



Inverness Public Utility District
Annual Financial Report
For the Fiscal Year Ended June 30, 2010



Our Mission Statement

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

Inverness Public Utility District Board of Directors

| <u>Name</u> | <u>Title</u> | <u>Elected/ Appointed</u> | <u>Current Term Expires</u> |
|---------------------|----------------|-------------------------------|---------------------------------|
| Scoby A. Zook | President | Elected | 11/2013 |
| Michael D. McEneany | Vice President | Elected | 11/2011 |
| Laura B. Alderdice | Treasurer | Elected | 11/2011 |
| Alden Adkins | Director | Appointed | 11/2011 |
| Kenneth J. Emanuels | Director | Elected | 11/2013 |

**Inverness Public Utility District
Scott M. McMorrow, General Manager
50 Inverness Way
Inverness, CA 94937 • (415) 669-1414**

Inverness Public Utility District
Annual Financial Report
For the Fiscal Year Ended June 30, 2010

**Inverness Public Utility District
Annual Financial Report
For The Fiscal Year Ended June 30, 2010**

Table of Contents

| | <u>Page No.</u> |
|---|------------------------|
| Financial Section | |
| Independent Auditor’s Report | 1 |
| Management’s Discussion and Analysis | 2-5 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Assets | 6 |
| Statement of Activities | 7 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Type Funds | 8 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 9 |
| Statement of Net Assets – Water Enterprise Fund | 10 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets – Water Enterprise Fund | 11 |
| Statement of Cash Flows – Water Enterprise Fund | 12 |
| Notes to the Basic Financial Statements | 13-30 |
| Required Supplementary Information | |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund | 31 |
| Supplemental Information | |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Water Enterprise Fund | 32 |
| Report on Compliance and Internal Controls | |
| Independent Auditor’s Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 33 |

Financial Section



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

6081 Orange Avenue
Cypress, California 90630
(714) 527-1818
(562) 598-6565
FAX (714) 527-9154
EMAIL czfco@czfcpa.com

Independent Auditor's Report

Board of Directors
Inverness Public Utility District
Inverness, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Inverness Public Utility District (District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Inverness Public Utility District as of June 30, 2010, and the respective changes in net assets and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 13, 2010 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

September 13, 2010
Cypress, California

Charles Z. Fedak, CPA
An Accountancy Corporation

< Page Intentionally Left Blank >

**Inverness Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2010**

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, 2010. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- Net assets increased 11.7% or \$291,296 to \$2,773,765 as a result of this year's operations.
- Total revenues increased 39.6% or \$341,936 from the prior year due to a combination of increases in charges for services and capital grants and contributions.
- Total expenses increased by 13.0% or \$104,874 due primarily to increases in fire protection expenses for salaries and benefits, repairs and maintenance, and costs for Chipper Day.

Using This Financial Report

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

Government-wide Financial Statements

Statement of Net Assets and Statement of Activities

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

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

**Inverness Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2010**

Fund Financial Statements

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

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

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 13 through 30.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the District's budgetary information and schedule of funding progress for its pension plans. Required supplementary information can be found on page 31.

Government-wide Financial Analysis

Statement of Net Assets

The following table is a summary of the statement of net assets at June 30, 2010.

| | Condensed Statement of Net Assets | | | | | |
|----------------------------------|-----------------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | Governmental Activities | | Business-type Activities | | Total District | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Assets: | | | | | | |
| Current and other assets | \$ 1,269,834 | 1,272,237 | 415,547 | 477,384 | 1,685,381 | 1,749,621 |
| Capital assets, net | 224,418 | 212,523 | 1,292,149 | 1,050,577 | 1,516,567 | 1,263,100 |
| Total assets | <u>1,494,252</u> | <u>1,484,760</u> | <u>1,707,696</u> | <u>1,527,961</u> | <u>3,201,948</u> | <u>3,012,721</u> |
| Liabilities: | | | | | | |
| Current liabilities | 3,568 | 4,828 | 77,264 | 191,103 | 80,832 | 195,931 |
| Non-current liabilities | 37,427 | 21,727 | 309,924 | 312,594 | 347,351 | 334,321 |
| Total liabilities | <u>40,995</u> | <u>26,555</u> | <u>387,188</u> | <u>503,697</u> | <u>428,183</u> | <u>530,252</u> |
| Net assets: | | | | | | |
| Net investment in capital assets | 224,418 | 212,523 | 1,014,149 | 751,577 | 1,238,567 | 964,100 |
| Unrestricted | 1,228,839 | 1,245,682 | 306,359 | 272,687 | 1,535,198 | 1,518,369 |
| Total net assets | <u>\$ 1,453,257</u> | <u>1,458,205</u> | <u>1,320,508</u> | <u>1,024,264</u> | <u>2,773,765</u> | <u>2,482,469</u> |

**Inverness Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2010**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$2,773,765 as of June 30, 2010. Compared to prior year, net assets of the District increased 11.7% or \$291,296. The District's net assets are made-up of two components: (1) net investment in capital assets and (2) unrestricted net assets.

