

IRONHOUSE SANITARY DISTRICT
OAKLEY-BETHEL ISLAND
CALIFORNIA



ANNUAL COMPREHENSIVE FINANCIAL REPORT

For Fiscal Year Ended June 30, 2021



ANNUAL COMPREHENSIVE Financial Report (ACFR)

Fiscal year ending June 30, 2021

Ironhouse Sanitary District
Serving Oakley & Bethel Island communities
since 1945

Prepared by Ironhouse Sanitary District
Administrative Department

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January 31, 2022
Members of the Board of Directors
Ironhouse Sanitary District
450 Walnut Meadows Drive
Oakley, CA 94561

Staff is pleased to submit the Annual Comprehensive Financial Report (ACFR) for the Ironhouse Sanitary District (District) for the fiscal year ended June 30, 2021. The purpose of the report is to provide citizens, potential investors, and other interested parties with reliable financial information about the District.

This ACFR was prepared by District staff in accordance with Generally Accepted Accounting Principles (GAAP). Responsibility for both the accuracy and completeness of the data as well as the transparency of the presentation, including all disclosures, rests with District management. We are confident the data, as presented, is accurate in all material respects and that it is presented in a manner designed to fairly set forth the District's financial position. All disclosures necessary to enable readers to gain the maximum understanding of the District's financial activities have been included.

The District's financial statements have been audited by Mann, Urrutia, Nelson, CPAs & Associates, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2021, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the District's financial statements for the fiscal year ended June 30, 2021, are fairly presented in conformity with GAAP. The independent auditors' report is presented as a component of the Financial Section of this report.

This letter of transmittal is designed to complement the Management's Discussion & Analysis (MD&A) and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors.

Background on Ironhouse Sanitary District

The District is a governmental agency governed by a publicly elected five-member Board of Directors. The District was incorporated in 1945. As a "special district", Ironhouse provides wastewater collection and treatment services to the communities of Oakley and Bethel Island. A detailed discussion of the array of District services is provided within the ACFR. This discussion is intended to familiarize interested parties with a clear understanding of the District's business activities and the services we provide. In keeping its books and records, the District has established various cost centers to effectively track revenues and expenses associated with the District's services and business activities. These cost centers include Collections and Maintenance, Jersey Island, Recycled Water Distribution, Water Recycling Facility, Debt Service, Capital Expenditures and Capital Expenditure Reserve.

Long-term financial planning is critical to the prudent financial management efforts of the District. To this end, staff developed and utilizes a reliability study for the Water Recycling Facility (WRF) which identifies the rehabilitation and replacement requirements necessary to ensure reliable and compliant operation. In addition to the WRF reliability study, staff also developed and utilizes a risk model for the wastewater collection system which identifies both the risk and consequence of failure within the sewer collection and conveyance infrastructure. These efforts provide the basis for the capital expenditures which will be required over the next several years. To ensure that the District has adequate revenues to fund these necessary capital improvements, a sewer rate structure was adopted by the Board of Directors in 2020. The sewer rates contained within this adopted rate structure will provide the funding necessary to improve the collection and plant infrastructure over the next 5 years.

As of June 30, 2021, the District had outstanding debt in the amount of \$32,314,706. This debt is in the form of a low-interest State Revolving Fund Loan. Specific discussion of the terms and structure of this debt is described herein the ACFR. More detailed information on the District's accounting policies can be found in the discussion of the Basic Financial Statements.

The District maintains an internal control system conducive to securing the assets of the District which minimizes the risk of unauthorized use of its assets and resources. The District's internal control system incorporates a control environment of integrity and ethical values, risk assessment, control of operating activities, information and communication, and monitoring. However, some limitations are inherent in any internal control system regardless of the overall effectiveness of the system such as human error or poor decision making.

Local Economic Condition and Outlook

Located east of San Francisco, at the junction of the Sacramento-San Joaquin Delta, Ironhouse Sanitary District boundaries include the City of Oakley and the unincorporated area of Bethel Island.

The City of Oakley was incorporated in 1999 and is known as a place for families on the Delta. With a population just over 43,000 the City of Oakley has one of the highest rates of young families in Contra Costa County. The median income in the city is just over \$115,000, providing residents the ability to support local retail and service businesses.

The Oakley Logistics Center presents an exciting opportunity within the District's service area. This

project, being built on over 143 acres provides +/-2.2 million sf of industrial space. This project is expected to require 923 ESUs and will provide ongoing sewer service revenues. Oakley offers new homes at affordable rates by Bay Area standards with over 5,000 approved residential lots still to be built.

The unincorporated area of Bethel Island is known for its proximity to the Sacramento-San Joaquin Delta, with several local marinas and yacht clubs. The Island's population of just over 2,100 residents include a high percentage of retirees living on waterfront homes. In 2018, the Delta Coves development began building new waterfront homes with a future buildout of 500 homes ranging in price from \$700,000 to \$1.6 million.

The theme of this year's Annual Comprehensive Financial Report is dedicated to the recent completion of the District's Strategic Plan 2022-2027+. The District unveiling of the strategic plan set into motion a new course of action that will prioritize efforts, effectively allocate resources, align stakeholders and staff on the organization's goals, and ensure those goals are backed with data and sound reasoning.

Taking the process one step further, the District invited several partners, including city, water districts, and fire officials, to get involved more closely in building the District's plans. The partners were asked to attend a series of workshops that would ultimately become the forward-focused vision to align the District and its stakeholders. While having a seat at the table, District partners were able to assess and fit into the narrative of what Ironhouse's sustainable and resilient future vision looks like.

Acknowledgements

The preparation of this report could not have been accomplished without support and input from all departments and our independent auditor firm. We would also like to thank the Board of Directors for their continued dedication supporting the highest level of prudent fiscal management.

Respectfully submitted,



Chad Davisson
General Manager



Michael Welty, CPA
Chief Financial Officer



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

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**Ironhouse Sanitary District
California**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2020

Christopher P. Morill

Executive Director/CEO

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SECTION I: INTRODUCTION

Commitment to Synergistic Partnerships:

- Continue discussions that were initiated with ECCFPD and with ConFIRE for a joint training facility

Strategic Plan 2022-2027+

Community Partner
East Contra Costa Fire Protection District



Profile of the District

A brief history

The Ironhouse Sanitary District (ISD) provides wastewater collection, treatment and recycled water services for the communities of Oakley, Bethel Island and some unincorporated areas of Contra Costa County. ISD was incorporated as the Oakley Sanitary District in 1945.

In the mid 1960's a Joint Powers Agreement (JPA) was established between the Oakley Sanitary District and County Sanitation District No. 15 to address septic system issues in Hotchkiss Tract.

In 1977, an additional JPA was established between

the Oakley Sanitary District and the community of Bethel Island to establish the Oakley-Bethel Island Wastewater Management Authority.

In January 1992, the Oakley Sanitary District annexed Bethel Island, the JPA originated in 1977 was dissolved, and the District merged with Oakley-Bethel Island Wastewater Management Authority and County Sanitation District No. 15.

At this time the new collaboration was renamed the Ironhouse Sanitary District after an historical one-room school house in Oakley

Today

Today the District serves an estimated population of 45,500 residents in a service area of approximately 37 square miles. The District's sphere of influence (SOI) encompasses an additional 2.4 square miles and includes areas adjacent to the District's southern boundary.

The largest area in the SOI is the Veale Tract adjacent to the southeast corner of the District. The

maximum build-out per the General Plan for the City of Oakley is over 65,000 people. Today the City has just under 43,500 in residents.

The Board of Directors of Ironhouse Sanitary District consists of five members serving four-year, staggered terms. It is the primary responsibility of the Board of Directors to formulate and evaluate policy for the District.



The San Joaquin River sports beautiful sunsets from the shorelines of both Oakley and Bethel Island.



WATER RECYCLING FACILITY (WRF)

Function: Wastewater treatment and recycling services

Service area: City of Oakley and unincorporated Contra Costa County including Bethel Island

Population: Approximately 45,500

Facility Design Capacity: 4.3 million gallons per day (MGD) average daily flow; 8.6 MGD maximum wet weather flow

Current Average Daily Flow: 2.52 MGD

Plant Type: Advanced treatment Membrane Bioreactor process

Process: Preliminary treatment through mechanical screens and vortex grit removal; secondary process through biological treatment; tertiary treatment through ultraviolet (UV) disinfection

Regulatory Permits: The District operates the WRF in compliance with the Waste Discharge Requirements (WDR R5-2018-0050) issued by the Regional Water Quality Control Board, Central Valley Region. In addition, the District has obtained a National Pollutant Discharge Elimination System permit (Order R5-2018-0090, NPDES CA0085260) to regulate discharges of tertiary disinfected effluent to the San Joaquin River.

Energy Efficiency: A significant amount of electricity is required to operate the Water Recycling Facility. The District leases a 1.1 megawatt (MW) solar power system to offset the load purchased from the electrical grid.

COLLECTION SYSTEM

Areas of Responsibility: Sanitary sewer collection system and associated lift stations

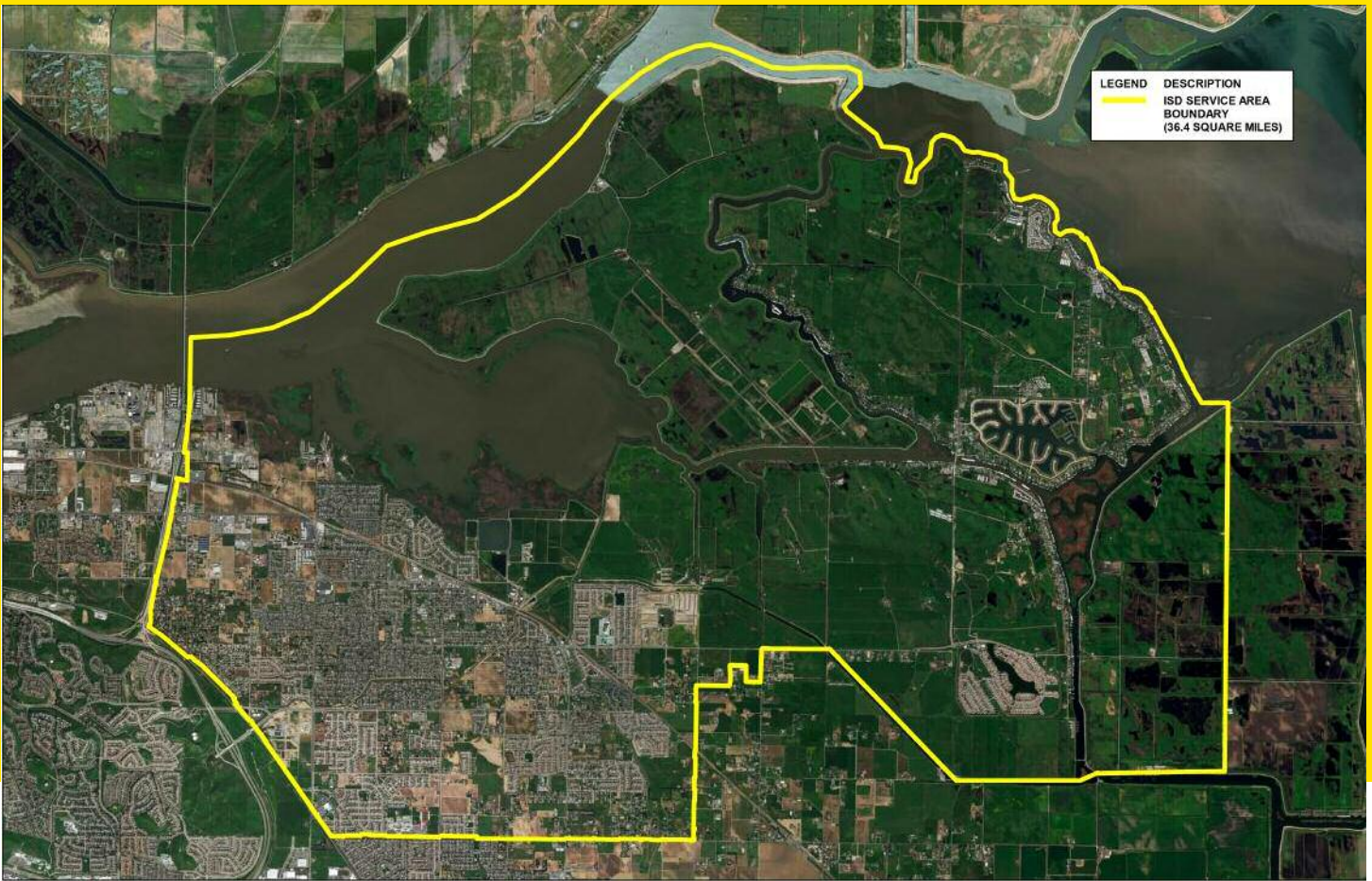
Size of Collection System: 125 miles gravity sewers; 15.9 miles force mains

Number of Lift Stations: 32

Number of service connections: 12,778 (ESU)

Age of collection system:

- 0-10 years: 15%
- 10-50 years: 65%
- 50-100 years: 20%
- Over 100 years: 0%



District Service Area

ISD is bounded by the San Joaquin River to the north, the Delta Diablo Sanitation District to the west, the City of Brentwood to the south and

unincorporated area in the Holland Tract to the east.

Reprinted from Contra Costa LAFCO

Board of Directors



Chris Lauritzen, President
Term ending: 2022



Susan Morgan, Vice President
Term ending: 2022



Dawn Morrow
Term ending: 2024



Peter Zirkle
Term ending: 2024



Angela Lowrey
Term ending: 2024



Doug Scheer, Director
Term ended: 2020

Management Staff



Chad Davisson
General Manager



Tyson Zimmerman
Assistant General Manager

PLANNING FOR THE FUTURE

STRATEGIC PLAN 2020-2027+



Ironhouse Sanitary District
450 Walnut Meadows Drive
Oakley, CA 94561
ironhousesanitarydistrict.com



In 2021 Ironhouse Sanitary District unveiled our 5-Year Strategic Plan 2022-2027 (SP27+), which focuses on creating and sustaining a resilient future that will meet the needs of our diverse ratepayers and stakeholders.

