the District's net position by \$25,509, thereby accounting for the 0.7% decrease in the net position of the District. The District's total revenues increased 2.5% or \$23,740 from the prior year. In addition, the District's total expenses increased by 33.5% or \$250,537 primarily due to increases in employment costs.

Capital Asset Administration

	Governmental Activities		Business-type Activities		Total District	
	2017	2016	2017	2016	2017	2016
Capital assets:						
Non-depreciable assets	\$ -	\$ -	\$ 140,433	\$ 879,773	\$ 140,433	\$ 879,773
Depreciable assets	<u>905,518</u>	<u>905,518</u>	<u>3,745,475</u>	<u>2,932,022</u>	<u>4,650,993</u>	<u>3,837,540</u>
Total capital assets	905,518	905,518	3,885,908	3,811,795	4,791,426	4,717,313
Accumulated depreciation	<u>(868,857)</u>	<u>(860,021)</u>	<u>(2,116,943)</u>	<u>(2,041,118)</u>	<u>(2,985,800)</u>	<u>(2,901,139)</u>
Total capital assets, net	<u>\$ 36,661</u>	<u>\$ 45,497</u>	<u>\$ 1,768,965</u>	<u>\$ 1,770,677</u>	<u>\$ 1,805,626</u>	<u>\$ 1,816,174</u>

At June 30, 2017, the District's investment in capital assets amounted to \$1,805,626, 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 has addressed this requirement by improving its treatment process. These improvements involved replacing aging filter units, and adding advanced Nano-filtration Units. This project was placed in service in the year ended June 30, 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 Districts financial operations and financial conditions. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager at 50 Inverness Way, Inverness, California 94937 or (415) 669-1414.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash, cash equivalents and investments (Notes 1 and 2)	\$ 1,902,131	\$ (177,802)	\$ 1,724,329
Prepaid expenses	4,352	7,051	11,403
Accounts receivable (Note 1)	-	68,103	68,103
Property taxes receivable	695	-	695
Total current assets	<u>1,907,178</u>	<u>(102,648)</u>	<u>1,804,530</u>
Capital assets, net of accumulated depreciation of \$2,985,800 (Notes 1 and 3)	36,661	1,768,965	1,805,626
Total assets	<u>1,943,839</u>	<u>1,666,317</u>	<u>3,610,156</u>
Deferred outflows of resources:			
Prepaid other post-employment benefits (Note 4)	96,994	73,735	170,729
Pension plan (Note 5)	48,075	105,107	153,182
Total deferred outflows of resources	<u>145,069</u>	<u>178,842</u>	<u>323,911</u>
Total assets and deferred outflows of resources	<u>\$ 2,088,908</u>	<u>\$ 1,845,159</u>	<u>\$ 3,934,067</u>
LIABILITIES AND NET POSITION			
Current liabilities:			
Accounts payable and accrued expenses	\$ 19,124	\$ 906	\$ 20,030
Total current liabilities	<u>19,124</u>	<u>906</u>	<u>20,030</u>
Accrued compensated absences	39,500	40,929	80,429
Net pension liability (Note 5)	106,929	246,696	353,625
Total liabilities	<u>165,553</u>	<u>288,531</u>	<u>454,084</u>
Deferred inflows of resources:			
Deferred revenue (Note 1)	-	60,949	60,949
Pension plan (Note 5)	24,791	12,766	37,557
Total deferred inflows of resources	<u>24,791</u>	<u>73,715</u>	<u>98,506</u>
Net position (Note 1):			
Net investment in capital assets	36,661	1,768,965	1,805,626
Board-designated/committed net position (Note 6)	808,928	756,900	1,565,828
Unrestricted net position	1,052,975	(1,042,952)	10,023
Total net position	<u>1,898,564</u>	<u>1,482,913</u>	<u>3,381,477</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 2,088,908</u>	<u>\$ 1,845,159</u>	<u>\$ 3,934,067</u>