Statement of Activities

The following table is a summary of the statement of activities for the year ended June 30, 2010.

| | Condensed Statement of Activities | | | | | |
|--------------------------------------|--|------------------|---------------------------------|------------------|-----------------------|------------------|
| | Governmental Activities | | Business-type Activities | | Total District | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 73,853 | 4,536 | 389,139 | 377,795 | 462,992 | 382,331 |
| Operating grants | 13,575 | 72,237 | 29,791 | - | 43,366 | 72,237 |
| Capital grants | - | - | 304,707 | 4,500 | 304,707 | 4,500 |
| General revenues: | | | | | | |
| Property taxes | 383,998 | 371,658 | - | - | 383,998 | 371,658 |
| Interest earnings | 8,680 | 25,116 | 2,132 | 8,097 | 10,812 | 33,213 |
| Total revenues | <u>480,106</u> | <u>473,547</u> | <u>725,769</u> | <u>390,392</u> | <u>1,205,875</u> | <u>863,939</u> |
| Expenses: | | | | | | |
| Fire protection | 485,054 | 403,868 | - | - | 485,054 | 403,868 |
| Water | - | - | 429,525 | 405,837 | 429,525 | 405,837 |
| Total expenses | <u>485,054</u> | <u>403,868</u> | <u>429,525</u> | <u>405,837</u> | <u>914,579</u> | <u>809,705</u> |
| Change in net assets | <u>(4,948)</u> | <u>69,679</u> | <u>296,244</u> | <u>(15,445)</u> | <u>291,296</u> | <u>54,234</u> |
| Net assets, beginning of year | <u>1,458,205</u> | <u>1,388,526</u> | <u>1,024,264</u> | <u>1,039,709</u> | <u>2,482,469</u> | <u>2,428,235</u> |
| Net assets, end of year | <u>\$ 1,453,257</u> | <u>1,458,205</u> | <u>1,320,508</u> | <u>1,024,264</u> | <u>2,773,765</u> | <u>2,482,469</u> |

Government and Business-type activities increased the District's net assets by \$291,296 thereby accounting for the 11.7% increase in the net assets of the District. The District's total revenues increased 39.6% or \$341,936 from the prior year due to a combination of increases in charges for services and Capital grants and contributions.. In addition, total expenses increased by 13.0% or \$104,874 due primarily to increases in fire protection expenses for salaries and benefits, repairs and maintenance, and costs for Chipper Day.

Capital Asset Administration

| | Capital Assets | | | | | |
|---------------------------------|--------------------------------|------------------|---------------------------------|--------------------|-----------------------|--------------------|
| | Governmental Activities | | Business-type Activities | | Total District | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Capital assets: | | | | | | |
| Non-depreciable assets | - | - | 134,728 | 289,307 | 134,728 | 289,307 |
| Depreciable assets | 926,473 | 876,927 | 2,881,103 | 2,413,940 | 3,807,576 | 3,290,867 |
| Total capital assets | <u>926,473</u> | <u>876,927</u> | <u>3,015,831</u> | <u>2,703,247</u> | <u>3,942,304</u> | <u>3,580,174</u> |
| Accumulated depreciation | <u>(702,055)</u> | <u>(664,404)</u> | <u>(1,723,682)</u> | <u>(1,652,670)</u> | <u>(2,425,737)</u> | <u>(2,317,074)</u> |
| Total capital assets, \$ | <u>224,418</u> | <u>212,523</u> | <u>1,292,149</u> | <u>1,050,577</u> | <u>1,516,567</u> | <u>1,263,100</u> |

**Inverness Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2010**

At the end of fiscal year 2010, the District's investment in capital assets amounted to \$1,516,567 (net of accumulated depreciation). This investment in capital assets includes land, buildings, fire apparatus, furnishings and equipment, collection and distribution systems, tanks, wells, water treatment facilities and construction-in-process. Major capital asset additions in the governmental activities area included the purchase of a vehicle and various equipment items. Major capital asset additions in the business-type activities area included transmission and distribution system upgrades and various other projects still under construction. The capital assets of the District are more fully analyzed in Note 3 to the basic financial statements.

Long-Term Debt Administration

| | Long-term Debt | | | | | |
|-----------------|-------------------------|------|--------------------------|---------|---------|---------|
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Long-term debt: | | | | | | |
| Bonds payable | \$ - | - | 278,000 | 299,000 | 278,000 | 299,000 |

Long-term debt decreased due to regular debt payments. The long-term debt position of the District is more fully analyzed in Note 6 to the basic financial statements.

Conditions Affecting Current Financial Position

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

Requests for Information

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

Basic Financial Statements

Inverness Public Utility District
Statement of Net Assets
June 30, 2010

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|--|------------------------------------|-------------------------------------|------------------|
| <i>Assets</i> | | | |
| Assets: | | | |
| Cash and cash equivalents (note 2) | \$ 1,234,763 | 301,190 | 1,535,953 |
| Cash and cash equivalents – restricted (note 2) | - | 41,991 | 41,991 |
| Accrued interest receivable | 1,918 | 441 | 2,359 |
| Accounts receivable – water sales and service | - | 66,689 | 66,689 |
| Accounts receivable – other | 7,490 | 923 | 8,413 |
| Property taxes receivable | 2,237 | - | 2,237 |
| Note receivable – property taxes from state (note 3) | 23,426 | - | 23,426 |
| Deferred bond expenses, net (note 5) | - | 4,313 | 4,313 |
| Capital assets – not being depreciated (note 4) | - | 134,727 | 134,727 |
| Capital assets – being depreciated, net (note 4) | 224,418 | 1,157,422 | 1,381,840 |
| Total assets | <u>1,494,252</u> | <u>1,707,696</u> | <u>3,201,948</u> |
| <i>Liabilities and Net Assets</i> | | | |
| Liabilities: | | | |
| Accounts payable and accrued expenses | 3,568 | 12,615 | 16,183 |
| Customer deposits | - | 9,600 | 9,600 |
| Deferred revenue | - | 55,049 | 55,049 |
| Long-term liabilities – due within one year: | | | |
| Bonds payable (note 7) | - | - | - |
| Long-term liabilities – due in more than one year: | | | |
| Compensated absences (note 6) | 13,576 | 12,761 | 26,337 |
| Post employment benefits payable (note 8) | 23,851 | 19,163 | 43,014 |
| Bonds payable (note 7) | - | 278,000 | 278,000 |
| Total liabilities | <u>40,995</u> | <u>387,188</u> | <u>428,183</u> |
| Net assets: | | | |
| Net investment in capital assets (note 9) | 224,418 | 1,014,149 | 1,238,567 |
| Unrestricted | 1,228,839 | 306,359 | 1,535,198 |
| Total net assets | <u>\$ 1,453,257</u> | <u>1,320,508</u> | <u>2,773,765</u> |