Located in the Delta and serving the City of Oakley, Bethel and Jersey Islands, and Eastern Contra Costa County, we recognize our diverse community has unique needs. As a Special District, Ironhouse embraces our role and responsibility to provide continuous wastewater service while creating the reusable resources of recycled water and biosolids to serve our community at large.

We are proud of the District's foresight and innovative approach to providing beneficial high-quality recycled water to enhance our environment and create potential to augment water supply, particularly in the era of climate change, which threatens our communities and economy with droughts that endure year-round.

MISSION

Ironhouse Sanitary District protects public health, resources, and the environment through dependable, efficient, and innovative collection, treatment, and multi-benefit reuse of our community's wastewater for a resilient future.

VISION

Ironhouse Sanitary District is a leader committed to industry excellence in serving our diverse community with trust, transparency, and fiscal responsibility to maximize the beneficial use of our shared resources.

To view a copy of Ironhouse Sanitary District's Strategic Plan 2022-2027+ go to www.ironhousesanitarydistrict.com/301/Strategic-Plan-2022-2027.

STRATEGIC PLAN

GOALS AND OBJECTIVES



ENVIRONMENTAL AND RESOURCE STEWARDSHIP

ISD will be an innovative leader by implementing practices and projects that promote resource recovery to protect community health and the environment.



CUSTOMER & COMMUNITY ENGAGEMENT

ISD will remain an accountable, inclusive, and transparent partner as we proactively engage our stakeholders to maximize the benefit of our resources to the benefit of ISD's resources for the betterment of the community at large.



STRATEGIC PARTNERSHIPS AND ADVOCACY

ISD will cultivate strategic relationships and identify common goals to advocate at a local, regional, state, and federal level, which promote our shared policy and funding interests.



ENDURING ORGANIZATION

ISD will continue to thrive by valuing our ratepayers' investment through fiscal responsibility, empowering employees, and ensuring health & wellness within the organization.



ISD SERVICES AND ASSETS

ISD will continue to be an industry leader that serves its customers by maintaining and improving its services and assets as public investments.



Ironhouse Collections crew cleaning up confined entry space after replacing a clay sewer pipe installed in the 1940s.

District collections and maintenance

Ironhouse Sanitary District's collection system is comprised of 125 miles of gravity lines, 16 miles of force mains and 32 lift stations. Together this network conveys wastewater from the communities of Oakley and Bethel Island to the state-of-the-art Water Recycling Facility.

A staff of seven is responsible for maintaining the collection system, responding to emergencies and ensuring the system meets regulatory compliance. This includes rebuilding pumps, rehabilitating lift stations, and sewer line cleaning and

inspection.

The collection staff also works closely with developers to ensure that new collection facilities and lines meet District standards.

Every staff member has received certification in Collection System Maintenance through the California Water Environment Association (CWEA).

The fiscal year 2020-21 operations and maintenance budget, excluding both depreciation expense and the allocation of administrative overhead, for Collections and Maintenance was \$1.7 million.

Aeration Basins at Ironhouse Sanitary District's Water Recycling Facility.



District Water Recycling Facility

In 2011 Ironhouse Sanitary District commissioned the new Water Recycling Facility to provide advanced wastewater treatment and disposal capacity to meet state standards and to accommodate planned growth within the District's service area.

The plant uses advanced membrane bioreactor technology, as well as ultra-violet light disinfection and is the first facility of its kind in Contra Costa County, providing arguably the highest quality recycled water in Northern California.

The project was recognized with the California Association of Sanitation Agencies (CASA) 2011 Technological Innovation and Achievement Award for using advanced membrane filtration technology and

ultraviolet light for disinfection to help protect the sensitive Delta environment.

The District's Water Recycling Facility produces effluent that meets the highest California Department of Public Health Title 22 standards as an unrestricted and non-potable, reclaimed water source.

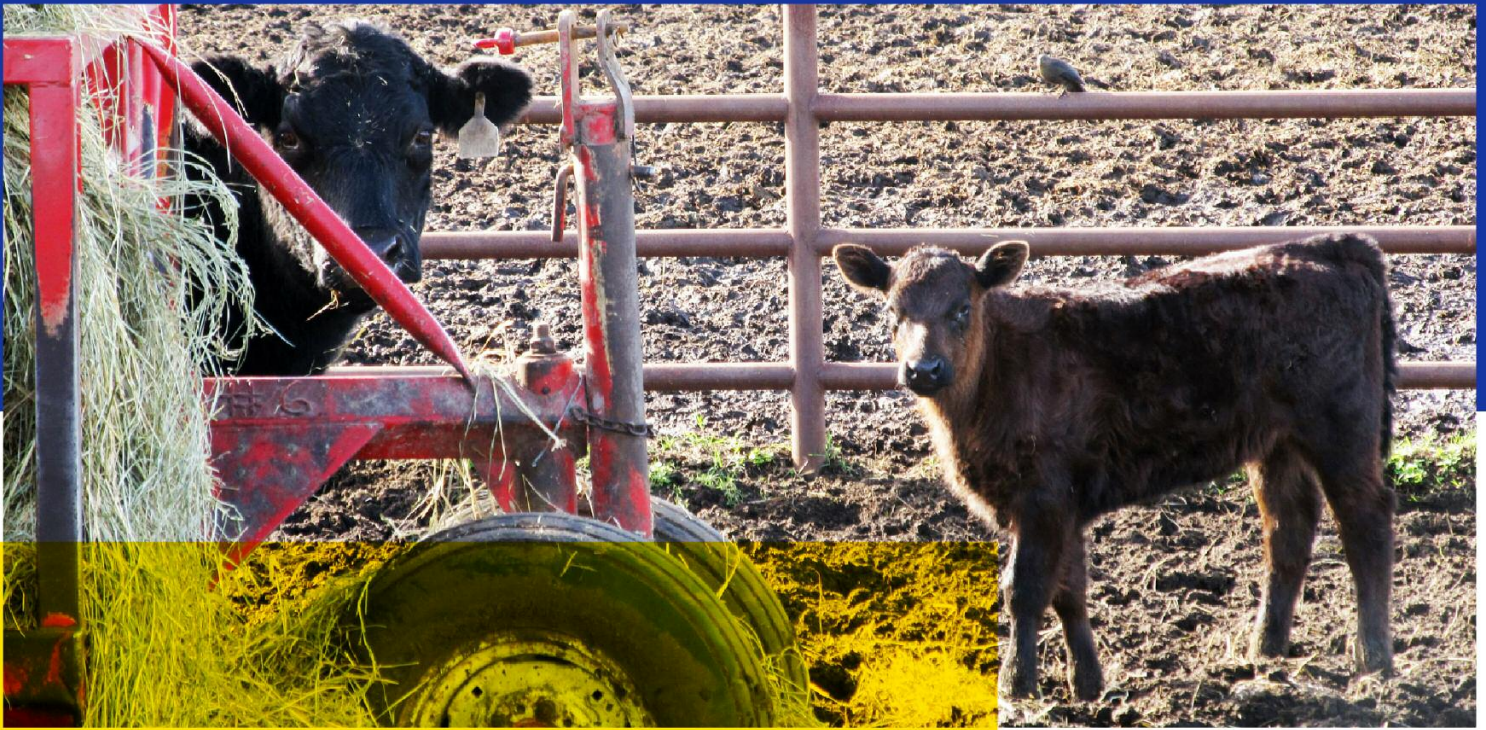
Rather than using a chemical based treatment process, membrane bioreactor technology uses an aeration system that uses a biological-bacteria and a membrane filtration method during the cleaning process. The final process employs ultraviolet light for disinfection.

The District is permitted to dispose of effluent in two capacities. An NPDES permit allows the District to dispose of

effluent into the San Joaquin river on a year round basis. The District is also permitted to land apply effluent on farm fields located on the mainland and Jersey Island.

The Water Recycling Facility is run by seven staff members. All plant operators are licensed by the state of California. The facility operates 24/7 and is controlled by programmable logic controllers. Staff monitor operational processes and test samples to ensure regulatory compliance.

The fiscal year 2020-21 operations and maintenance budget, excluding depreciation expense and an allocation of administrative overhead, for the Water Recycling Facility was \$2.8 million.



The District currently grows hay and raises cattle on Jersey Island.

Jersey Island

Ironhouse Sanitary District owns and operates Jersey Island. The District purchased the island in 1993 as a means to dispose of the District's effluent. Since that time, the Water Recycling Facility was commissioned and treats the effluent to a level that is permitted to be discharged into the San Joaquin River.

Now parts of Jersey Island are used for agricultural operations. River water is used for irrigation of 450 acres of fields that grows approximately 2,000 tons of hay per year. It is used for the irrigation of 450 acres of fields that grows approximately 2,000 tons of hay per year.

In addition to growing hay and other fodder crops, the District manages other revenue generating operations. The District owns and operates a 2,500 head cattle ranch. Hay grown on the island is fed to the cattle to offset feed costs.

The District works in cooperation with Reclamation District 830 (RD 830) on the island. RD 830 is responsible for levee maintenance and restoration and the District maintains vegetation control and cleans drainage ditches. RD 830 receives subvention funding from the Department of Water Resources to help fund the levee maintenance.

Jersey Island is located in Contra Costa County in the Sacramento-San Joaquin Delta region. The 3,520-acre island is bound to the west by the San Joaquin River, on the north by False River, on the northeast by Piper Slough, on the east by Taylor Slough and on the south by Dutch Slough.

The fiscal year 2020-21 operations and maintenance budget, excluding depreciation expense and an allocation of administrative overhead, for Jersey Island was \$2.0 million.

District Organizational Chart



Awards, Accreditations and Certifications

Awards (2020)

California Water Environment Association (CWEA)

Collection Person of the Year (State and SFBS): Leon Laucirica
Mechanical Technician of the Year (State and SFBS) – John Abdilla

Awards (2019)

California Water Environment Association (CWEA)

Plant of the Year Award (SFBS) - Small Agency
Collection System of the Year Award (SFBS) - Small Agency
Supervisor of the Year Award (SFBS and State): Collections System Supervisor Louis Solana
Collection Person of the Year (SFBS): Ian Robertson
Operator of the Year Award (SFBS): Adrian Vazquez
Community Engagement and Outreach: Project of the Year Award (SFBS and State): East County Regional Coalition's "No Wipes In The Pipes" campaign

Awards (2018)

California Water Environment Association (CWEA)

Collection Person of the Year — Frank Casey
Safety Plant of the Year - Medium Plant of the Year (San Francisco Bay Section)

Awards (2017)

California Association of Sanitation Agencies (CASA)

Organizational Excellence-Small Agency
Outstanding Capital Project-Small Agency

California Water Environment Association (CWEA)

Plant Overall: Plant of the Year Award - Small Agency
Collection System of the Year Award - Small Agency
Community Engagement and Outreach: Project of the Year Award
Supervisor of the Year Award: Collections System Supervisor Louis Solana
Community Engagement and Outreach Person of the Year Award: Roni Gehlke

California Special Districts Association (CSDA)

Board Member of the Year: Director Chris Lauritzen

Accreditations and Certifications

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting (2017, 2018, 2019, 2020)

Special District Leadership Foundation

District of Distinction Accreditation (2018 to 2021)

Special District Leadership Foundation

District Transparency Certificate of Excellence (2018 to 2024)

SECTION II: FINANCIAL

Commitment to Synergistic Partnerships:

- Promote development within the city of Oakley through leveraging District assets and resources

Strategic Plan 2022-2027+

Community Partner
City of Oakley



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**IRONHOUSE SANITARY DISTRICT
ANNUAL FINANCIAL REPORT
WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2021**

**MANN, URRUTIA, NELSON, CPAS & ASSOCIATES, LLP
1760 CREEKSIDE OAKS DRIVE, SUITE 160
SACRAMENTO, CA 95833**

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Ironhouse Sanitary District
Oakley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Ironhouse Sanitary District (the "District") as of and for the year ended June 30, 2021, 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; 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 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Ironhouse Sanitary District, as of June 30, 2021, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDIT

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-8, schedules related to the District's net pension liability on pages 37 - 38, and the schedules related to the District's net OPEB liability on pages 39 - 40 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 Information

The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2021, on our consideration of the Ironhouse Sanitary 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 solely 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 effectiveness of the Ironhouse Sanitary District's 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 the Ironhouse Sanitary District's internal control over financial reporting and compliance.

Mann, Monica, Volgen CPA's

Sacramento, California
November 16, 2021

INDEPENDENT AUDIT

MANAGEMENT'S DISCUSSION AND ANALYSIS

The financial statements for the fiscal year ending June 30, 2021 are being issued in the format prescribed by the provisions of Government Accounting Standards Board Statement 34 (GASB 34), which requires the District to provide this overview of its financial statements for the fiscal year. Please read it in conjunction with the Basic Financial Statements.

The Ironhouse Sanitary District (the District) provides wastewater collection, treatment and disposal services and recycled water to individuals and businesses within the City of Oakley, Bethel Island, and from other unincorporated areas within the District's service boundary. The District's primary source of funding is from service charges, service connection fees and capacity fees from users of the services provided by the District.

The following management discussion and analysis (MD&A) will discuss the results of the District's operations. Key financial information for the current fiscal year will be compared with those of the prior year.

A. District Financial Highlights

The assets of the District exceeded its liabilities at June 30, 2021 by \$88,415,129 (net position) compared to \$81,398,932 at June 30, 2020. For the fiscal year 2021, net position increased by \$7,016,197 as compared to fiscal year 2020 increase in net position of \$6,858,516.

The District's cash, cash equivalents, and investments at June 30, 2021 were \$32,250,883 representing an increase of \$3,819,300 from the June 30, 2020 balance of \$28,431,583. The increase reflects cash inflow from operations of \$11,667,294, cash outflow for debt service of \$2,937,700, and cash outflow for the purchase of capital assets of \$4,910,294.