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

**STATEMENT OF ACTIVITIES
For the year ended June 30, 2017**

	Governmental Activities: District Operations and Fire Protection	Business-Type Activities: Water- Enterprise Fund	Total
EXPENSES	<u>\$ 543,023</u>	<u>\$ 456,278</u>	<u>\$ 999,301</u>
PROGRAM REVENUES			
Charges for services	68,142	391,606	459,748
Operating grants, contributions, and other revenue	<u>2,304</u>	<u>-</u>	<u>2,304</u>
	<u>70,446</u>	<u>391,606</u>	<u>462,052</u>
Net Operating (Expense) Revenue	<u>(472,577)</u>	<u>(64,672)</u>	<u>(537,249)</u>
GENERAL REVENUES			
Property taxes (Note 7)	484,970	-	484,970
Interest, gain, and (loss)	<u>13,385</u>	<u>13,385</u>	<u>26,770</u>
Total general revenues	<u>498,355</u>	<u>13,385</u>	<u>511,740</u>
Change in net position	25,778	(51,287)	(25,509)
Total net position, beginning of year	<u>1,872,786</u>	<u>1,534,200</u>	<u>3,406,986</u>
Total net position, end of year	<u>\$ 1,898,564</u>	<u>\$ 1,482,913</u>	<u>\$ 3,381,477</u>

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

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

**BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2017**

	<u>Major Funds</u> General Fund	<u>Total</u> Governmental Funds
ASSETS		
Current assets:		
Cash, cash equivalents, and investments	\$ 1,902,131	\$ 1,902,131
Prepaid expenses	4,352	4,352
Property taxes receivable	695	695
Total assets	\$ 1,907,178	\$ 1,907,178
LIABILITIES AND FUND BALANCES		
Current liabilities:		
Accounts payable	\$ 19,124	\$ 19,124
Total liabilities	19,124	19,124
Fund balances:		
Committed (Note 6)	808,928	808,928
Assigned (Note 6)	39,500	39,500
Unassigned	1,039,626	1,039,626
Total fund balances	1,888,054	1,888,054
Total liabilities and fund balances	\$ 1,907,178	\$ 1,907,178

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2017

Total fund balances - total governmental funds	<u>\$ 1,888,054</u>
Amounts reported for Governmental Activities on the Statement of Net Position are different because:	
Deferred outflows of resources related to prepaid other post-employment benefits (OPEB) are not reported on the Balance Sheet - Governmental Funds	<u>96,994</u>
Capital assets used in governmental activities are not current financial resources. Therefore, they are not reported on the Balance Sheet - Governmental Funds:	
Capital assets	905,518
Less: accumulated depreciation	<u>(868,857)</u>
	<u>36,661</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>48,075</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>(39,500)</u>
Net pension liability does not require current financial resources; therefore it is not reported on the Balance Sheet - Governmental Funds	<u>(106,929)</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>(24,791)</u>
Total net position	<u>\$ 1,898,564</u>

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

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

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the year ended June 30, 2017**

	Major Funds General Fund	Total Governmental Funds
REVENUES:		
Property taxes	\$ 484,970	\$ 484,970
Special assessments	68,142	68,142
Interest earnings	13,385	13,385
Other	2,304	2,304
Total revenue	568,801	568,801
EXPENDITURES		
Salaries and benefits	389,013	389,013
Dispatch and communications	35,677	35,677
Repairs and maintenance	6,195	6,195
Office and administration	73,334	73,334
Supplies and inventory	10,986	10,986
Training and education	2,882	2,882
Fuel reduction and fire prevention program	6,395	6,395
Utilities	5,066	5,066
Vehicle operation	8,368	8,368
Total expenditures	537,916	537,916
Net change in fund balances	30,885	30,885
Fund balances, beginning of year	1,857,169	1,857,169
Fund balances, end of year	\$ 1,888,054	\$ 1,888,054

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE GOVERNMENTAL-WIDE STATEMENT OF ACTIVITIES**
For the year ended June 30, 2017

Net change in fund balances - total governmental funds \$ 30,885

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>(8,836)</u>
	<u>(8,836)</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>(11,760)</u>
Net change in other post-employment benefits prepaid	<u>3,190</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	3,899
Net pension liability	(30,020)
Deferred inflows of resources	<u>38,420</u>
	<u>12,299</u>