See accompanying notes to the basic financial statements

**Inverness Public Utility District
Statement of Activities
For the Year Ended June 30, 2010**

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|--------------------------------------|-------------------|-------------------------|--|--|--|-----------------------------|------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Governmental activities: | | | | | | | |
| Fire protection | \$ 485,054 | 73,853 | 13,575 | - | (397,626) | - | (397,626) |
| Business-type activities: | | | | | | | |
| Water enterprise fund | 429,525 | 389,139 | 29,791 | 304,707 | - | 294,112 | 294,112 |
| Total | <u>\$ 914,579</u> | <u>462,992</u> | <u>43,366</u> | <u>304,707</u> | <u>(397,626)</u> | <u>294,112</u> | <u>(103,514)</u> |
| General revenues: | | | | | | | |
| Property taxes | | | | | \$ 383,998 | - | 383,998 |
| Interest earnings | | | | | 8,680 | 2,132 | 10,812 |
| Total general revenues | | | | | <u>392,678</u> | <u>2,132</u> | <u>394,810</u> |
| Change in net assets | | | | | (4,948) | 296,244 | 291,296 |
| Net assets, beginning of year | | | | | <u>1,458,205</u> | <u>1,024,264</u> | <u>2,482,469</u> |
| Net assets, end of year | | | | | <u>\$ 1,453,257</u> | <u>1,320,508</u> | <u>2,773,765</u> |

See accompanying notes to the basic financial statements

**Inverness Public Utility District
Balance Sheet – Governmental Funds
June 30, 2010**

| | |
|--|----------------------------|
| Assets: | |
| Cash and cash equivalents | \$ 1,234,763 |
| Accrued interest receivable | 1,918 |
| Property taxes receivable | 7,490 |
| Accounts receivable – other | <u>2,237</u> |
| Total assets | <u><u>1,246,408</u></u> |
| Liabilities: | |
| Accounts payable and accrued expenses | <u>3,568</u> |
| Total liabilities | <u><u>3,568</u></u> |
| Fund balance: | |
| Unreserved: | |
| Designated for fire protection | <u>1,242,840</u> |
| Total fund balance | <u><u>1,242,840</u></u> |
| Total liabilities and fund balance | <u><u>\$ 1,246,408</u></u> |
| Reconciliation: | |
| Fund balance of governmental funds | \$ 1,242,840 |
| Amounts reported for governmental activities in the statement of net assets is different because: | |
| Long-term assets are not current financial resources, and, therefore, are not reported in the governmental funds balance sheet. | 23,426 |
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. | 224,418 |
| Long-term liabilities applicable to the District are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities' both current and long-term, are reported in the Statement of Net Assets. | |
| Compensated absences | (13,576) |
| Post employment benefits payable | <u>(23,851)</u> |
| Net assets of governmental activities | <u><u>\$ 1,453,257</u></u> |

See accompanying notes to the basic financial statements

Inverness Public Utility District
Statement of Revenues, Expenditures and Changes in Fund Balances– Governmental Funds
For the Year Ended June 30, 2010

| | <u>General Fund</u> |
|---|----------------------------|
| Revenues: | |
| Property taxes | \$ 360,572 |
| Grant revenue | 13,575 |
| Interest earnings | 8,680 |
| Special assessment | 67,912 |
| Charges for services | <u>5,941</u> |
| Total revenues | <u>456,680</u> |
| Expenditures: | |
| Salaries and benefits | 252,625 |
| Dispatch and communications | 25,314 |
| Repairs and maintenance | 2,534 |
| Professional services | 9,600 |
| Supplies | 16,054 |
| Training and education | 9,093 |
| Fuel reduction and fire prevention program | 53,245 |
| Utilities | 2,686 |
| Vehicle operation | 10,868 |
| General and administrative | 49,684 |
| Capital outlay | <u>49,546</u> |
| Total expenditures | <u>481,249</u> |
| Net change in fund balance | (24,569) |
| Fund balance, beginning of year | <u>1,267,409</u> |
| Fund balance, end of year | <u><u>\$ 1,242,840</u></u> |
| Reconciliation: | |
| Net changes in fund balance of governmental fund | \$ (24,569) |
| Amounts reported for governmental activities in the statement of activities is different because: | |
| Some revenues reported in the Statement of Activities are not current financial resources and therefore are not reported as revenues in governmental funds as follows: | |
| Property taxes from state | 23,426 |
| Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. | |
| Capital outlay | 49,546 |
| Depreciation expense | (37,651) |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenses in governmental funds as follows: | |
| Net change in compensated absences | 8,151 |
| Net change in post employment benefits payable | <u>(23,851)</u> |
| Change in net assets of governmental activities | <u><u>\$ (4,948)</u></u> |