Total District liabilities decreased by \$1,976,694 during fiscal year 2021 from \$41,998,324 at June 30, 2020 to \$40,021,630 at June 30, 2021. The primary reason for the decrease represents the annual principal debt service reduction of long-term debt in the amount of \$2,937,700..

As of the close of the current fiscal year, the District's Proprietary Fund reported Unrestricted Undesignated Net Position of \$5,580,949 compared to \$5,548,264 for the prior fiscal year, and Unrestricted Designated Reserves of \$10,086,828 compared to \$11,789,098 for the prior fiscal year. Restricted Net Position at June 30, 2021 is \$12,387,969 compared to \$7,815,822 at June 30, 2020.

The decrease in Unrestricted Designated Net Position primarily reflects purchases of capital assets of \$4,910,294 and offset by the transfer of \$2,883,639 from Unrestricted Undesignated Net Position to the Capital Expenditure Reserve and an allocation of \$324,421 of Ad Valorem taxes received in accordance with reserve policies.

The increase in Restricted Net Position of \$4,572,147 reflects capacity fees received from developers in the amount of \$5,887,876 offset by the developers' annual share of debt service in the amount of \$1,366,031. Additionally, \$50,302 of interest income was allocated to Restricted Net Position. Restricted capacity related fees are held for the purpose of developers' annual share of debt service and plant capacity expansion.

Deferred Outflow of Resources related to pension and other post-retirement benefits increased by \$71,491 during the fiscal year, whereas Deferred Inflow of Resources for pension and post-retirement benefits decreased by \$95,515.

INDEPENDENT AUDIT

A. District Financial Highlights (continued)

The primary revenue resources of the District are service charges, service connection fees and capacity fees from users of the services provided by the District which totaled \$18,241,563 in the fiscal year 2021, compared to \$12,866,382 in fiscal year 2020. The 41.8% increase was primarily the result of 526 additional new connections into the system in fiscal year 2021 as compared to fiscal year 2020. The increase in new connections resulted in a significant increase in service connection and capacity related fees. In addition, there was an overall 9% increase in the service fee per equivalent dwelling units (EDUs) during the year.

The District had Operating Revenues of \$18,514,287 for the fiscal year 2021 versus \$13,028,484 for fiscal 2020 (42.1% increase). Operating Expenses of \$13,340,625 for fiscal year 2021 versus \$12,472,258 for fiscal year 2020 (7.0% increase).

The District had Non-Operating Revenues (net of non-operating expenses) of \$2,302,083 for fiscal year 2021 versus \$6,800,134 for fiscal 2020 (66.1% decrease). The primary reason for the decrease is the result of a reduction in capital contribution from developers of sewer system infrastructure of \$848,891 in fiscal year 2021 as compared to \$4,950,414 in fiscal year 2020.

B. Using the Annual Report

Management Discussion and Analysis

Management's Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements. The financial statements and notes to the financial statements included in this report were prepared in accordance with GAAP applicable to governmental entities in the United States of America for Proprietary Fund types.

Government-Wide Financial Statements

The government wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business. They consist of Comparative Statements of Net Position and Comparative Statement of Revenues, Expenses and Changes in Net Position.

The Comparative Statements of Net Position present information on all the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources; with the difference between the two reported as net position. Increases or decreases in net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

Comparative Statements of Revenues, Expenses and Changes in Net Position present information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., depreciation and earned but unused vacation leave). In other cases, cash received in the current year will not be reflected as revenues until the event for which the revenues are earned has occurred (e.g., unearned revenue).

The government wide financial statements report on the District's activities. As previously stated, the activities are primarily supported by service charges, service connection fees and capacity fees. The District's function is to provide wastewater collection, treatment and disposal services, and recycled water to users within the District's area of operations. The financial statements can be found after this Management Discussion and Analysis.

Notes to Financial Statements

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the general purpose financial statements. The Notes to Financial Statements can be found in this report after the basic financial statements.

INDEPENDENT AUDIT

C. Capital Assets and Debt Administration

Capital Assets:

As of June 30, 2021, the District's investment in Capital Assets for its Proprietary Fund was \$90,146,572 (net of accumulated depreciation). This investment in Capital Assets includes land, water recycling facility, collection system, buildings, vehicles, furniture and equipment. There was \$4,910,294 of major capital assets purchased during the fiscal year.

Additional information on the District's Capital Assets can be found in Note 4 to the Financial Statements included in this report.

Debt Administration:

The District began construction in April 2009 on a new 4.3 MGD water recycling facility. The facility went into service in July 2011. The District entered into a project funding agreement with the California State Water Resources Control Board under their Clean Water State Revolving Fund Program. The District borrowed \$58,754,010 for construction of the water recycling facility. Repayment of the loan is paid in twenty annual installments of \$2,937,701 that commenced October 2012. As of June 30, 2021, the outstanding balance of the loan is \$32,314,706. The loan incurred no interest; however, to borrow funds, the District was required to provide 16.67% of the total loan amount. This portion of the loan is reported as prepaid interest and is amortized at an effective interest rate of 1.8%.

Additional information on the District's Debt can be found in Note 5 to the Financial Statements included in this report.

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT COMPARATIVE STATEMENT OF NET POSITION JUNE 30, 2021

	ENTERPRISE FUND		Percent Change
	2021	2020	
Assets:			
Current Assets	\$ 33,577,431	\$ 29,797,068	12.7 %
Related party receivable - long-term	29,185	46,695	(37.5)
Prepaid Interest	2,106,263	2,527,516	(16.7)
Investment in Cattle Operations, Net	1,172,156	1,276,740	(8.2)
Capital Assets, Net	<u>90,146,572</u>	<u>88,511,091</u>	<u>1.8</u>
Total Assets	<u>127,031,607</u>	<u>122,159,110</u>	<u>4.0</u>
Deferred Outflows of Resources	1,653,598	1,582,107	4.5
Liabilities:			
Current Liabilities	4,433,151	3,787,604	17.0
Long-Term Liabilities	<u>35,588,479</u>	<u>38,210,720</u>	<u>(6.9)</u>
Total Liabilities	<u>40,021,630</u>	<u>41,998,324</u>	<u>(4.7)</u>
Deferred Inflows of Resources	248,446	343,961	(27.8)
Net Position:			
Net Investment in Capital Assets	60,359,383	56,245,748	7.3
Unrestricted Net Position			
Undesignated	5,580,949	5,548,264	0.6
Designated Reserves	<u>10,086,828</u>	<u>11,789,098</u>	<u>(14.4)</u>
Total Unrestricted	<u>15,667,777</u>	<u>17,337,362</u>	<u>(9.6)</u>
Restricted Net Position	<u>12,387,969</u>	<u>7,815,822</u>	<u>58.5</u>
Total Net Position	<u>\$ 88,415,129</u>	<u>\$ 81,398,932</u>	<u>8.6 %</u>

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2021

	ENTERPRISE FUND		
	2021	2020	Percent Change
Revenues:			
Service charges	\$ 12,258,321	\$ 10,571,895	16.0 %
Service connection and related fees	95,366	454,778	(79.0)
Capacity fees	5,887,876	1,839,709	220.0
Fees other	41,494	18,282	127.0
Miscellaneous	231,230	143,820	60.8
Total operating revenues	18,514,287	13,028,484	42.1
Expenses:			
Salaries, benefits and payroll taxes	5,251,955	5,177,921	1.4
Administrative expenses	309,944	300,044	3.3
Utilities	822,758	713,848	15.3
Operations and maintenance	1,577,144	1,423,885	10.8
Professional services	926,255	609,830	51.9
Insurance	194,443	156,914	23.9
Depreciation	4,258,126	4,089,816	4.1
Total operating expenses	13,340,625	12,472,258	7.0
Operating income	5,173,662	556,226	830.1
Non-operating revenues:			
Taxes	355,816	335,746	6.0
Cattle income, net of expenses	718,918	625,014	15.0
Hay sales	293,316	213,557	37.3
Mineral rights	8,530	8,530	-
Investment income	76,612	666,873	(88.5)
Capital contributions	848,891	4,950,414	(82.9)
Total non-operating revenues	2,302,083	6,800,134	(66.1)
Interest expense	459,548	497,844	(7.7)
Total non-operating expenses	459,548	497,844	(7.7)
Non-operating income	1,842,535	6,302,290	(70.8)
Change in net position	7,016,197	6,858,516	2.3
Net Position, Beginning of Year	81,398,932	74,540,416	9.2
Net Position, End of Year	\$ 88,415,129	\$ 81,398,932	8.6 %

D. The Economic Outlook

The District is dependent upon user service, connection and capacity fees for the funding of operations and capital improvements. Increases in service fees can only be implemented upon completing the State of California Proposition 218 process. During fiscal year 19-20, the District completed the Proposition 218 process which provides for a service fee increase of 9%, 5%, 5%, 0% and 0% over five years beginning in the current fiscal year. The five-year rate increase plan outlined in the Proposition 218 notice was developed and based on a third-party service fee rate study.

As outlined in the Proposition 218 notice, the primary purpose of the five-year rate plan is to provide additional service fees for an estimated \$25.4 million of capital improvements of the District's sewer system and water recycling facility infrastructure beginning fiscal year 20-21 through fiscal year 25-26. The estimated capital improvements are partially based on a third-party comprehensive reliability study of its water recycling facility which includes recommendations for various operating improvements of the facility. The study was conducted by an engineering firm specializing in facility reliability studies.

E. Requests for information

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the District's Financial Officer at Ironhouse Sanitary District, 450 Walnut Meadows Drive, Oakley, CA, 94561.

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT STATEMENT OF NET POSITION AS OF JUNE 30, 2021

CURRENT ASSETS

Cash and investments (Note 2)	\$ 19,862,914
Cash and investments - restricted (Note 2)	12,387,969
Accounts receivable	94,334
Related party receivable (current portion) (Note 11)	141,584
Interest receivable	32,026
Supply inventory	359,494
Prepaid expenses	277,857
Prepaid interest (current portion) (Note 5)	<u>421,253</u>

Total Current Assets 33,577,431

NON-CURRENT ASSETS

Prepaid interest (less current portion) (Note 5)	2,106,263
Related party receivable (less current portion) (Note 11)	29,185
Investment in cattle (net of accumulated depreciation) (Note 3)	1,172,156
Capital assets (net of accumulated depreciation) (Note 4)	<u>90,146,572</u>

Total Non-Current Assets 93,454,176

TOTAL ASSETS 127,031,607

DEFERRED OUTFLOWS OF RESOURCES

Changes in the net pension liability (Note 7)	1,224,226
Changes in the net OPEB liability (Note 9)	<u>429,372</u>

Total Deferred Outflows of Resources 1,653,598

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES \$ 128,685,205

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

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT STATEMENT OF NET POSITION (CONTINUED) AS OF JUNE 30, 2021

CURRENT LIABILITIES

Accounts payable	\$ 941,450
Payroll related liabilities	132,951
Customer deposits payable	85,341
Compensated absences (current portion) (Note 5)	308,565
State revolving fund loan (current portion) (Note 5)	2,937,701
Unearned revenues (Note 6)	<u>27,143</u>

Total Current Liabilities 4,433,151

LONG TERM LIABILITIES

Net pension liability (Note 7)	4,840,309
Net OPEB liability (Note 9)	1,312,391
Compensated absences (less current portion) (Note 5)	58,774
State revolving fund loan (less current portion) (Note 5)	<u>29,377,005</u>

Total Long-Term Liabilities 35,588,479

TOTAL LIABILITIES 40,021,630

DEFERRED INFLOWS OF RESOURCES

Changes in the net pension liability (Note 7)	168,459
Changes in the net OPEB liability (Note 9)	<u>79,987</u>

Total Deferred Inflows of Resources 248,446

NET POSITION

Net investment in capital assets (Note 12)	60,359,383
Unrestricted (Note 12)	15,667,777
Restricted for:	
Debt Service	2,937,701
Trunkline Capacity	4,517,856
Capacity Fee Reserve	<u>4,932,412</u>

Total Restricted (Note 12) 12,387,969

TOTAL NET POSITION 88,415,129

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION \$ 128,685,205

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

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2021

OPERATING REVENUES

Service charges	\$ 12,258,321
Service connection and related fees	95,366
Capacity fees (Note 6)	5,887,876
Fees - other	41,494
Miscellaneous	<u>231,230</u>

Total Operating Revenues 18,514,287

OPERATING EXPENSES

Salaries, benefits and payroll taxes	5,251,955
Administration expenses	309,944
Utilities	822,758
Operations and maintenance	1,577,144
Professional services	926,255
Insurance	194,443
Depreciation	<u>4,258,126</u>

Total Operating Expenses 13,340,625

Net Operating income 5,173,662

NON-OPERATING REVENUES (EXPENSES)

Taxes	355,816
Cattle income, net of expenses	718,918
Hay sales	293,316
Mineral rights	8,530
Interest income	188,702
Net unrealized loss	(112,090)
Interest expense	<u>(459,548)</u>

Total Nonoperating Revenues, net 993,644

INCOME BEFORE CONTRIBUTIONS 6,167,306

Capital contributions 848,891

INCREASE IN NET POSITION 7,016,197

NET POSITION, BEGINNING OF YEAR 81,398,932

NET POSITION, END OF YEAR \$ 88,415,129

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

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 18,660,850
Cash paid to employees and for benefits and payroll taxes	(5,030,711)
Cash paid to suppliers and vendors	<u>(3,117,751)</u>
Net Cash Provided by Operating Activities	<u>10,512,388</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Taxes received	<u>355,816</u>
Net Cash Provided by Noncapital Financing Activities	<u>355,816</u>

CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(4,910,294)
Sale of cattle	1,280,174
Acquisition of cattle	(64,963)
Cattle operations expenses	(526,131)
Principal payments on state revolving fund loan	<u>(2,937,700)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(7,158,914)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest and dividends income	222,100
Purchase of investments	<u>(3,722,073)</u>
Net Cash Used for Investing Activities	<u>(3,499,973)</u>

NET INCREASE IN CASH 209,317

CASH AND CASH EQUIVALENTS - JULY 1, 2020 1,679,660

CASH AND CASH EQUIVALENTS - JUNE 30, 2021 \$ 1,888,977

RECONCILIATION TO CASH AND INVESTMENTS ON THE STATEMENT OF NET POSITION

Cash and investments	\$ 19,862,914
Cash and investments - restricted	12,387,969
Less: Investments (Note 2)	<u>(30,361,906)</u>

CASH AND CASH EQUIVALENTS - JUNE 30, 2021 \$ 1,888,977

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

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2021

OPERATING INCOME \$ 5,173,662

Adjustments to reconcile operating income to net cash
provided by operating activities:

Depreciation expense	4,258,126
Hay sales	293,316
Mineral rights	8,530
Increase in net pension liability	423,371
Decrease in OPEB liability	(88,467)
Decrease in deferred inflows	(95,515)
Increase in deferred outflows	(71,491)
Increase in accounts receivable	(158,866)
Increase in prepaid expenses	(47,249)
Decrease in supply inventory	190,869
Increase in accounts payable	569,173
Decrease in customer deposits	(818)
Decrease in payroll related liabilities	(3,675)
Increase in compensated absences	57,021
Increase in unearned revenue	<u>4,401</u>
Total adjustments	<u>5,338,726</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 10,512,388

SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

Developer contributions \$ 848,891

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

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Ironhouse Sanitary District (The District) provides sewage collection, treatment and disposal services, and recycled water to the City of Oakley and the unincorporated area of Bethel Island, California. There are five members on the District's Board of Directors. These members are elected to four year terms.