Change in net position \$ 25,778

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Special District)

STATEMENT OF NET POSITION - WATER ENTERPRISE FUND
June 30, 2017

ASSETS

Current assets:	
Cash, cash equivalents, and investments	\$ (177,802)
Prepaid expenses	7,051
Accounts receivable	68,103
Total current assets	<u>(102,648)</u>
Capital assets, net of accumulated depreciation of \$2,116,943	<u>1,768,965</u>
Total assets	<u>1,666,317</u>
Deferred outflows of resources:	
Prepaid other post-employment benefits	73,735
Pension plan expenses	105,107
Total deferred outflows of resources	<u>178,842</u>
Total assets and deferred outflows of resources	<u>\$ 1,845,159</u>

LIABILITIES AND NET POSITION

Current liabilities:	
Accounts payable and accrued expenses	\$ 906
Total current liabilities	<u>906</u>
Accrued compensated absences	40,929
Net pension liability	<u>246,696</u>
Total liabilities	<u>288,531</u>
Deferred inflows of resources:	
Deferred revenue	60,949
Pension plan	12,766
Total deferred inflows of resources	<u>73,715</u>
Net position:	
Net investment in capital assets	1,768,965
Board-designated	756,900
Unrestricted	(1,042,952)
Total net position	<u>1,482,913</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 1,845,159</u>

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

STATEMENT OF REVENUES, EXPENSES AND FUND EQUITY-
WATER ENTERPRISE FUND
For the year ended June 30, 2017

OPERATING REVENUES	
Water consumption sales	\$ 76,347
Readiness-to-serve charges	313,285
Other revenue	<u>1,974</u>
Total operating revenues	<u>391,606</u>
OPERATING EXPENSES	
Collection and treatment	46,564
Laboratory and monitoring	8,317
Storage and distribution	18,392
Supplies and inventory	13,509
Vehicle operation	5,064
Training and licensing	2,005
General and administrative	<u>286,602</u>
Total operating expenses	<u>380,453</u>
Operating income before general revenues and depreciation	11,153
GENERAL REVENUES	
Interest, gains, and losses	13,385
Depreciation	<u>(75,825)</u>
Change in net position	(51,287)
Total net position, beginning of year	<u>1,534,200</u>
Total net position, end of year	<u>\$ 1,482,913</u>

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

STATEMENT OF CASH FLOWS - WATER ENTERPRISE FUND
For the year ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 405,451
Cash paid to employees	(266,738)
Cash paid to suppliers and vendors	(113,497)
Net cash provided by operating activities	<u>25,216</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>13,385</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES	
Acquisition and construction of capital assets	<u>(74,113)</u>
Decrease in cash and cash equivalents	(35,512)
Cash and cash equivalents, beginning of year	<u>(142,290)</u>
Cash and cash equivalents, end of year	<u><u>\$ (177,802)</u></u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net operating income	<u>\$ (51,287)</u>
Depreciation	75,825
Interest income reported as investing activity	(13,385)
Changes in assets and liabilities:	
Accounts receivable	13,512
Prepaid expenses	(7,051)
Prepaid other post-employment benefits	(3,191)
Deferred outflows of resources, pension plan	(28,159)
Accounts payable and accrued expenses	906
Deferred revenue	333
Accrued benefits payable	13,189
Net pension liability	46,243
Deferred inflows of resources, pension plan	(21,719)
Total adjustments	<u>76,503</u>
Net cash provided by operating activities	<u><u>\$ 25,216</u></u>

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Government-wide Financial Statements- These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting for both governmental and business-like activities. Accordingly, all of the District's assets and liabilities, including capital assets, are included in the accompanying Statement of Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred. The Statement of Activities 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.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

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

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

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

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

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

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.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

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

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

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

The funds of the financial reporting entity are described below:

Governmental Fund:

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

Proprietary Fund:

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

Net 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.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

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

Fund Balance (Continued) -

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

The Board of Directors 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.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

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

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.