See accompanying notes to the basic financial statements

Inverness Public Utility District
Statement of Net Assets – Water Enterprise Fund
June 30, 2010

| <i>Assets</i> | Water Fund |
|---|-----------------------|
| Assets: | |
| Cash and cash equivalents | \$ 301,190 |
| Cash and cash equivalents – restricted | 41,991 |
| Accrued interest receivable | 441 |
| Accounts receivable – water sales and services, net | 66,689 |
| Accounts receivable – other | 923 |
| Deferred bond expenses, net | 4,313 |
| Capital assets – not being depreciated | 134,727 |
| Capital assets, net – being depreciated | 1,157,422 |
| Total assets | 1,707,696 |
| <i>Liabilities and Net Assets</i> | |
| Liabilities: | |
| Accounts payable and accrued expenses | 12,615 |
| Customer deposits | 9,600 |
| Deferred revenue | 55,049 |
| Long-term liabilities – due within one year: | |
| Bonds payable | - |
| Long-term liabilities – due in more than one year: | |
| Compensated absences | 12,761 |
| Post employment benefits payable | 19,163 |
| Bonds payable | 278,000 |
| Total liabilities | 387,188 |
| Net assets: | |
| Net investment in capital assets | 1,014,149 |
| Unrestricted | 306,359 |
| Total net assets | \$ 1,320,508 |

See accompanying notes to the basic financial statements

Inverness Public Utility District
Statement of Revenues, Expenses and Changes in Fund Net Assets – Water Enterprise Fund
For the Year Ended June 30, 2010

| | <u>Water Fund</u> |
|--|------------------------------|
| Operating revenues: | |
| Water consumption sales | \$ 82,499 |
| Readiness-to-serve charges | 303,700 |
| Operating grant revenue | - |
| Other charges for services | 2,940 |
| Total operating revenues | <u>389,139</u> |
| Operating expenses: | |
| Collection and treatment | 19,099 |
| Laboratory and monitoring | 10,550 |
| Storage and distribution | 11,777 |
| Supplies and inventory | 7,083 |
| Vehicle operation | 7,019 |
| Training and licensing | 1,435 |
| General and administrative | 286,167 |
| Total operating expenses | <u>343,130</u> |
| Operating income before depreciation | 46,009 |
| Depreciation expense | <u>(71,012)</u> |
| Operating loss | <u>(25,003)</u> |
| Non-operating revenue(expense) | |
| Interest earnings | 2,132 |
| Other revenue(expense) | 29,791 |
| Deferred charges amortization | (433) |
| Interest expense | <u>(14,950)</u> |
| Total non-operating, net | <u>16,540</u> |
| Net loss before capital contributions | (8,463) |
| Capital contributions: | |
| Capital contributions | <u>304,707</u> |
| Change in net assets | 296,244 |
| Net assets, beginning of year | <u>1,024,264</u> |
| Net assets, end of year | <u><u>\$ 1,320,508</u></u> |

See accompanying notes to the basic financial statements

Inverness Public Utility District
Statement of Cash Flows – Water Enterprise Fund
For the Year Ended June 30, 2010

| | <u>Water Fund</u> |
|--|------------------------------|
| Cash flows from operating activities: | |
| Cash receipts from customers for water sales and services | \$ 320,467 |
| Cash paid to employees for wages and related payables | (224,825) |
| Cash paid to vendors and suppliers for materials and services | (107,028) |
| Net cash used in operating activities | <u>(11,386)</u> |
| Cash flows from capital and related financing activities: | |
| Acquisition and construction of capital assets | (312,585) |
| Capital contributions | 304,707 |
| Principal payments on bonds payable | (21,000) |
| Interest payments on bonds payable | (14,950) |
| Net cash used in capital and related financing activities | <u>(43,828)</u> |
| Cash flows from investing activities: | |
| Interest earnings | 3,055 |
| Net cash provided by investing activities | <u>3,055</u> |
| Net decrease in cash and cash equivalents | (52,159) |
| Cash and cash equivalents, beginning of year | <u>395,340</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 343,181</u></u> |
| Reconciliation of cash and cash equivalents to the Statement of | |
| Net Assets – Water Enterprise Fund: | |
| Cash and cash equivalents | \$ 301,190 |
| Cash and cash equivalents – restricted | 41,991 |
| | <u>\$ 343,181</u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating loss | <u>\$ (25,003)</u> |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation expense | 71,012 |
| Other revenue(expense) | 29,791 |
| Changes in assets and liabilities: | |
| (Increase)decrease in assets: | |
| Accounts receivable – water sales and services | 5,364 |
| Accounts receivable – other | 2,959 |
| Increase(decrease) in liabilities: | |
| Accounts payable and accrued expenses | (39,803) |
| Customer deposits | (38,980) |
| Deferred revenue | (35,056) |
| Compensated absences | (833) |
| Post employment benefits payable | 19,163 |
| Total adjustments | <u>13,617</u> |
| Net cash used in operating activities | <u><u>\$ (11,386)</u></u> |
| Noncash financing and investing activities: | |
| Amortization of deferred charges | <u>\$ (433)</u> |
| Contributed capital | <u><u>-</u></u> |

See accompanying notes to the basic financial statements

Inverness Public Utility District
Notes to the Basic Financial Statements
June 30, 2010

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Inverness Public Utility District (District) was formed in 1948 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 Valley Fire District. 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 criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of No. 14). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The District has no blended or discretely-presented component units.

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the District are composed of the following:

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

Government-wide Financial Statements

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

Fund Financial Statements

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

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2010

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

B. Basis of Accounting and Measurement Focus, continued

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place. Operating revenues, such as water sales, result from exchange transactions associated with the principal activity of the 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 (receives) value without directly receiving (giving) value in exchange.