Ironhouse Sanitary District, formally known as the Oakley Sanitary District, was formed on August 27, 1945 under the provisions of sections 6400-6907.5 of the California Health and Safety Code. On February 1, 1992 the District annexed the territory of the former Contra Costa County Sanitation District Number 15 and received title to all of the assets of the Contra Costa County Sanitation District Number 15 and the Oakley-Bethel Island Wastewater Management District. The District also assumed all liabilities of the two entities.

Basis of Presentation

The basic financial statements of the Ironhouse Sanitary District have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Basis of Accounting

The Ironhouse Sanitary District follows the enterprise method of accounting practices and reporting methods approved for waste disposal districts. An Enterprise type fund is a proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses excluding depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred.

Operating revenues are those revenues that are generated from the primary operations of the District. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

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

Budgetary Reporting

The District prepares an operations and maintenance budget at the beginning of each year for the following fiscal year. Capital budgets are adopted on a project basis. Formal budgetary integration is employed as a management control device.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the District defines cash and cash equivalents to include all cash and temporary investments with original maturities of three months or less from the date of acquisition.

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Inputs, Methodologies and Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are developed based on the best information available about the assumptions market participants would use in pricing the assets. The classification of securities within the fair value hierarchy is based upon the activity level in the market for the security type and the inputs used to determine their fair value, as follows:

Level 1 - Unadjusted price quotations in active markets/exchanges for identical assets or liabilities that are accessible to the District.

Level 2 - Other observable inputs (including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks and default rates) or other market-corroborated inputs.)

Level 3 - Unobservable inputs based on the best information available in the circumstance, to the extent observable inputs are not available (including the District's own assumptions used in determining the fair value of investments).

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Supply Inventory

Inventory is valued at average cost which approximates market. Inventory consists of expendable supplies held for future consumption or capitalization. The cost is recorded as an expense as inventory items are consumed.

Prepaid Expenses

Certain payments for health insurance, maintenance, and liability insurance reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Capital Assets

Purchased or constructed assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. Interest expense incurred during the development period is capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Donated capital assets are recorded at acquisition value at the date of donation. The District established a threshold of \$5,000 for capitalization of depreciable assets. Depreciation has been provided using the straight-line method of accounting over the following estimated useful lives of the assets:

Plant and conveyance system - 40 years
Vehicles, furniture and equipment - 5 to 20 years

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cattle Operations

During the fiscal year ended June 30, 1997, the District acquired several herds of cattle. These cattle were purchased primarily to maintain the grass levels of the Jersey Island land owned by the District. In accordance with Accounting Standards Codification 905-10 *Accounting by Agricultural Producers and Agricultural Cooperatives*, the cost of purchasing and raising these cattle is capitalized. Mature cattle are depreciated over their useful lives which is considered to be 8 years. Immature cattle are capitalized and are charged to cattle operations expense when sold.

Compensated Absences

Compensated absences represent the vested portion of accumulated vacation leave. The liability for accumulated leave includes all salary - related payments that are directly and incrementally connected with leave payments to employees.

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 District's California Public Employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's 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.

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Measurement Period	July 1, 2019 - June 30, 2020

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and assets information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Measurement Period	July 1, 2019 - June 30, 2020

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position

Net position represents the residual interest in the District's assets and deferred outflows after liabilities and deferred inflows are deducted. Net position is presented in three broad components: net investment in capital assets; restricted; and unrestricted. Net investment in capital assets includes capital assets, net of accumulated depreciation, and outstanding principal balances of debt and related deferred outflows and inflows attributable to the acquisition, construction or improvement of those assets. Net position is restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation. All other net position is unrestricted. Operating losses outside of depreciation are funded by operating and capital reserves.

Use of Estimates

The preparation of financial statements in accordance 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 these estimates.

Subsequent Events

Subsequent events have been evaluated through November 16, 2021, which is the date the financial statements were issued.

Implementation of Government Accounting Standards Board Statements

Effective July 1, 2020, the District implemented the following accounting and financial reporting standards:

Government Accounting Standards Board Statement No. 84

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. Additionally, this Statement describes four fiduciary funds that should be reported, as well as provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Application of this statement has had no material impact on District's financial statements for the fiscal year ending June 30, 2021.

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government Accounting Standards Board Statement No. 90

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests*. The purpose of this statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The new standard clarifies the differences between a majority equity interests reported as an investment and majority equity interest reported as a component unit of the governmental entity. Application of this statement has had no material impact on District's financial statements for the fiscal year ending June 30, 2021.

Future Government Accounting Standards Board Statements

These statements are not effective until July 1, 2021 or later and may be applicable for the District. However, the District has not determined the effects, if any, on the financial statements.

Government Accounting Standards Board Statement No. 87

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The District has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this statement is effective for the District's fiscal year ending June 30, 2022.

Government Accounting Standards Board Statement No. 89

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement requires interest costs incurred before the end of a construction period to be recorded as an expenditure in the applicable period. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The District has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this statement is effective for the District's fiscal year ending June 30, 2022.

Government Accounting Standards Board Statement No. 91

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The purpose of this statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The District has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this statement is effective for the District's fiscal year ending June 30, 2023.

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government Accounting Standards Board Statement No. 92

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The District has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this statement is effective for the District's fiscal year ending June 30, 2022.

Government Accounting Standards Board Statement No. 93

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). The District has not determined what impact, if any, this pronouncement will have on the financial statements. The removal of LIBOR as an appropriate benchmark interest rate is effective for the District's fiscal year ending June 30, 2022. All other requirements of this statement are effective for the District's fiscal year ending June 30, 2022.

Government Accounting Standards Board Statement No. 94

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital assets (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The District has not determined what impact, if any, this pronouncement will have on the financial statements. The requirements of this statement are effective for the District's fiscal year ending June 30, 2023.

Government Accounting Standards Board Statement No. 96

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments, defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset-an intangible asset-and a corresponding liability, provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA, and requires not disclosures regarding a SBITA. The District has not determined what impact, if any, this pronouncement will have on the financial statements. The requirements of this statement are effective for the District's fiscal year ending June 30, 2023.

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government Accounting Standards Board Statement No. 97

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans and Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a partial component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other post-employment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The District has not determined what impact, if any, this pronouncement will have on the financial statements. The requirements of this statement related to the accounting and financial reporting for Section 457 plans are effective for the District's fiscal year ending June 30, 2022.

NOTE 2: CASH AND INVESTMENTS

Cash and investments are reported in the accompanying financial statements as follows:

Cash and investments	\$ 19,862,914
Restricted cash and investments	<u>12,387,969</u>
Total	<u>\$ 32,250,883</u>

The restricted cash balance is restricted for the current portion of the state revolving fund loan, and capacity fees. The restricted cash is also presented as restricted net position in the statement of net position.

The components of the District's cash and cash equivalents at June 30, 2021 are as follows:

Cash on hand	\$ 225
Deposits with financial institutions	<u>1,888,752</u>
Total cash	<u>1,888,977</u>
Local Agency Investment Fund	17,920,847
CalTRUST Investment Fund	3,584,126
Certificates of Deposit	3,446,320
Corporate Bonds	5,406,860
Money Market Mutual Funds	<u>3,753</u>
Total investments	<u>30,361,906</u>
Total cash and investments	<u>\$ 32,250,883</u>

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Authorized Investments of the District

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive) that addresses interest rate risk, credit risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligation	5 years	None	None
Banker's Acceptances	180 days	10%	5%
Commercial Paper	270 days	25%	5%
Certificates of Deposit	5 years	30%	None
Bank Deposits	5 years	None	None
Medium-Term Corporate Notes	5 years	30%	None
Money Market Mutual Funds	N/A	20%	10%
CD Placement Services	5 years	30%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Funds (CalTRUST)	N/A	None	None
U.S. Agency Obligations	5 years	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk in the market rate changes that could adversely affect the fair values of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for District operations.

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2021:

	Remaining Maturity		
	12 months or less	1-5 years	Fair Value
Certificates of Deposit	\$ 1,247,362	\$ 2,198,958	\$ 3,446,320
Corporate Bonds	2,013,494	3,393,366	5,406,860
Money Market Mutual Funds	3,753	-	3,753
Local Agency Investment Fund	17,920,847	-	17,920,847
CalTRUST Investment Fund	3,584,126	-	3,584,126
	<u>\$ 24,769,582</u>	<u>\$ 5,592,324</u>	<u>\$ 30,361,906</u>

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the investment policy, or debt agreements, and the actual rating as of the fiscal year for each investment type.

	Total	Rating as of Fiscal Year End		
		S&P	Moody's	N/A
Local Agency Investment Fund	\$ 17,920,847			Not rated
CalTRUST Short-term Investment Fund	1,724,928	AAf		
CalTRUST Medium Term Investment Fund	1,859,198	A+f		
Certificates of Deposit	3,446,320			Not rated
Corporate Bonds	5,406,860	AAA-AA		
Money Market Mutual Funds	<u>3,753</u>	AAAm		
	<u>\$ 30,361,906</u>			

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2021 there were no investments in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represent 5% or more of the total District investments.

Investment Valuation

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District does not have any investments that are measured using Level 3 inputs.

The following tables set forth by level, within the fair value hierarchy, the District's assets at fair value as of June 30, 2021.

	Level 1	Level 2	Level 3	Total
Certificates of Deposit	\$ -	\$ 3,446,320	\$ -	\$ 3,446,320
Corporate Bonds	-	5,406,860	-	5,406,860
Money Market Mutual Funds	<u>3,753</u>	<u>-</u>	<u>-</u>	<u>3,753</u>
Total assets at fair value	<u>\$ 3,753</u>	<u>\$ 8,853,180</u>	<u>\$ -</u>	<u>\$ 8,856,933</u>

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro rata share of the fair value provided by LAIF for the entire portfolio (in relation to the amortized cost of that portfolio).

NOTE 3: INVESTMENT IN CATTLE

The following is a summary of the changes in investment in cattle for the year ended June 30, 2021:

Investment in cattle at July 1, 2020	\$ 1,506,068
Activities of cattle operations, for the fiscal year ended June 30, 2021:	
Purchases of cattle	64,963
Additional capital expenditures	526,131
Cost basis for cattle sold	<u>(669,118)</u>
Investment in cattle at June 30, 2021	<u>1,428,044</u>
Accumulated depreciation on investment in cattle at June 30, 2021	<u>(255,888)</u>
Net investment in cattle at June 30, 2021	<u>\$ 1,172,156</u>

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021 is as follows:

	<u>July 1, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>June 30, 2021</u>
Capital assets not being depreciated					
Land and improvements	\$ 8,467,524	\$ -	\$ -	\$ -	\$ 8,467,524
Work in progress	<u>538,840</u>	<u>-</u>	<u>-</u>	<u>(225,902)</u>	<u>312,938</u>
Total capital assets not depreciated	<u>9,006,364</u>	<u>-</u>	<u>-</u>	<u>(225,902)</u>	<u>8,780,462</u>
Capital assets being depreciated					
Plant and improvements	53,132,670	32,004	(9,443)	11,120	53,166,351
Collection system and pipelines	61,373,085	5,141,429	(2,059,200)	214,782	64,670,096
Vehicles	2,588,868	25,938	(6,859)	-	2,607,947
Equipment	<u>25,284,878</u>	<u>559,814</u>	<u>(34,475)</u>	<u>-</u>	<u>25,810,217</u>
Total capital assets being depreciated	<u>142,379,501</u>	<u>5,759,185</u>	<u>(2,109,977)</u>	<u>225,902</u>	<u>146,254,611</u>
Less: accumulated depreciation					
Plant and improvements	(13,776,934)	(1,354,891)	9,443	-	(15,122,382)
Collection system and pipelines	(34,949,059)	(1,344,679)	2,059,200	-	(34,234,538)
Vehicles	(1,636,875)	(129,163)	6,859	-	(1,759,179)
Equipment	<u>(12,511,906)</u>	<u>(1,294,971)</u>	<u>34,475</u>	<u>-</u>	<u>(13,772,402)</u>
Total accumulated depreciation	<u>(62,874,774)</u>	<u>(4,123,704)</u>	<u>2,109,977</u>	<u>-</u>	<u>(64,888,501)</u>
Capital Assets, net	<u>\$ 88,511,091</u>	<u>\$ 1,635,481</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,146,572</u>

Depreciation expense for the year ended June 30, 2021 totaled \$4,258,126, and includes \$134,422 in depreciation expense on investment in cattle.