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

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

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

Capital Assets - Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for recording capital assets at \$1,000 (\$3,000 prior to June 30, 2017). Donated assets are recorded at estimated fair market value at the date of donation and/or historical cost. Upon retirement or other disposition of capital assets, the cost and related accumulation depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Governmental Activities

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

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

Capital Assets (Continued) -

Business-Type Activities

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

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

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

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

Local Agency Investment Fund

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

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

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.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

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

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.

New Accounting Pronouncements to be Adopted in the Future - In June 2015 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, to revise and establish new financial reporting requirements for many governments that provide their employees with postemployment benefits. The new standard is effective for the year ending June 30, 2018. The District is currently evaluating the effect that implementation of the new standard will have on its statement of net position and statement of activities.

Subsequent Events - Subsequent events have been evaluated through May 8, 2018, which is the date the financial statements were available to be issued.

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, 2017, the balances were as follows:

Deposits held with financial institutions	\$ 158,500
Deposits held with LAIF	<u>1,565,829</u>
Total cash, cash equivalents, and investments	<u>\$ 1,724,329</u>

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

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

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 3 CAPITAL ASSETS

Capital assets consisted of the following at June 30, 2017:

Governmental Activities

	Balance 2016	Additions	Deletions/ Transfers	Balance 2017
<u>Depreciable assets</u>				
Buildings	\$ 227,528	\$ -	\$ -	\$ 227,528
Tankers and vehicles	381,811	-	-	381,811
Furnishings and equipment	<u>296,179</u>	<u>-</u>	<u>-</u>	<u>296,179</u>
Total depreciable assets	<u>905,518</u>	<u>-</u>	<u>-</u>	<u>905,518</u>
<u>Accumulated depreciation</u>				
Buildings	(209,808)	(3,739)	-	(213,547)
Tankers and vehicles	(364,320)	(4,797)	-	(369,117)
Furnishings and equipment	<u>(285,893)</u>	<u>(300)</u>	<u>-</u>	<u>(286,193)</u>
Total accumulated depreciation	<u>(860,021)</u>	<u>(8,836)</u>	<u>-</u>	<u>(868,857)</u>
Total capital assets, net	<u>\$ 45,497</u>	<u>\$ (8,836)</u>	<u>\$ -</u>	<u>\$ 36,661</u>

Depreciation expense under governmental activities (district operations and fire protection) totaled \$8,836.

Business-Type Activities

	Balance 2016	Additions	Deletions/ Transfers	Balance 2017
<u>Non-depreciable assets</u>				
Land	\$ 66,320	\$ -	\$ -	\$ 66,320
Construction in progress	<u>813,453</u>	<u>74,113</u>	<u>(813,453)</u>	<u>74,113</u>
Total non-depreciable assets	<u>879,773</u>	<u>74,113</u>	<u>(813,453)</u>	<u>140,433</u>
<u>Depreciable assets</u>				
Collection system	352,967	-	-	352,967
Distribution system	979,222	-	-	979,222
Tanks	625,434	-	-	625,434
Water treatment	814,270	-	813,453	1,627,723
Wells	71,499	-	-	71,499
Vehicles and equipment	<u>88,630</u>	<u>-</u>	<u>-</u>	<u>88,630</u>
Total depreciable assets	<u>2,932,022</u>	<u>-</u>	<u>813,453</u>	<u>3,745,475</u>

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 3 CAPITAL ASSETS (Continued)

<u>Accumulated depreciation</u>	<u>Balance</u> 2016	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance</u> 2017
Collection system	(244,562)	(9,067)	-	(253,629)
Distribution system	(684,766)	(16,234)	-	(701,000)
Tanks	(212,861)	(15,520)	-	(228,381)
Water treatment	(753,823)	(32,819)	-	(786,642)
Wells	(61,774)	(1,375)	-	(63,149)
Vehicles and equipment	(83,332)	(810)	-	(84,142)
Total accumulated depreciation	<u>(2,041,118)</u>	<u>(75,825)</u>	<u>-</u>	<u>(2,116,943)</u>
Total depreciable assets, net	<u>890,904</u>	<u>(75,825)</u>	<u>-</u>	<u>1,628,532</u>
Total capital assets, net	<u>\$ 1,770,677</u>	<u>\$ (1,712)</u>	<u>\$ -</u>	<u>\$ 1,768,965</u>

Depreciation expense under business-type activities (retail water enterprise) totaled \$75,825.