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

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

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2010

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

B. Basis of Accounting and Measurement Focus, continued

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

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

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

The funds of the financial reporting entity are described below:

Governmental Fund

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

Proprietary Fund

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

C. Financial Statement Elements

1. Cash and Cash Equivalents

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

2. Investments and Investment Policy

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

- 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. Investments in securities of the U.S. government or its agencies are carried at fair value based on quoted market prices. Bank balances are secured by the pledging of a pool of eligible securities to collateralize the District's deposits with the bank in accordance with the Code.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2010

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

C. Financial Statement Elements, continued

3. Property Taxes and Assessments

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

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

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

4. Accounts Receivable

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

5. Prepaid Expenses

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

6. Deferred Charges

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

7. Capital Assets

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

Governmental Activities

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

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2010

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

C. Financial Statement Elements, continued

7. Capital Assets, continued

Business-Type Activities

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

8. Compensated Absences

The District's policy is to permit employees to accumulate an unlimited amount of earned vacation leave. Accumulated vacation time is accrued at year-end to account for the District's obligation to the employees for the amount owed. Sick leave is limited to 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 leave as an expenditure in the current year to the extent it is paid during the year. Accrued vacation relating to governmental funds is included as a long-term liability in the in the Statement of Net Assets as those are payable from future resources and within the Statement of Net Assets for amounts relating to the proprietary fund type.

9. Deferred Revenue

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

10. Net Assets/Fund Balances

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

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

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

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

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2010

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

C. Financial Statement Elements, continued

11. Water Sales

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

12. Capital Contributions

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

13. Use of Estimates

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

14. Budgetary Policies

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each April, the District's General Manager prepares and submits a capital and operating budget to the Board of Directors 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.

(2) Cash and Cash Equivalents

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

| | | |
|--|----|-------------------------|
| Cash and cash equivalents | \$ | 1,535,953 |
| Cash and cash equivalents – restricted | | <u>41,991</u> |
| Total | \$ | <u><u>1,577,944</u></u> |

Cash and cash equivalents as of June 30, 2010, consist of the following:

| | | |
|--|----|-------------------------|
| Cash on hand | \$ | 240 |
| Deposits held with financial institutions | | 41,197 |
| Deposits held with California Local Agency Investment Fund | | <u>1,536,507</u> |
| Total | \$ | <u><u>1,577,944</u></u> |

As of June 30, 2010, the District's authorized deposits had the following maturities:

| | |
|--|----------|
| Deposits held with the California Local Agency Investment Fund | 203 days |
|--|----------|

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2010

(2) Cash and Cash Equivalents, continued

Authorized Deposits and Investments

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

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balance, up to \$250,000 is federally insured.

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

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The District's deposit portfolio with governmental agencies, LAIF, is 97% as of June 30, 2010, of the District's total depository and investment portfolio. There were no investments in any one non-governmental issuer that represent 5% or more of the District's total investments.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2010

(3) Note Receivable – Property Tax from State

Under the provisions of the State of California Proposition 1A and as part of the 2010 fiscal year State of California budget package passed by the California State Legislature on July 28, 2009, the State of California borrowed 8.0% of the amount of property tax revenue apportioned to cities, counties and special districts. The State of California is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California State Legislature may consider only one additional borrowing within a ten-year period. The amount of the borrowing pertaining to the District was \$23,426. The borrowing by the State of California was recognized as a note receivable in the accompanying financial statements.

(4) Capital Assets

Governmental Activities

Changes in capital assets for the year were as follows:

| | <u>Balance 2009</u> | <u>Additions</u> | <u>Deletions/ Transfers</u> | <u>Balance 2010</u> |
|--------------------------------|-------------------------|------------------|---------------------------------|-------------------------|
| Non-depreciable assets: | | | | |
| Construction in progress | \$ - | - | - | - |
| Total non-depreciable assets | - | - | - | - |
| Depreciable assets: | | | | |
| Buildings | 227,528 | - | - | 227,528 |
| Tankers and vehicles | 342,335 | 39,476 | - | 381,811 |
| Furnishings and equipment | 307,064 | 10,070 | - | 317,134 |
| Total depreciable assets | 876,927 | 49,546 | - | 926,473 |
| Accumulated depreciation: | | | | |
| Buildings | (171,451) | (6,305) | - | (177,756) |
| Tankers and vehicles | (266,402) | (11,257) | - | (277,659) |
| Furnishings and equipment | (226,551) | (20,089) | - | (246,640) |
| Total accumulated depreciation | (664,404) | (37,651) | - | (702,055) |
| Total depreciable assets, net | 212,523 | 11,895 | - | 224,418 |
| Total capital assets, net | \$ 212,523 | | | 224,418 |

Major capital asset additions in the governmental activities area include a vehicle and various equipment purchases totaling \$49,546. Depreciation expense under governmental activities, fire protection, totaled \$37,651.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2010

(4) Capital Assets, continued

Business-Type Activities

Changes in capital assets for the year were as follows:

| | <u>Balance 2009</u> | <u>Additions</u> | <u>Deletions/ Transfers</u> | <u>Balance 2010</u> |
|--------------------------------|-------------------------|------------------|---------------------------------|-------------------------|
| Non-depreciable assets: | | | | |
| Land | \$ 66,320 | - | - | 66,320 |
| Construction in progress | <u>222,987</u> | <u>313,241</u> | <u>(467,820)</u> | <u>68,408</u> |
| Total non-depreciable assets | <u>289,307</u> | <u>313,241</u> | <u>(467,820)</u> | <u>134,728</u> |
| Depreciable assets: | | | | |
| Collection system | 352,967 | - | - | 352,967 |
| Distribution system | 976,410 | 2,812 | - | 979,222 |
| Tanks | 178,646 | 410,528 | - | 589,174 |
| Water treatment | 753,579 | 53,823 | - | 807,402 |
| Wells | 71,499 | - | - | 71,499 |
| Vehicles and equipment | <u>80,839</u> | <u>-</u> | <u>-</u> | <u>80,839</u> |
| Total depreciable assets | <u>2,413,940</u> | <u>467,163</u> | <u>-</u> | <u>2,881,103</u> |
| Accumulated depreciation: | | | | |
| Collection system | (177,051) | (9,652) | - | (186,703) |
| Distribution system | (549,185) | (22,362) | - | (571,547) |
| Tanks | (104,918) | (15,522) | - | (120,440) |
| Water treatment | (689,279) | (22,851) | - | (712,130) |
| Wells | (51,399) | (625) | - | (52,024) |
| Vehicles and equipment | <u>(80,838)</u> | <u>-</u> | <u>-</u> | <u>(80,838)</u> |
| Total accumulated depreciation | <u>(1,652,670)</u> | <u>(71,012)</u> | <u>-</u> | <u>(1,723,682)</u> |
| Total depreciable assets, net | <u>761,270</u> | <u>396,151</u> | <u>-</u> | <u>1,157,421</u> |
| Total capital assets, net | <u>\$ 1,050,577</u> | | | <u>1,292,149</u> |