NOTE 5: LONG-TERM LIABILITIES

A summary of long-term liability activity for the year ended June 30, 2021 is as follows:

	<u>July 1, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2021</u>	<u>Due within One Year</u>
State Revolving Fund Loan	\$ 35,252,406	\$ -	\$ (2,937,700)	\$ 32,314,706	\$ 2,937,701
Compensated Absences	<u>310,318</u>	<u>273,021</u>	<u>(216,000)</u>	<u>367,339</u>	<u>308,565</u>
Total	<u>\$ 35,562,724</u>	<u>\$ 273,021</u>	<u>\$ (3,153,700)</u>	<u>\$ 32,682,045</u>	<u>\$ 3,246,266</u>

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 5: LONG-TERM LIABILITIES (CONTINUED)

State Revolving Fund Loan

The District entered into a project financing agreement with the California State Water Resources Control Board ("Board") under their Clean Water State Revolving Fund Program. The Program provides low-interest loan funding for construction of publicly-owned wastewater treatment facilities. Ironhouse was approved for funding for its Wastewater Treatment Plant Upgrade and Expansion Project. The cost for the Project was \$58,754,020. The loan was disbursed as costs were incurred. Repayment of the loan is paid in annual installments which began October 2012. Full repayment of the loan will be made by October of 2031. The loan bears no interest, however, in order to participate in the zero interest loan program, the District was required to provide 16.667% of the total loan amount. This portion (16.667%) of the loan represents interest costs and is reported on the Statement of Net Position as prepaid interest. Interest expense is amortized over the life of the loan at an effective interest rate of 1.8%. \$459,548 of the prepaid balance was amortized in the current year, resulting in a remaining balance of \$2,527,516 as of June 30, 2021, of which \$421,253 is current. In the event of termination upon written notice at the option of the State Water Board or upon violation of any material provisions of the project financing agreement, the District has agreed to, upon demand, repay the Board all unpaid installment payments in full. In the event of termination, interest shall accrue on all amounts due at the highest legal rate of interest from the date of notice to date of full repayment.

Debt service requirements for the State Revolving Fund Loan are as follows:

<u>For the Year Ending June 30,</u>	<u>Principal</u>	<u>Total Payments</u>	<u>Interest Expense</u>
2022	\$ 2,937,701	\$ 2,937,701	\$ 421,253
2023	2,937,701	2,937,701	382,957
2024	2,937,701	2,937,701	344,661
2025	2,937,701	2,937,701	306,366
2026	2,937,701	2,937,701	268,070
2027 - 2031	14,688,505	14,688,505	765,914
2032	<u>2,937,696</u>	<u>2,937,696</u>	<u>38,295</u>
Total	<u>\$ 32,314,706</u>	<u>\$ 32,314,706</u>	<u>\$ 2,527,516</u>

NOTE 6: CAPACITY FEES

Capacity fees are charged to each individual and business as they are hooked up to the sewer lines in either the City of Oakley or the unincorporated area of Bethel Island.

Capacity fees are to be used exclusively for future capacity expansion of the plant or infrastructure. They are not intended to be used for the normal operating expenses of the District. As of June 30, 2021, \$9,450,268 had been earned and designated for future expansion. During the year ended June 30, 2021, \$5,887,876 in capacity fees were earned.

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 7: DEFINED BENEFIT PENSION PLAN

A. General Information about the Pension Plan

Plan Description – All qualified permanent and probationary employees are eligible to participate in the District's Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan), administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all others). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety and miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the safety or miscellaneous pools. The District sponsors two rate plans (both miscellaneous). Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan 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 the Plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2021, are summarized as follows:

	Miscellaneous Plan	
	Hired prior to January 1, 2013	Hired on or after January 1, 2013
Benefit Formula	2.7% @ 55	2% @ 62
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	Monthly for life	Monthly for life
Retirement age	50-55	52-67
Monthly Benefits, as a % of Eligible Compensation	2.0% to 2.7%	1.0% to 2.5%
Required Employee Contribution Rate	8.0%	6.5%
Required Employer Contribution Rate*	32.136%	8.266%

*The required employer contribution rate is the sum of the employer normal cost rate plus the employer unfunded accrued liability contribution amount.

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The District's contributions to the Plan for the year ended June 30, 2021 were \$697,187.

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

As of June 30, 2021, the District reported a net pension liability of \$4,840,309 for its proportionate shares of the net pension liability of the Plan.

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2020, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 rolled forward to June 30, 2020 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 plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2020 and 2021 was as follows:

Proportion - June 30, 2020	0.04310 %
Proportion - June 30, 2021	<u>0.04449 %</u>
Change - Increase (Decrease)	<u><u>0.00139 %</u></u>

For the year ended June 30, 2021, the District recognized pension expense of \$1,023,378. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Pension contributions subsequent to measurement date	\$ 697,187	\$ -
Differences between projected and actual experience	249,436	-
Changes in assumptions	-	34,523
Difference between actual contributions made by employer and the employer's proportionate share of the risk pool's total contribution	12,458	123,489
Adjustment due to differences in proportions	121,357	10,447
Net difference between projected and actual earnings on plan investments	<u>143,788</u>	<u>-</u>
Total	<u><u>\$ 1,224,226</u></u>	<u><u>\$ 168,459</u></u>

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

\$697,187 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 subsequent fiscal period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30,	
2022	\$ 47,924
2023	125,569
2024	116,123
2025	68,964

C. Actuarial Assumptions – The total pension liabilities in the June 30, 2019 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.15% net of pension plan investment expenses, includes inflation
Mortality (1)	Derived Using CalPERS membership data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.50% until purchasing power protection allowance floor on purchasing power applies, 2.50% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality tables include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

Change in Assumptions

For the measurement period June 30, 2020, there were no changes of assumptions. For the measurement period June 30, 2019, there were no changes of assumptions. For the measurement period June 30, 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. For the measurement period June 30, 2017, the accounting discount rate was lowered from 7.65 percent to 7.15 percent. There were no changes of assumptions during the measurement period June 30, 2016.

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

D. Discount Rate – The discount rate used to measure the total pension liability was 7.15% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees' Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

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, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employees' Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. 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 equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset Class	Assumed Asset Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	(0.92)%

(a) An expected inflation of 2.00% used for this period.

(b) An expected inflation of 2.92% used for this period.

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the 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>
1% Decrease	6.15%
Net Pension Liability	\$7,647,962
Current Discount Rate	7.15%
Net Pension Liability	\$4,840,309
1% Increase	8.15%
Net Pension Liability	\$2,520,433

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

NOTE 8: DEFERRED COMPENSATION PLAN

During the fiscal year ended June 30, 1997 the District approved and established the Ironhouse Sanitary District Deferred Compensation Plan ("the deferred compensation plan") for its employees created in accordance with Internal Revenue Code 457. The deferred compensation plan, administered by Mass Mutual Financial Group and available to all permanent employees and Directors, permits them to defer a portion of their current salary until future years. The deferred compensation, which is held in trust by Mass Mutual, is not available to participants until termination, retirement, death or unforeseeable emergency. During the year ending June 30, 2021, the employees contributed \$11,370.

NOTE 9: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Description of Plan

The District's defined benefit healthcare plan, Ironhouse Sanitary District Retiree Healthcare Plan (the Healthcare Plan), provides health insurance benefits to participants and beneficiaries. The Healthcare Plan is part of the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer plan administered by the California Public Employees Retirement System (CalPERS), which acts as a common investment and administrative agent for participating entities within the state of California. Benefit provisions and all other requirements are established by state statute and the District. CalPERS issues a separate comprehensive annual financial report. Copies of CalPERS' annual financial report may be obtained from the CalPERS Executive Office at 400 "P" Street, Sacramento, California 95814.

Under the plan service or disability, retirees for all employees hired before August 1, 2006 and all employees with 20 years of District service hired after August 1, 2006 are eligible to receive post-retirement health insurance benefits. Participants do not contribute to the Healthcare Plan.

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 9: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Employees covered

As of the June 30, 2019 actuarial valuation, the following current and former employees were covered by the benefit terms under the plan.

Active employees	27
Inactive employees currently receiving benefits	<u>27</u>
Total	<u><u>54</u></u>

Contributions

The District's policy is to fully fund the actuarially determined contribution. The District makes the contributions on behalf of the participants. For the fiscal year ended June 30, 2021, the District contributed \$350,000.

Net OPEB Liability

The District's net OPEB liability ("NOL") was measured as of June 30, 2020 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2019 based on the following actuarial methods and assumptions.

Discount Rate	7.00 %
Inflation	2.75 %
Salary increases per annum	2.75 %
Investment Rate of Return	7.00 %
Healthcare Trend Rate	4.00 %
Mortality rates	
Miscellaneous	Mortality Tables - 2014 CalPERS Active Mortality for Miscellaneous Employees
Retirement Rates:	
All Participants	Hired before 2013: 2009 CalPERS 2.7%@55 Rates for Miscellaneous Employees Hired before 2013: 2009 CalPERS 2%@60 Rates for Miscellaneous Employees adjusted to reflect minimum retirement age of 52
Service Requirements	
All participants	Hired before 9/1/06: 100% at 5 Years of Service Hired after 8/31/06: Government Code Section 22893

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 9: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Discount Rate

The discount rate used to measure the total OPEB liability was 7.00% based on an assumption that contributions would be sufficient to fully fund the obligation over a period not to exceed 30 years. The discount rate was derived using historic 28 year real rates of return for each asset class along with an assumption of long-term inflation offset by expected investment expenses of 25 basis points.

Asset Allocation and Assumed Rate of Return

The assumed gross return was determined using rolling periods of time for all asset class combinations to appropriately reflect correlation between asset classes. The assumed gross rate of return is based on a geometric mean not an arithmetic mean. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table.

Asset Class	Percentage of Portfolio	Assumed Gross Return
All Equities	59.0 %	7.7950 %
All Fixed Income	25.0 %	4.5000 %
Real Estate Investment Trusts	8.0 %	7.5000 %
All Commodities	3.0 %	7.7950 %
Treasury Inflation Protected Securities (TIPS)	5.0 %	3.2500 %
	100.0 %	

Changes in the OPEB liability

To determine the June 30, 2020 (measurement period) net OPEB liability, the District used a "roll-forward" technique for the total OPEB liability. The fiduciary net position is based on the actual June 30, 2020 fiduciary net position. The following table shows the results of the roll-forward.

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (c) = (a) - (b)
Balance at June 30, 2019	\$ 4,073,683	\$ 2,672,825	\$ 1,400,858
Service cost	81,729	-	81,729
Interest on TOL	277,966	-	277,966
Employer contributions	-	337,495	(337,495)
Expected investment income	-	189,397	(189,397)
Investment gains/losses	-	(94,141)	94,141
Administrative expense	-	(1,306)	1,306
Expected benefit payments	(287,212)	(270,495)	(16,717)
Net change during 2019-20	72,483	160,950	(88,467)
Balance at June 30, 2020	\$ 4,146,166	\$ 2,833,775	\$ 1,312,391

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 9: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

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

The following represents the net OPEB liability of the District if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate, for measurement period ended June 30, 2020:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net OPEB Liability	\$ <u>1,774,913</u>	\$ <u>1,312,391</u>	\$ <u>924,410</u>

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following represents the net OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage-point lower or one percentage-point higher than the current rate, for measurement period ended June 30, 2020:

	1% Decrease 3.00%	Current Healthcare Cost Trend Rate 4.00%	1% Increase 5.00%
Net OPEB Liability	\$ <u>874,538</u>	\$ <u>1,312,391</u>	\$ <u>1,826,685</u>

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments 5 year straight-line recognition

All other amounts Straight-line recognition over the expected average remaining service lifetime (EARSL) of all members that are provided with benefits, determined as of the beginning of the Measurement Period. In determining the EARSL, all active, retired and inactive (vested) members are counted, with the latter two groups having 0 remaining service year.

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 9: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2021, the District recognized OPEB expense of \$191,707. As of fiscal year ended June 30, 2021, the District reported deferred outflows and inflows of resources related to the net OPEB liability from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 350,000	\$ -
Net differences between projected and actual earnings on investments	79,372	-
Differences between expected and actual experience	-	79,987
Total	<u>\$ 429,372</u>	<u>\$ 79,987</u>

\$350,000 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the subsequent fiscal period. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as follows:

For the Fiscal Year Ending June 30,	Recognized Net Deferred Outflows (Inflows) of Resources
2022	\$ 6,927
2023	6,927
2024	11,215
2025	6,999
2026	(11,826)
Thereafter	(20,857)

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 10: JOINT VENTURE - CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY (CSRMA)

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (a) an ongoing financial interest or (b) an on-going financial responsibility.

The District participates in a joint venture under a joint powers agreement (JPA) with the California Sanitation Risk Management Authority (CSRMA). CSRMA was formed to provide common risk management and loss prevention programs related to public liability, auto liability, public official's errors and omissions, property loss and workers' compensation risk for member governmental agencies. CSRMA is not a component unit of the District for financial reporting purposes but the District does retain an on-going financial responsibility in CSRMA. During the year ended June 30, 2021, the District made \$277,339 in insurance premium payments to CSRMA.

Condensed audited financial information for the year ended June 30, 2020 (the most recent available) was as follows:

Total assets	\$ 29,737,991
Total liabilities	<u>22,524,920</u>
Total net position	<u>\$ 7,213,071</u>
Total revenues	\$ 16,076,801
Total expenses	<u>15,266,567</u>
Increase in net position	<u>\$ 810,234</u>

Complete financial statements for CSRMA can be obtained from the CSRMA, care of Alliant Insurance Services, Inc., 100 Pine Street, 11th floor, San Francisco, California, 94111.