Construction in Progress

The District has been involved in a construction project for business-type activities throughout the year. The balance of the construction project that comprises the construction in progress balance at June 30, 2017, is as follows:

Tank repair and replacement	<u>\$ 74,113</u>
-----------------------------	------------------

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, 2017:

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

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

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

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

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

Annual Cost - For the year ended June 30, 2017, the District's gross ARC cost is \$34,561. The District's net OPEB prepaid asset amounted to \$170,729 as of June 30, 2017. The District contributed \$14,172 in age-adjusted contributions for current retiree OPEB premiums during the year ended June 30, 2017.

The balance of OPEB prepaid asset/(payable obligation) at June 30, 2017, consisted of the following:

OPEB prepaid asset / (payable), beginning of year	\$ 164,348
Annual OPEB expense:	
Annual required contribution (ARC)	(34,561)
Interest on net OPEB obligation	26,770
Total annual OPEB expense, net	<u>(7,791)</u>
Change in net OPEB payable obligation:	
Age adjusted contributions made	<u>14,172</u>
Total change in net OPEB payable obligation	<u>6,381</u>
OPEB prepaid asset / (payable), end of year	<u>\$ 170,729</u>

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

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

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 2017 and the five 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)
2017	\$ 61,331	\$ 14,172	\$ -	23.11%	\$ 170,729
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)

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.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 5 PENSION PLANS (Continued)

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

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

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, 2017, the contributions recognized as part of pension expense for the Plan were as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Contributions - employer	<u>\$ 7,189</u>	<u>\$ 14,991</u>
Contributions - employee (paid by employer)	<u>\$ 1,329</u>	<u>\$ 8,610</u>

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 5 PENSION PLANS (Continued)

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$ 246,696
Safety	106,929
Total net pension liability	<u>\$ 353,625</u>

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, 2016, 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, 2015, rolled forward to June 30, 2016, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for each Plan as of June 30, 2016, was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion, June 30, 2015	0.006961%	0.002703%
Change - Increase (Decrease)	0.000109%	(0.000053%)
Proportion, June 30, 2016	0.007070%	0.002650%

For the year ended June 30, 2017, the District recognized pension expense of \$64,106. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 22,370	\$ -
Differences between actual and expected experience	1,317	(1,008)
Changes in assumptions	-	(15,540)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	49,511	(3,452)
Change in proportion	-	(17,557)
Net differences between projected and actual earnings on plan investments	<u>79,984</u>	<u>-</u>
Total	<u>\$ 153,182</u>	<u>\$ (37,557)</u>

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 5 PENSION PLANS (Continued)

\$22,370 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, 2018. 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,	
2018	\$ 12,757
2019	14,985
2020	44,780
2021	20,733
	\$ 93,255

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

	Miscellaneous	Safety
Valuation date	June 30, 2015	June 30, 2015
Measurement date	June 30, 2016	June 30, 2016
Actuarial cost method	Entry-Age Normal Cost Method	
Actuarial assumptions:		
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.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 5 PENSION PLANS (Continued)

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.

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.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 5 PENSION PLANS (Continued)

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	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-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.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.65%	6.65%
Net Pension Liability	<u>\$ 383,736</u>	<u>\$ 175,136</u>
Current Discount Rate	7.65%	7.65%
Net Pension Liability	<u>\$ 246,696</u>	<u>\$ 106,929</u>
1% Increase	8.65%	8.65%
Net Pension Liability	<u>\$ 133,439</u>	<u>\$ 50,937</u>

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, 2017, the District reported a payable of \$259 for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2017.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

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, 2017:

	Governmental Activities	Business-type Activities	
	Committed fund balance	Board- designed fund equity	Total
Capital projects	\$ 100,000	\$ 281,637	\$ 381,637
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	\$ 756,900	\$ 1,565,828
	Assigned		
Compensated absences	\$ 39,500		

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.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 7 **PROPERTY TAXES (Continued)**

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 **RELATED PARTY TRANSACTIONS**

The District employs a relative of a member of management staff. This transaction is approved annually by the Board of Directors as part of the budget process. For the year ended June 30, 2017, \$80,019 was paid in salaries under his employment.