Major capital asset additions in the business-type activities area include transmission and distribution system upgrades and various other projects still under construction. A significant portion of these additions were constructed by the District and/or sub-contractors and will be transferred out of construction-in-process upon completion of these various projects. Depreciation expense under business-type activities, retail water enterprise, totaled \$71,012.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2010

(4) Capital Assets, continued

Construction-In-Process

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

Business-Type Activities

| | | |
|---|--------------------|--------------------|
| The balance at June 30, consists of the following projects: | <u>2009</u> | <u>2010</u> |
| System improvements | \$ 42,037 | - |
| Customer work | 144,801 | - |
| DBP Treatment facilities | 25,429 | 32,177 |
| Tenney tanks | 10,063 | 36,231 |
| Other projects | <u>657</u> | <u>-</u> |
| Construction-in-process | <u>\$ 222,987</u> | <u>68,408</u> |

(5) Deferred Bond Expenses

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

The balance at June 30, consists of the following:

| | |
|--------------------------|-----------------|
| Deferred charges | \$ 12,990 |
| Accumulated amortization | <u>(8,677)</u> |
| Deferred charges, net | <u>\$ 4,313</u> |

(6) Compensated Absences

Changes in compensated absences were as follows:

| | <u>Governmental</u> <u>Activities</u> | <u>Business-type</u> <u>Activities</u> |
|------------------------------|--|---|
| Balance at beginning of year | \$ 21,727 | 13,594 |
| Additions | 8,546 | 2,659 |
| Payments to employees | <u>(16,697)</u> | <u>(3,492)</u> |
| Balance at end of year | <u>\$ 13,576</u> | <u>12,761</u> |

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2010

(7) Bonds Payable

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

Changes in long-term debt in 2010 were as follows:

| | <u>Balance</u> <u>2008</u> | <u>Additions</u> | <u>Principal</u> <u>Payments</u> | <u>Balance</u> <u>2009</u> | <u>Current</u> <u>Portion</u> | <u>Long-term</u> <u>Portion</u> |
|---------------|-------------------------------|------------------|-------------------------------------|-------------------------------|----------------------------------|------------------------------------|
| Bonds payable | \$ 299,000 | - | (21,000) | 278,000 | - | 278,000 |

Bonds Payable

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

Bond Reserve

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

Schedule Payments

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

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------|------------------|-----------------|--------------|
| 2011 | \$ - | 14,950 | 14,950 |
| 2012 | 22,000 | 13,900 | 35,900 |
| 2013 | 23,000 | 12,800 | 35,800 |
| 2014 | 25,000 | 11,650 | 36,650 |
| 2015 | 27,000 | 10,400 | 37,400 |
| 2016-2020 | 152,000 | 30,700 | 182,700 |
| 2021-2022 | 29,000 | 2,200 | 31,200 |
| Total | 278,000 | 96,600 | 374,600 |
| Less: current portion | - | | |
| Long-term portion | \$ 278,000 | | |

Debt Service Ratio

The annual net revenue of the water enterprise fund for any fiscal year is required by the revenue bond indenture to be not less than one and two-tenths (1.20) times the average annual debt service remaining. Debt service means principal and interest accruing on the bonds and amount of any transfers required to be made to any funds from which such principal and interest are to be paid. Net revenue is operating revenue less total operating expenses, exclusive of depreciation and bond interest. Average annual debt service is based on total remaining debt service of \$374,000 to be repaid over the next 12 fiscal years (\$374,600/12 years = \$31,217). (Operating Revenues of \$389,139 minus Operating Expenses of \$343,130 = \$46,009 plus the non-cash OPEB expense of \$19,163 = \$65,172/\$31,653 of annual average remaining debt service = 2.06 times the average annual debt service). The District did meet its debt service requirement for fiscal year 2010.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2010

(8) Post Employment Benefits Payable

During the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for post employment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The new reporting requirements for these benefit programs as they pertain to the District are set forth below.

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:

| | 2010 | 2009 | 2008 |
|---|-------------|-------------|-------------|
| Active plan members | 5 | 6 | 5 |
| Retirees and beneficiaries receiving benefits | 4 | 3 | 3 |
| Separated plan members entitled to but not yet receiving benefits | - | - | - |
| Total plan membership | 9 | 9 | 8 |

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. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors.

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. The current ARC rate is 23.0% of the annual covered payroll.