NOTE 11: RELATED PARTY TRANSACTIONS

The General Manager, Assistant General Manager and Reclamation Superintendent of the District are also the President, Treasurer and Secretary of Reclamation District No. 830 (RD830). RD830 was established to maintain the integrity of the levee system on Jersey Island which is wholly owned by the District. During the year ended June 30, 2021, the District paid \$332,565 in assessments to RD830. In addition, RD830 reimbursed the District in the amount of \$125,785 for levee repairs performed by Ironhouse employees and for the use of its equipment. As of June 30, 2021, \$126,992 was due from RD830 and is reported as a current receivable. Management believes these transactions were consummated on terms equivalent to those that prevail in arms length transactions.

In 2018, the District agreed to loan the District's General Manager \$72,961 for the repayment of a student loan. As long as the General Manager remains an employee of the District, one-fifth of the loan will be forgiven beginning on July 17, 2019 and each subsequent year thereafter until July 17, 2023 at which time the loan will be completely forgiven. Upon the General Manager's termination prior to July 17, 2023, the unforgiven loan balance may be subject to repayment by the General Manager, without interest, depending upon the reason for termination as outlined in the General Manager's Employment Agreement dated July 17, 2018. As of June 30, 2021, \$14,592 is reported as a current receivable, and \$29,185 is reported as a long-term receivable.

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 12: NET POSITION

As of June 30, 2021, net position of the District consisted of the following:

Net investment in capital assets	\$ 60,359,383
Unrestricted:	
Undesignated	5,580,949
Designated reserve for capital expenditures	9,319,380
Designated reserve for rate stabilization	732,000
Designated reserve for Jersey Island use fees	<u>35,448</u>
Total Unrestricted	<u>15,667,777</u>
Restricted:	
Debt service	2,937,701
Trunkline capacity	4,517,856
Capacity fee reserve	<u>4,932,412</u>
Total Restricted	<u>12,387,969</u>
Total Net Position	\$ <u>88,415,129</u>

NOTE 13: VOTER LEGISLATION

Proposition 218, which was approved by voters in November 1996, regulates the District's ability to impose, increase, and extend assessments and fees. Any new, increased, or extended assessments and fees subject to the provisions of Proposition 218 require voter approval before they can be implemented. The District's Board of Directors approved a five-year rate plan to implement planned service fee increases began in fiscal year 2020-2021 to fund operations and capital improvements. In the current year, the District satisfied all necessary criteria required by Proposition 218 prior to obtaining Board approval.

Required Supplementary Information

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS OF JUNE 30, 2021 LAST 10 YEARS*

	Measurement Period						
	2020	2019	2018	2017	2016	2015	2014
Proportion of the net pension liability	0.04449 %	0.04310 %	0.04314 %	0.04415 %	0.04449 %	0.04578 %	0.04365 %
Proportionate share of the net pension liability	\$ 4,840,309	\$ 4,416,938	\$ 4,157,300	\$ 4,378,364	\$ 3,849,906	\$ 3,142,358	\$ 2,722,495
Covered payroll	\$ 2,988,492	\$ 2,700,778	\$ 2,416,559	\$ 2,303,744	\$ 2,531,104	\$ 2,562,268	\$ 2,566,478
Proportionate share of the net pension liability as a percentage of covered payroll	161.96 %	163.54 %	172.03 %	190.05 %	152.10 %	122.64 %	106.08 %
Plan fiduciary net position as a percentage of the total pension liability	75.10 %	77.23 %	75.39 %	73.31 %	74.06 %	78.40 %	79.82 %

Notes to Schedule:

Changes in assumptions

For the measurement period June 30, 2018, the CalPERS Board adopted new mortality assumptions for plan participants participating in the PERF. The new mortality table was developed from the December 2017 experience study and includes 15 years of projected ongoing mortality improvement using 90 percent of scale MP 2016 published by the Society of Actuaries. The inflation assumption is reduced from 2.75 percent to 2.50 percent. The assumptions for individual salary increases and overall payroll growth are reduced from 3.00 percent to 2.75 percent.

For the measurement period ended June 30, 2017, the accounting discount rate was reduced from 7.65 percent to 7.15 percent. In 2016, the discount rate remained at 7.65 percent. In 2015, amounts reported reflect an adjustment of the discount rate from 7.50 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expenses). In 2014, amounts reported were based on the 7.50 percent discount rate.

* Schedule is intended to show information for ten years. Fiscal year 2015 was the first year of implementation, therefore only seven years are shown. Additional years' information will be displayed as it becomes available.

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS TO THE COST SHARING DEFINED BENEFIT PENSION PLAN AS OF JUNE 30, 2021 LAST 10 YEARS*

	Fiscal Year-End						
	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	\$ 697,187	\$ 619,790	\$ 527,665	\$ 586,816	\$ 539,201	\$ 545,636	\$ 596,008
Contributions in relation to the actuarially determined contributions	<u>(697,187)</u>	<u>(619,790)</u>	<u>(527,665)</u>	<u>(586,816)</u>	<u>(539,201)</u>	<u>(545,636)</u>	<u>(596,008)</u>
Contribution deficiency (excess)	\$ <u> -</u>	\$ <u> -</u>	\$ <u> -</u>	\$ <u> -</u>	\$ <u> -</u>	\$ <u> -</u>	\$ <u> -</u>
Covered payroll	<u>\$ 2,985,859</u>	<u>\$ 2,988,492</u>	<u>\$ 2,700,778</u>	<u>\$ 2,416,559</u>	<u>\$ 2,303,744</u>	<u>\$ 2,531,104</u>	<u>\$ 2,562,268</u>
Contributions as a percentage of covered payroll	23.35 %	20.74 %	19.54 %	24.28 %	23.41 %	21.56 %	23.26 %

* Schedule is intended to show information for ten years. Fiscal year 2015 was the first year of implementation, therefore only seven years are shown. Additional years' information will be displayed as it becomes available.

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS For the Measurement Periods Ended June 30 Last 10 Years*

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability				
Service cost	\$ 81,729	\$ 91,604	\$ 89,152	\$ 86,766
Interest	277,966	279,830	272,570	249,231
Difference between expected and actual experience	-	(119,538)	-	-
Expected benefit payments	(287,212)	(259,975)	(258,486)	-
Benefit payments	<u>-</u>	<u>-</u>	<u>-</u>	<u>(248,544)</u>
Net change in total OPEB liability	72,483	(8,079)	103,236	87,453
Total OPEB liability, beginning	<u>4,073,683</u>	<u>4,081,762</u>	<u>3,978,526</u>	<u>3,891,073</u>
Total OPEB liability, ending (a)	<u>\$ 4,146,166</u>	<u>\$ 4,073,683</u>	<u>\$ 4,081,762</u>	<u>\$ 3,978,526</u>
Plan fiduciary net position				
Contributions - employer	\$ 337,495	\$ 319,383	\$ 282,359	\$ 250,102
Net investment income	-	-	-	219,563
Expected investment income	189,397	175,441	160,977	-
Investment gains/losses	(94,141)	(21,068)	21,450	-
Expected benefit payments	(270,495)	(294,535)	(258,486)	(248,544)
Administrative expenses	(1,306)	(534)	(4,252)	(1,841)
Other	<u>-</u>	<u>-</u>	<u>2,230</u>	<u>-</u>
Net change in plan fiduciary net position	160,950	178,687	204,278	219,280
Plan fiduciary net position, beginning	<u>2,672,825</u>	<u>2,494,138</u>	<u>2,289,860</u>	<u>2,070,580</u>
Plan fiduciary net position, ending (b)	<u>\$ 2,833,775</u>	<u>\$ 2,672,825</u>	<u>\$ 2,494,138</u>	<u>\$ 2,289,860</u>
District's net OPEB liability, ending (a) - (b)	<u>\$ 1,312,391</u>	<u>\$ 1,400,858</u>	<u>\$ 1,587,624</u>	<u>\$ 1,688,666</u>
Plan fiduciary net position as a percentage of the total OPEB liability	68 %	66 %	61 %	58 %
Covered-employee payroll	\$ 3,171,732	\$ 2,870,771	\$ 2,650,207	\$ 2,617,893
District's net OPEB liability as a percentage of covered-employee payroll	1.31 %	1.42 %	1.54 %	1.52 %

* Schedule is intended to show information for ten years. Fiscal year 2018 was the first year of implementation, therefore only four years are shown. Additional years' information will be displayed as it becomes available.

INDEPENDENT AUDIT

IRONHOUSE SANITARY DISTRICT REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS TO THE OPEB PLAN For the Fiscal Year Ended June 30 Last 10 Years*

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially Determined Contribution (ADC)	\$ 350,000	\$ 337,495	\$ 319,383	\$ 276,184
Contributions in relation to the ADC	<u>(350,000)</u>	<u>(337,495)</u>	<u>(319,383)</u>	<u>(276,184)</u>
Contribution deficiency (excess)	\$ <u> </u> -	\$ <u> </u> -	\$ <u> </u> -	\$ <u> </u> -
Covered-employee payroll	\$ 3,222,233	\$ 3,171,732	\$ 2,870,771	\$ 2,650,207
Contributions as a percentage of covered-employee payroll	11 %	11 %	11 %	10 %

* Schedule is intended to show information for ten years. Fiscal year 2018 was the first year of implementation, therefore only four years are shown. Additional years' information will be displayed as it becomes available.

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SECTION III: STATISTICAL

Commitment to Synergistic Partnerships:

- Develop mutually beneficial recycled water projects with local water agencies and private entities (e.g., Diablo Water District)

Strategic Plan 2022-2027+

Community Partner
Diablo Water District



Statistical Section

This section of the District's ANNUAL COMPREHENSIVE financial report presents detailed information as a context for understanding what the information in the accompanying financial statements, notes disclosures, and required supplementary information says about the District's overall financial health.

Contents

Financial trends

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the factors affecting the District's ability to generate revenues.

Debt Capacity

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

Demographic and Economic

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place and to help make comparisons over time and with other agencies.

Operating Information

These schedules contain information about the District's operations and resources to help the reader understand how the District's financial information relates to the services the District provides and the activities it performs.



FINANCIAL TRENDS AND REVENUE CAPACITY

ANNUAL COMPREHENSIVE FINANCIAL REPORT

For Fiscal Year Ended June 30, 2021

**STATEMENT OF NET POSITION
FOR THE PAST FIVE YEARS (IN THOUSANDS)**

	FY 20/21	FY 19/20	FY 18/19	FY 17/18	FY 16/17
Assets					
Current assets	\$ 33,577	\$ 29,797	\$ 28,637	\$ 26,129	\$ 23,585
Capital assets	90,147	88,511	84,361	87,137	89,355
Other long-term assets	3,308	3,851	4,750	5,106	5,838
Total Assets	127,032	122,159	117,748	118,372	118,778
Deferred Outflow of Resources					
Changes in the net pension liability	1,224	1,227	1,386	1,938	2,128
Changes in the net OPEB liability	429	355	337	24	-
Total Deferred Outflow of Resources	1,653	1,582	1,723	1,962	2,128
Total Assets and Deferred Outflows of Resources	\$ 128,685	\$ 123,741	\$ 119,471	\$ 120,334	\$ 120,906
Liabilities					
Current liabilities	\$ 4,433	\$ 3,787	\$ 3,651	\$ 3,951	\$ 3,617
Long-term liabilities	35,589	38,211	41,045	44,303	45,018
Total Liabilities	40,022	41,998	44,696	48,254	48,635
Deferred Inflows of Resources					
Changes in the net pension liability	168	269	235	211	332
Changes in the net OPEB liability	80	75	-	-	-
Total Deferred Inflow of Resources	248	344	235	211	332
Net Position					
Net investment in capital assets	60,359	56,246	49,656	50,030	49,885
Unrestricted:					
Undesignated	5,581	5,548	5,255	5,093	4,962
Designated	10,087	11,789	12,358	9,532	10,254
Total Unrestricted	15,668	17,337	17,613	14,625	15,216
Restricted for debt service, expansion and capacity	12,388	7,816	7,271	7,214	6,838
Total Net Position	88,415	81,399	74,540	71,869	71,939
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 128,685	\$ 123,741	\$ 119,471	\$ 120,334	\$ 120,906

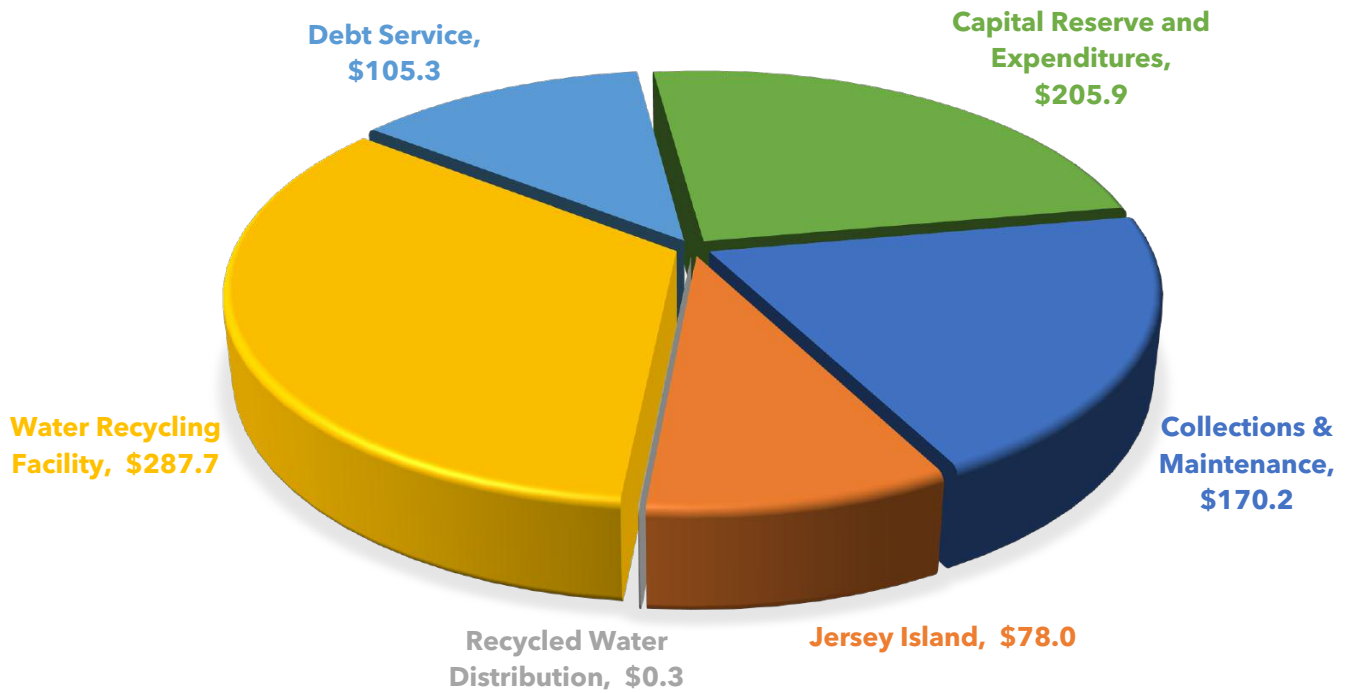
Source: Ironhouse Sanitary District as reflected in audited financial statements