NOTE 9 **RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Special District Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs from California Special Districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2017, the District participated in the liability and property programs of the SDRMA as follows:

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

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

- Employee dishonesty coverage up to \$400,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$1.0 billion per occurrence, subject to a \$2,000 deductible per occurrence.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 9 RISK MANAGEMENT (Continued)

- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible per occurrence.
- Public officials personal liability up to \$500,000 each occurrence, with an annual aggregate of \$100,000 per each elected/appointed official to which this coverage applies, subject to the terms, with a deductible of \$500 per claim. Workers' compensation insurance up to \$100 million per occurrence and Employer's Liability Coverage up to \$5 million.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. There were no reductions in insurance coverage in fiscal years 2017 and 2016. 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, 2017.

NOTE 10 COMMITMENTS AND CONTINGENCIES

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

Marin Emergency Radio Authority - During fiscal year 1999, the District became a member of the Marin Emergency Radio Authority (Authority). The Authority is a joint exercise of powers agency created on February 28, 1998, pursuant to the California Government Code and a Joint Powers Agreement, by and among the County of Marin and twenty-five local agencies within the County (collectively, the "Members"). The Authority's purpose is to plan, finance, implement, manage, own and operate a multi-jurisdictional and County-wide public safety and emergency radio system. During 1999, the Authority issued bonds to finance the acquisition and installation of a County-wide public safety and emergency radio system (the "Project"), to fund a reserve fund, to fund capitalized interest on the 1999 bonds and to pay the costs incurred in issuing the 1999 bonds. The Project will be owned and operated by the Authority. The Members will use the radio service provided by the Project to carry out public safety and emergency functions in their individual service areas. The 1999 bonds are special obligations of the Authority payable solely from revenues consisting generally of the service payments to be made by the County and the Members within the County under an operating agreement. Scheduled payments began in August 2001. In addition, the District is obligated to pay a share of the Authority's annual operating costs. For the year ended June 30, 2017, the operating costs associated with the District's participation in the Authority were \$18,991.

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 10 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 11 CONCENTRATION OF CREDIT RISK

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. Within the District's deposit portfolio with governmental agencies as of June 30, 2017, LAIF is 91% of the District's total depository and investment portfolio. There were no investments in any one non-governmental issuer that represents 5% or more of the District's total investments.

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, 2017

	Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Budgetary Basis	Variance Positive (Negative)
REVENUES					
Property taxes	\$ 427,892	\$ -	\$ 427,892	\$ 484,970	\$ 57,078
Grant revenue	7,490	-	7,490	-	(7,490)
Interest earnings	3,800	-	3,800	13,385	9,585
Special assessments	68,800	-	68,800	68,142	(658)
Other	3,100	-	3,100	2,304	(796)
Total revenues	<u>511,082</u>	<u>-</u>	<u>511,082</u>	<u>568,801</u>	<u>57,719</u>
EXPENDITURES					
Salaries and benefits	380,278	-	380,278	389,013	(8,735)
Dispatch and communications	27,000	-	27,000	35,677	(8,677)
Repairs and maintenance	3,300	-	3,300	6,195	(2,895)
Professional services	2,700	-	2,700	-	2,700
Supplies and inventory	13,000	-	13,000	10,986	2,014
Training and education	-	-	-	2,882	(2,882)
Fuel reduction and fire prevention program	19,000	-	19,000	6,395	12,605
Utilities	4,000	-	4,000	5,066	(1,066)
Vehicle operation	9,000	-	9,000	8,368	632
General and administrative	55,330	-	55,330	73,334	(18,004)
Capital outlay	-	-	-	-	-
Total expenditures	<u>513,608</u>	<u>-</u>	<u>513,608</u>	<u>537,916</u>	<u>(24,308)</u>
Net change in fund balance	(2,526)	<u>\$ -</u>	(2,526)	30,885	<u>\$ 33,411</u>
Fund balance, beginning of year	<u>1,268,489</u>		<u>1,268,489</u>	<u>1,857,169</u>	
Fund balance, end of year	<u>\$ 1,265,963</u>		<u>\$ 1,265,963</u>	<u>\$ 1,888,054</u>	