The District will pay 100% of the cost of the post-employment benefit plan. The District funds the plan on a pay-as-you-go basis and maintains reserves (and records a liability) for the difference between pay-as-you-go and the actuarially determined ARC cost.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2010

(8) Post Employment Benefits Payable, continued

Annual Cost

For the year ended June 30, 2010, the District's ARC cost is \$61,908. The District's net OPEB payable obligation amounted to \$43,014 for the year ended June 30, 2010. The District contributed \$18,893 in age adjusted contributions for current retiree OPEB premiums for the year ended June 30, 2010.

| | | | |
|--|------------------|-------------|-------------|
| The balance at June 30, consists of the following: | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| Annual OPEB expense: | | | |
| Annual required contribution (ARC) | \$ 61,908 | - | - |
| Interest on net OPEB obligation | - | - | - |
| Adjustment to annual required contribution | - | - | - |
| Total annual OPEB expense | <u>61,908</u> | <u>-</u> | <u>-</u> |
| Change in net OPEB payable obligation: | | | |
| Age adjusted contributions made | <u>(18,894)</u> | <u>-</u> | <u>-</u> |
| Total change in net OPEB payable obligation | <u>43,014</u> | <u>-</u> | <u>-</u> |
| OPEB payable – beginning of year | <u>-</u> | <u>-</u> | <u>-</u> |
| OPEB payable – end of year | <u>\$ 43,014</u> | <u>-</u> | <u>-</u> |

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2010 and the two preceding years were as follows:

| <i>Three-Year History of Net OPEB Obligation</i> | | | | |
|--|-------------------------|----------------------------------|---|------------------------------------|
| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Age Adjusted Contribution</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation Payable</u> |
| 2010 | \$ 61,908 | 18,894 | 30.52% | \$ 43,014 |
| 2009 | * | - | 0.00% | - |
| 2008 | * | - | 0.00% | - |

* The information for this year is unavailable.
 GASB No. 45 was implemented in fiscal year 2010.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2010

(8) Post Employment Benefits Payable, continued

Funded Status and Funding Progress of the Plan

Required Supplemental Information – Schedule of Funding Progress

| 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) |
|--------------------------------|---|--|---|--------------------------|---------------------------|---|
| 6/30/2010 | \$ - | 586,436 | 586,436 | 0.00% | \$ 269,460 | 217.63% |

The most recent valuation (dated June 30, 2010) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$586,436. There are no plan assets because the District funds on a pay-as-you-go basis. No trend information is reported because the year ended June 30, 2010, is the first year the District implemented GASB 45. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2010 was \$269,460. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 217.63%.

Actuarial Methods and Assumptions

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

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

| | |
|-------------------------------|---------------------------------------|
| Valuation date | June 30, 2010 |
| Actuarial cost method | Entry age normal cost method |
| Amortization method | Level percent of payroll amortization |
| Remaining amortization period | 30 Years as of the valuation date |
| Asset valuation method | 30 Year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 7.00% |
| Projected salary increase | 3.00% |
| Inflation - discount rate | 7.00% |
| Individual salary growth | District annual COLA |

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2010

(9) Net Investment in Capital Assets

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

| | Governmental Activities | Business-type Activities |
|---|------------------------------------|-------------------------------------|
| The balance consists of the following: | | |
| Capital assets – not being depreciated | \$ - | 134,727 |
| Capital assets – being depreciated, net | 224,418 | 1,157,422 |
| Bonds payable – current portion | - | - |
| Bonds payable – long-term portion | - | (278,000) |
| Total | \$ 224,418 | 1,014,149 |

(10) Defined Benefit Pension Plan

Plan Description

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

Funding Policy

The contribution rate for plan members in the CalPERS 2.0% at 55 Risk Pool Retirement Plan for Safety Employees is 7% and CalPERS 2.0% at 60 Risk Pool Retirement Plan for Miscellaneous Employees is 7% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension cost (APC) percentage of payroll for fiscal years 2010, 2009 and 2008 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal years 2010, 2009 and 2008, the District's annual contributions for the CalPERS plan were equal to the District's required and actual contributions for each fiscal year as follows:

Three Years CalPERS Funding Information – Safety Employees Plan

| Fiscal Year | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation | APC Percentage of Payroll |
|------------------------|--|--|---------------------------------------|--|
| 2007-2008 | \$ - | 100% | \$ - | 24.822% |
| 2008-2009 | - | 100% | - | 22.036% |
| 2009-2010 | - | 100% | - | 22.536% |

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2010

(10) Defined Benefit Pension Plan, continued

Three Years CalPERS Funding Information – Miscellaneous Plan

| <u>Fiscal Year</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> | <u>APC Percentage of Payroll</u> |
|------------------------|--|--|---------------------------------------|--|
| 2007-2008 | \$ 47,812 | 100% | \$ - | 15.507% |
| 2008-2009 | 50,799 | 100% | - | 14.707% |
| 2009-2010 | 53,189 | 100% | - | 12.979% |

(11) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2010, the District participated in the liability and property programs of the SDRMA as follows:

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

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

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

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. There were no reductions in insurance coverage in fiscal year 2010. 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, 2010.

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2010

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2010, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 54

In February 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement is not effective for this Authority until the fiscal year ended June 30, 2011. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

(13) 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. At June 30, 2010, the District's share of the total debt service payments since inception is \$113,153. 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, 2010, the operating costs associated with the District's participation in the Authority were \$8,181.