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE PAST FIVE FISCAL YEARS (IN THOUSANDS)

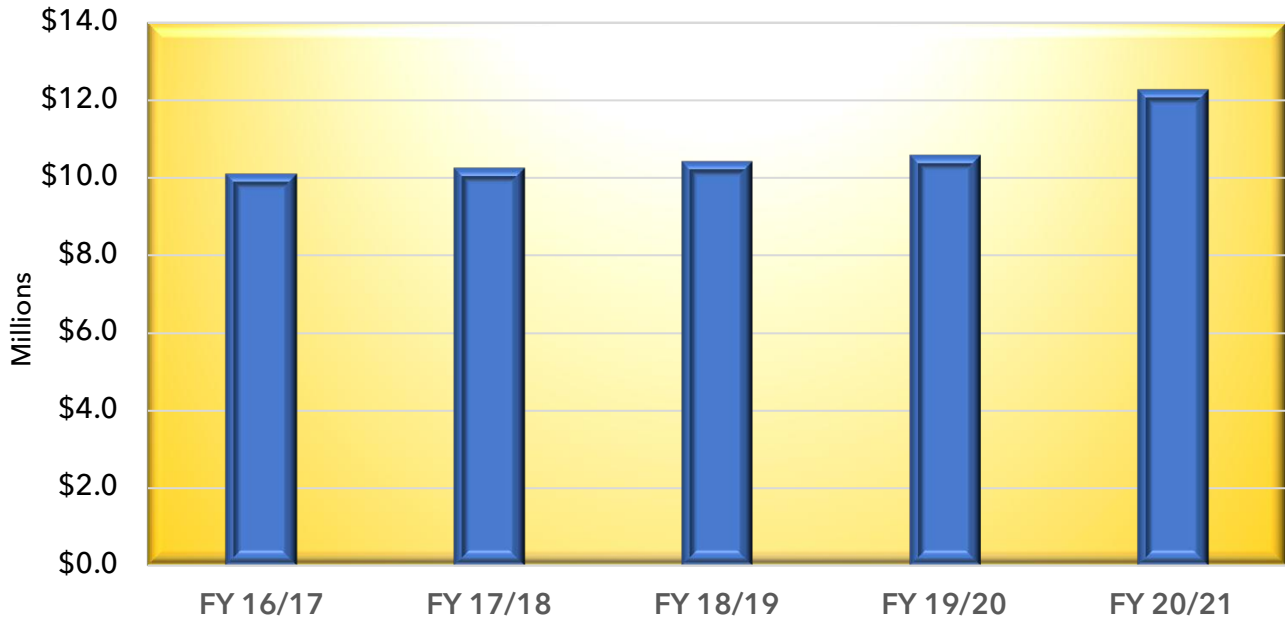
	FY 20/21	FY 19/20	FY 18/19	FY 17/18	FY 16/17
Operating Revenues					
Services charges	\$ 12,258	\$ 10,572	\$ 10,409	\$ 10,239	\$ 10,083
Service connection and related fees	95	455	325	618	435
Capacity fees	5,888	1,839	1,338	1,743	1,736
Other fees and revenue	273	162	256	251	274
Total Operating Revenues	18,514	13,028	12,328	12,851	12,528
Operating Expenses					
Salaries, benefits and payroll taxes	5,252	5,178	4,378	4,746	3,780
Administration expenses	310	300	332	372	427
Operations and maintenance	1,577	1,424	1,385	1,442	1,396
Professional services	926	610	731	804	752
Insurance	194	157	130	128	128
Utilities	823	714	638	607	688
Depreciation	4,258	4,089	3,929	3,848	3,786
Total Operating Expenses	13,340	12,472	11,523	11,947	10,957
Operating income	5,174	556	805	904	1,571
Non-Operating Revenues (Expenses)					
Cattle income, net of expenses	719	625	833	892	819
Taxes	356	336	319	292	285
Investment income	77	667	727	120	39
Other non-operating revenue	301	222	251	182	56
Interest expense	(460)	(497)	(536)	(574)	(612)
Total Net Non-Operating Revenues	993	1,353	1,594	912	587
Income before capital contributions	6,167	1,909	2,399	1,816	2,158
Capital contributions	849	4,950	272	131	38
Increase in net position	7,016	6,859	2,671	1,947	2,196
Net position, beginning of year (Note 1)	81,399	74,540	71,869	69,922	69,743
Net position, end of year	\$ 88,415	\$ 81,399	\$ 74,540	\$ 71,869	\$ 71,939

Notes: (1) The beginning net position for fiscal year 2018 was adjusted as a result of implementation of GASB 75.

SERVICE CHARGE BY ACTIVITY SINGLE FAMILY RESIDENTIAL FY 2020 - 2021

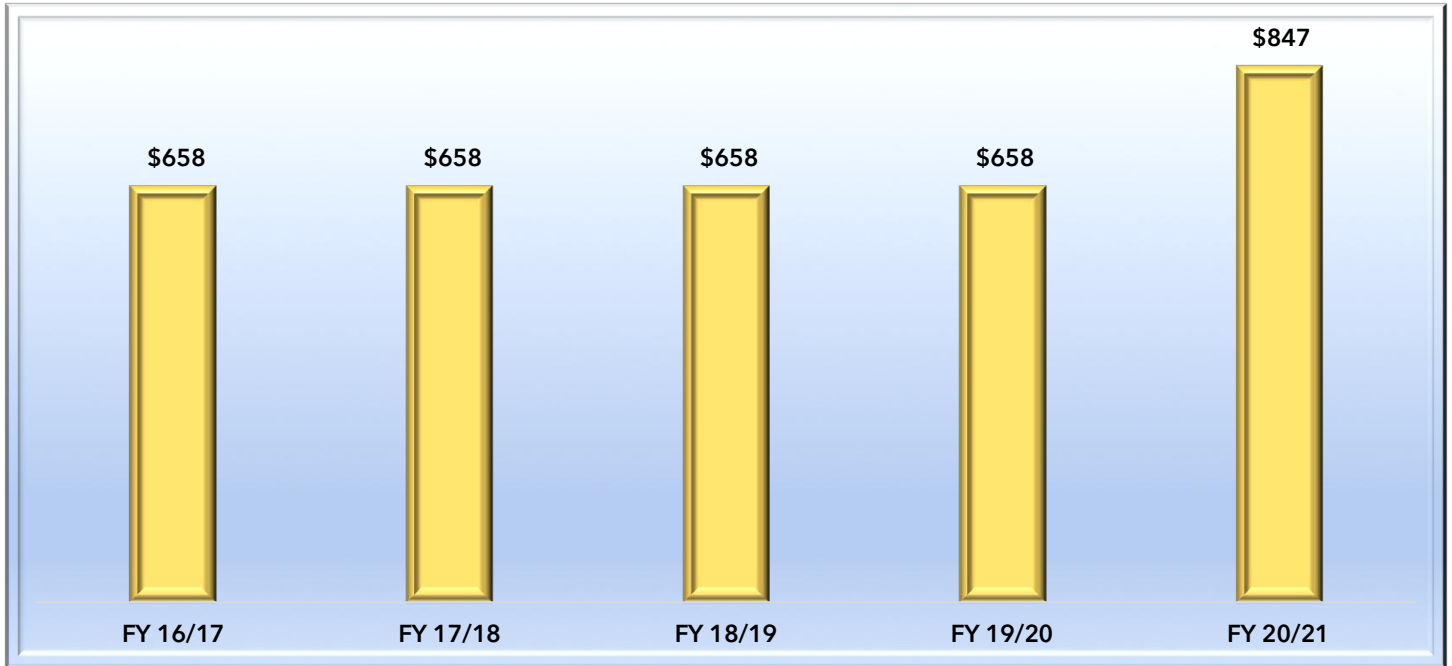


SERVICE CHARGE REVENUE PAST FIVE YEARS



	Service Charges	Percent Change
Fiscal Year		
FY 16/17	\$ 10,083,384	1.7%
FY 17/18	\$ 10,239,268	1.5%
FY 18/19	\$ 10,409,002	1.7%
FY 19/20	\$ 10,571,895	1.6%
FY 20/21	\$ 12,258,321	16.0%

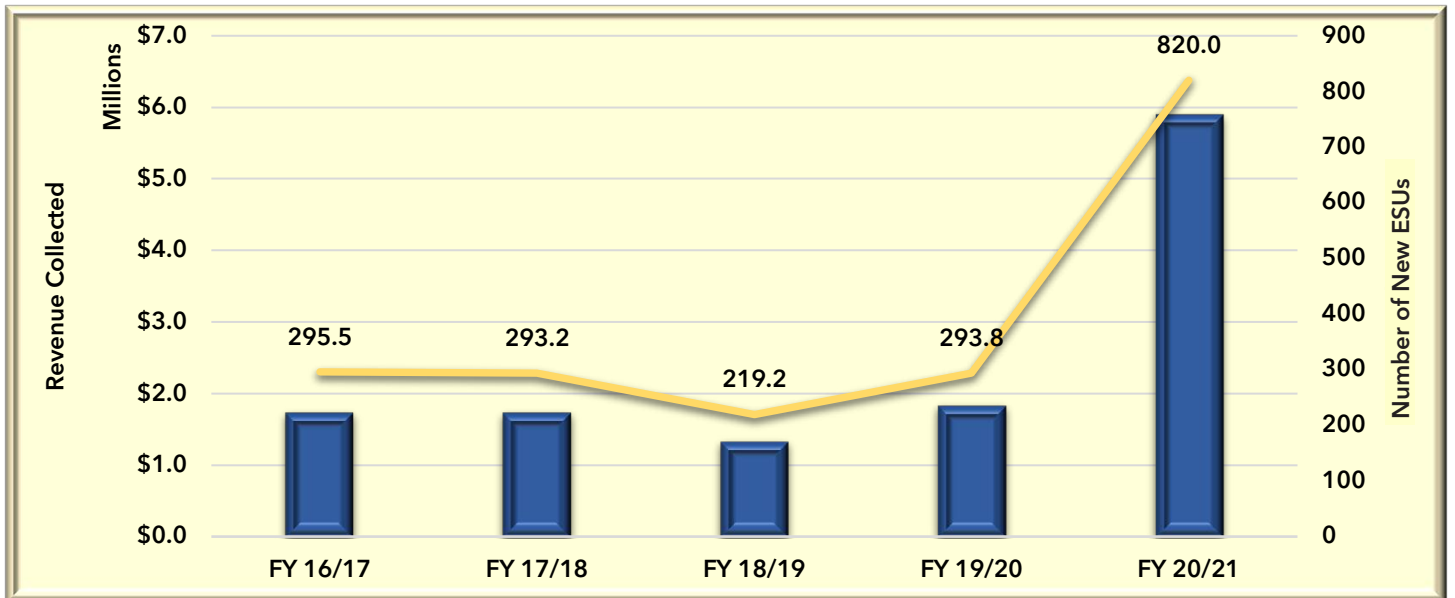
SINGLE FAMILY RESIDENTIAL SERVICE CHARGE RATES PER ESU PAST FIVE YEARS



Fiscal Year	Single Family Resident Service Rate per EDU	Percent Change
FY 16/17	\$ 658	0.0%
FY 17/18	\$ 658	0.0%
FY 18/19	\$ 658	0.0%
FY 19/20	\$ 658	0.0%
FY 20/21	\$ 847	28.8%

Source: Ironhouse Sanitary District

CAPACITY FEES PAST FIVE YEARS



Fiscal Year	Capacity Fee per New ESU	Total Collected	Number of New ESUs
FY 16/17	5,873	\$ 1,735,595	295.5
FY 17/18	5,944	\$ 1,742,750	293.2
FY 18/19	6,104	\$ 1,338,234	219.2
FY 19/20	6,263	\$ 1,839,709	293.8
FY 20/21	7,180	\$ 5,887,876	820.0