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last 10 Years*

	<u>Miscellaneous</u>	<u>Safety</u>
	<u>2017</u>	
Proportion of the net pension liability	0.007070%	0.002650%
Proportionate share of the net pension liability	\$246,696	\$106,929
Covered - employee payroll	\$93,762	\$218,410
Proportionate Share of the net pension liability as percentage of covered-employee payroll	263.11%	48.96%
Plan fiduciary net position as a percentage of the total pension liability	75.76%	78.72%
	<u>2016</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 fiduciary net position as a percentage of the total pension liability	78.89%	84.31%
	<u>2015</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 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 three years are shown

INVERNESS PUBLIC UTILITY DISTRICT
(A California Public Utility District)

SCHEDULE OF PENSION CONTRIBUTIONS
Last 10 Years*

	<u>Miscellaneous</u>	<u>Safety</u>
	<u>2017</u>	
Contractually required contribution (actuarially determined)	\$ 8,518	\$ 23,601
Contributions in relation to the actuarially determined contributions	<u>8,518</u>	<u>23,601</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 93,762	\$ 218,410
Contributions as a percentage of covered-employee payroll	9.08%	10.81%
	<u>2016</u>	
Contractually required contribution (actuarially determined)	\$ 54,094	\$ 12,041
Contributions in relation to the actuarially determined contributions	<u>54,094</u>	<u>12,041</u>
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%
	<u>2015</u>	
Contractually required contribution (actuarially determined)	\$ 31,622	\$ 6,663
Contributions in relation to the actuarially determined contributions	<u>31,622</u>	<u>6,663</u>
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	6/30/2015	6/30/2015
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%

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

**SCHEDULE OF PENSION CONTRIBUTIONS (Continued)
Last 10 Years***

	<u>Miscellaneous</u>	<u>Safety</u>
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 three 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, 2017**

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, 2017

	Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Accrual Basis	Variance Positive (Negative)
OPERATING REVENUES					
Water consumption sales	\$ 85,000	\$ -	\$ 85,000	\$ 76,347	\$ (8,653)
Readiness-to-serve charges	308,700	-	308,700	313,285	4,585
Other revenue	2,240	-	2,240	1,974	(266)
Total operating revenues	<u>395,940</u>	<u>-</u>	<u>395,940</u>	<u>391,606</u>	<u>(4,334)</u>
OPERATING EXPENSES					
Collection and treatment	15,500	-	15,500	46,564	(31,064)
Laboratory and monitoring	10,000	-	10,000	8,317	1,683
Storage and distribution	16,000	-	16,000	18,392	(2,392)
Supplies and inventory	14,500	-	14,500	13,509	991
Vehicle operation	9,000	-	9,000	5,064	3,936
Training and licensing	1,000	-	1,000	2,005	(1,005)
General and administrative	245,755	-	245,755	286,602	(40,847)
Total operating expenses	<u>311,755</u>	<u>-</u>	<u>311,755</u>	<u>380,453</u>	<u>(68,698)</u>
Operating income before general revenues and depreciation	84,185	-	84,185	11,153	(73,032)
Interest, gain and losses	-	-	-	13,385	13,385
Depreciation expense	(51,247)	-	(51,247)	(75,825)	(24,578)
Change in net assets	32,938	<u>\$ -</u>	32,938	(51,287)	<u>\$ (84,225)</u>
Net assets, beginning of year	<u>1,414,924</u>		<u>1,414,924</u>	<u>1,534,200</u>	
Net assets, end of year	<u>\$ 1,447,862</u>		<u>\$ 1,447,862</u>	<u>\$ 1,482,913</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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 8, 2018.

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.

A handwritten signature in blue ink that reads "Doran & Associates". The signature is written in a cursive style.

May 8, 2018