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

Inverness Public Utility District
Notes to the Basic Financial Statements, continued
June 30, 2010

(13) Commitments and Contingencies, continued

Litigation

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

Grant Awards

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

Required Supplementary Information

Inverness Public Utility District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – General Fund
For the Year Ended June 30, 2010

| | <u>Adopted Original Budget</u> | <u>Board Approved Changes</u> | <u>Revised Budget</u> | <u>Actual Budgetary Basis</u> | <u>Variance Positive (Negative)</u> |
|--|--|---------------------------------------|---------------------------|---------------------------------------|---|
| Revenues: | | | | | |
| Property taxes | \$ 299,873 | - | 299,873 | 360,572 | 60,699 |
| Grant revenue | 132,490 | - | 132,490 | 13,575 | (118,915) |
| Interest earnings | 26,015 | - | 26,015 | 8,680 | (17,335) |
| Special assessment | 68,000 | - | 68,000 | 67,912 | (88) |
| Charges for services | 4,300 | - | 4,300 | 5,941 | 1,641 |
| Total revenues | <u>530,678</u> | <u>-</u> | <u>530,678</u> | <u>456,680</u> | <u>(73,998)</u> |
| Expenditures: | | | | | |
| Salaries and benefits | 271,825 | - | 271,825 | 252,625 | 19,200 |
| Dispatch and communications | 26,500 | - | 26,500 | 25,314 | 1,186 |
| Repairs and maintenance | 3,100 | - | 3,100 | 2,534 | 566 |
| Professional services | 9,600 | - | 9,600 | 9,600 | - |
| Supplies | 14,000 | - | 14,000 | 16,054 | (2,054) |
| Training and education | 7,560 | - | 7,560 | 9,093 | (1,533) |
| Fuel reduction and fire prevention program | 62,440 | - | 62,440 | 53,245 | 9,195 |
| Utilities | 2,800 | - | 2,800 | 2,686 | 114 |
| Vehicle operation | 8,354 | - | 8,354 | 10,868 | (2,514) |
| General and administrative | 43,189 | - | 43,189 | 49,684 | (6,495) |
| Capital outlay | - | - | - | 49,546 | (49,546) |
| Total expenditures | <u>449,368</u> | <u>-</u> | <u>449,368</u> | <u>481,249</u> | <u>(31,881)</u> |
| Net change in fund balance | <u>81,310</u> | <u>-</u> | <u>81,310</u> | <u>(24,569)</u> | <u>(105,879)</u> |
| Fund balance, beginning of year | <u>1,267,409</u> | | <u>1,267,409</u> | <u>1,267,409</u> | |
| Fund balance, end of year | <u>\$ 1,348,719</u> | | <u>1,348,719</u> | <u>1,242,840</u> | |

< Page Intentionally Left Blank >

Supplemental Information

Inverness Public Utility District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Water Fund
For the Year Ended June 30, 2010

| | Adopted Original Budget | Board Approved Changes | Final Budget | Actual Accrual Basis | Variance Positive (Negative) |
|--|-------------------------------|------------------------------|------------------|----------------------------|------------------------------------|
| Operating revenues: | | | | | |
| Water consumption sales | \$ 82,400 | - | 82,400 | 82,499 | 99 |
| Readiness-to-serve charges | 303,600 | - | 303,600 | 303,700 | 100 |
| Operating grant revenue | - | - | - | - | - |
| Other charges for services | 3,020 | - | 3,020 | 2,940 | (80) |
| Total operating revenues | <u>389,020</u> | <u>-</u> | <u>389,020</u> | <u>389,139</u> | <u>119</u> |
| Operating expenses: | | | | | |
| Collection and treatment | 19,000 | - | 19,000 | 19,099 | (99) |
| Laboratory and monitoring | 13,000 | - | 13,000 | 10,550 | 2,450 |
| Storage and distribution | 18,000 | - | 18,000 | 11,777 | 6,223 |
| Supplies and inventory | 13,784 | - | 13,784 | 7,083 | 6,701 |
| Vehicle operation | 8,640 | - | 8,640 | 7,019 | 1,621 |
| Training and licensing | 570 | - | 570 | 1,435 | (865) |
| General and administrative | 249,259 | - | 249,259 | 286,167 | (36,908) |
| Total operating expenses | <u>322,253</u> | <u>-</u> | <u>322,253</u> | <u>343,130</u> | <u>(20,877)</u> |
| Operating income before depreciation | 66,767 | - | 66,767 | 46,009 | (20,758) |
| Depreciation expense | (58,000) | - | (58,000) | (71,012) | (13,012) |
| Operating income(loss) | <u>8,767</u> | <u>-</u> | <u>8,767</u> | <u>(25,003)</u> | <u>(33,770)</u> |
| Non-operating revenue(expense): | | | | | |
| Interest earnings | 8,300 | - | 8,300 | 2,132 | (6,168) |
| Other revenue(expense) | 100 | - | 100 | 29,791 | 29,691 |
| Deferred charges amortization | (433) | - | (433) | (433) | - |
| Interest expense | (14,950) | - | (14,950) | (14,950) | - |
| Total non-operating, net | <u>(6,983)</u> | <u>-</u> | <u>(6,983)</u> | <u>16,540</u> | <u>23,523</u> |
| Net income(loss) | 1,784 | - | 1,784 | (8,463) | (10,247) |
| Capital contributions: | | | | | |
| Capital contributions | - | - | - | 304,707 | 304,707 |
| Change in net assets | 1,784 | - | 1,784 | 296,244 | 294,460 |
| Net assets, beginning of year | <u>1,024,264</u> | | <u>1,024,264</u> | <u>1,024,264</u> | |
| Net assets, end of year | <u>\$ 1,026,048</u> | | <u>1,026,048</u> | <u>1,320,508</u> | |

< Page Intentionally Left Blank >

Report on Compliance and Internal Controls



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

6081 Orange Avenue
Cypress, California 90630
(714) 527-1818
(562) 598-6565
FAX (714) 527-9154
EMAIL czfco@czfcpa.com

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

Board of Directors
Inverness Public Utility District
Inverness, California

We have audited the basic financial statements of the Inverness Public Utility District (District) as of and for the year ended June 30, 2010, and have issued our report thereon dated September 13, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

September 13, 2010
Cypress, California

Charles Z. Fedak, CPA
An Accountancy Corporation