Source: Ironhouse Sanitary District

PRINCIPAL REVENUE PAYORS CURRENT FISCAL YEAR

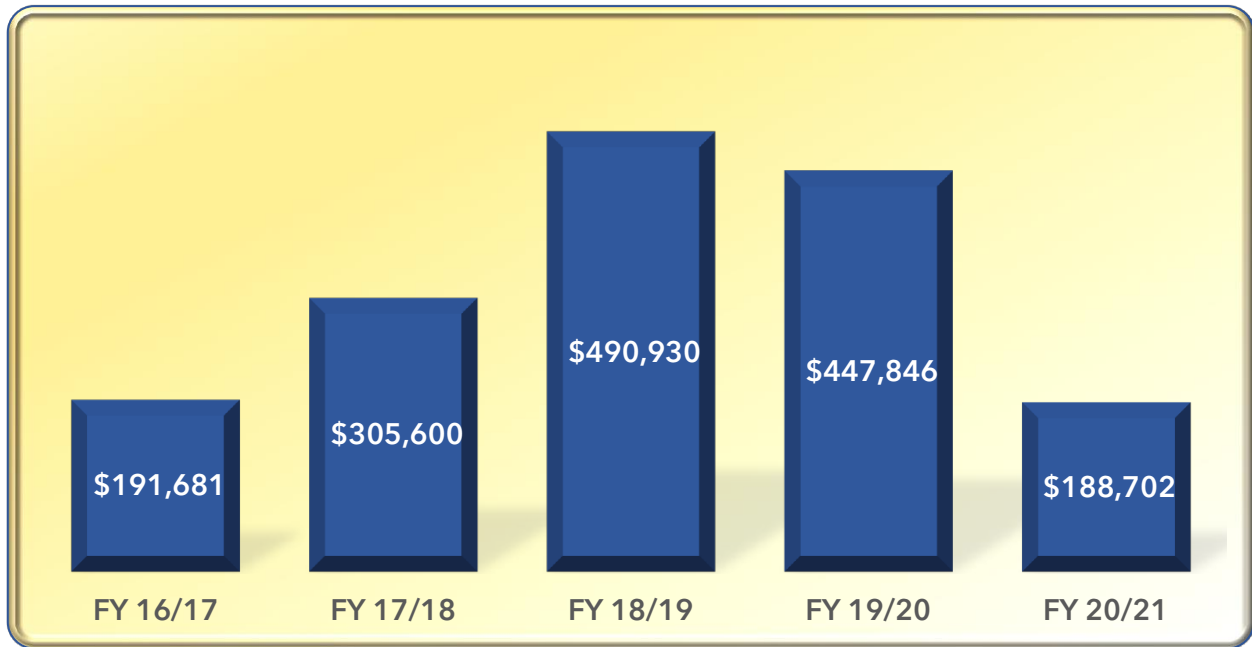
FY 20/21		
Payor	Service Charge Revenue	Percent of Total Service Charge Revenue
Santiago Village Mobile Home Park	\$ 101,244	1.0%
Willows Mobile Home Park	83,011	0.8%
Senior/Family Apartments	66,198	0.6%
Eagle City Mobile Home Park	51,822	0.5%
Best Western Suites	43,300	0.4%
Oakley Senior Apts (Empire)	31,189	0.3%
Big Oak Mobile Home Park	30,871	0.3%
Courtyards @ Cypress Grove Apartments	30,229	0.3%
Sugar Barge Resort	29,834	0.3%
Flamingo Mobile Home Park	28,790	0.3%
	\$ 496,488	4.8%

Source: Ironhouse Sanitary District

PRINCIPAL REVENUE PAYORS PAST FIVE YEARS

FY 16/17		
Payor	Service Charge Revenue	Percent of Total Service Charge Revenue
Freedom High School	\$ 172,659	1.9%
Sr./Family Apts (Carol Lane)	138,180	1.5%
Willows Mobile Home Park	114,295	1.3%
Santiago Village Mobile Home Park	104,885	1.2%
Eagle City Mobile Home Park	95,410	1.1%
Raley's Shopping Center	89,422	1.0%
Iron House Elementary	67,406	0.7%
Courtyards @ Cypress Grove Apts	63,826	0.7%
Oakley Senior Apts (Empire)	54,732	0.6%
Big Oak Mobile Home Park	48,429	0.5%
	<u>\$ 949,244</u>	<u>10.5%</u>

INVESTMENT INCOME (EXCLUDES UNREALIZED GAINS AND LOSSES) FIVE YEARS PRIOR



Fiscal Year	Investment Income	Percent Change
FY 16/17	\$ 191,681	151.6%
FY 17/18	\$ 305,600	59.4%
FY 18/19	\$ 490,930	60.6%
FY 19/20	\$ 447,846	-8.8%
FY 20/21	\$ 188,702	-57.9%

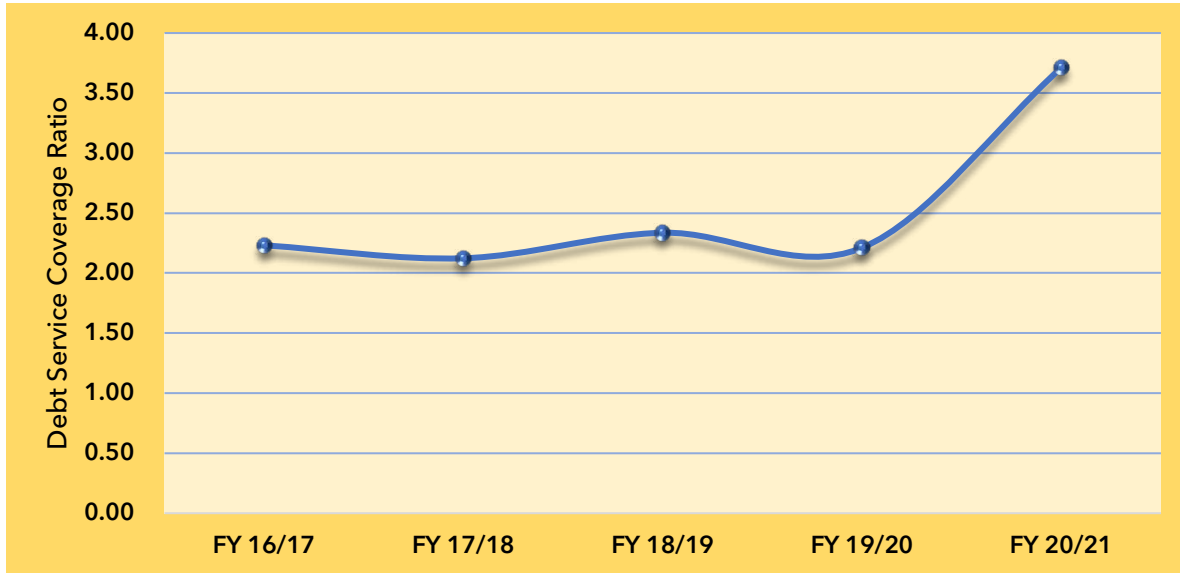
Source: Ironhouse Sanitary District



DEBT ANALYSIS

**ANNUAL
COMPREHENSIVE
FINANCIAL REPORT**
For Fiscal Year Ended June 30, 2021

DEBT SERVICE CHARGE FOR THE PAST FIVE YEARS



Fiscal Year	Gross Revenues (Note 1)	Operating Expense (Note 2)	Net Revenues	Debt Service	Debt Service Coverage Ratio
FY 16/17	\$ 13,820,014	\$ 7,263,927	\$ 6,556,087	\$ 2,937,700	2.23
FY 17/18	\$ 14,469,634	\$ 8,230,741	\$ 6,238,893	\$ 2,937,700	2.12
FY 18/19	\$ 14,556,907	\$ 7,693,315	\$ 6,863,592	\$ 2,937,700	2.34
FY 19/20	\$ 15,024,875	\$ 8,529,111	\$ 6,495,764	\$ 2,937,700	2.21
FY 20/21	\$ 20,264,768	\$ 9,361,788	\$ 10,902,980	\$ 2,937,700	3.71

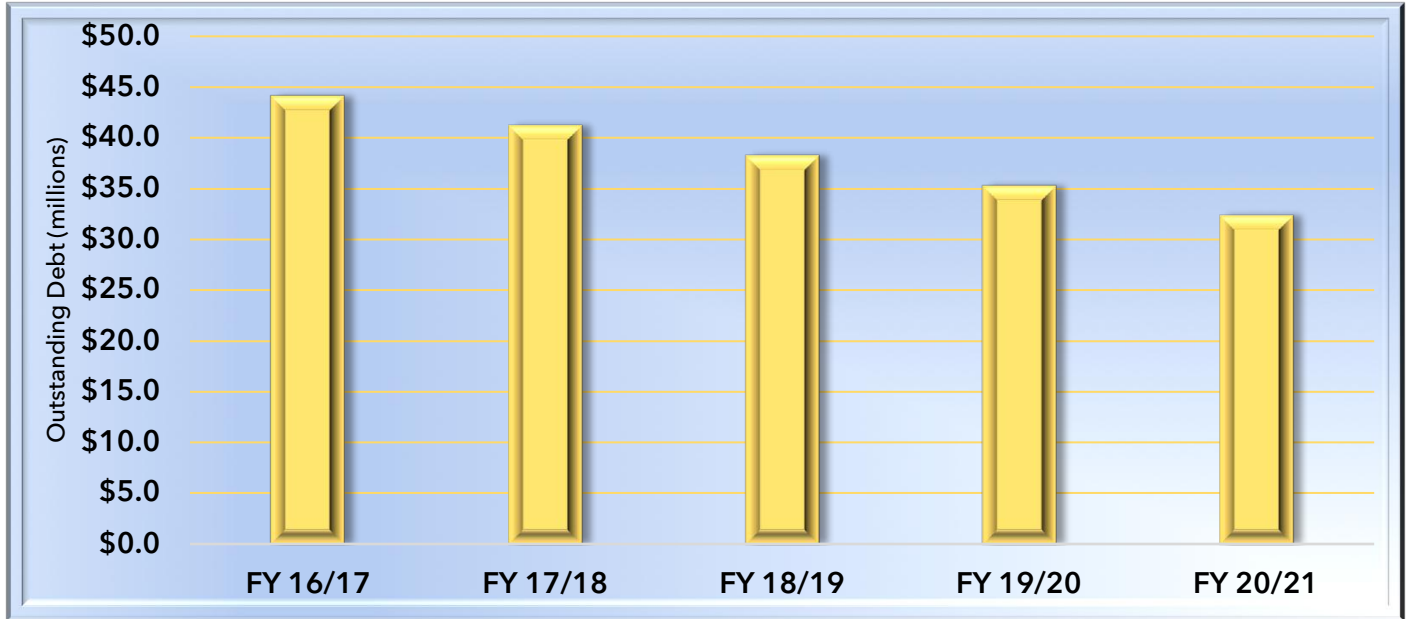
Notes:

(1.) Includes operating and non-operating revenues. Excludes Non-cash revenue for offers of dedication related to the contribution of collection system infrastructure by developers.

(2.) Excludes depreciation and interest expense. Includes cattle operation expenses classified as non-operating in audited financial statements.

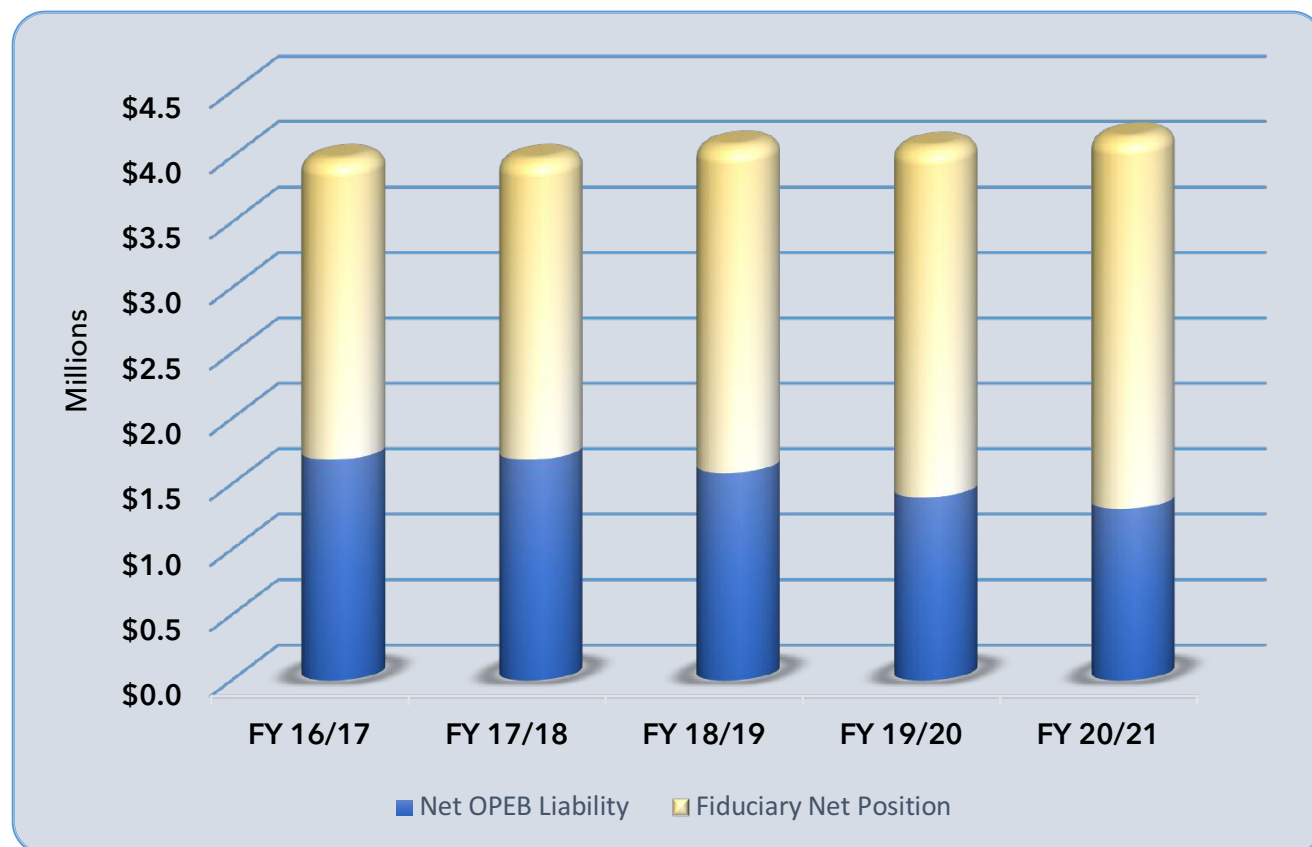
Source: Ironhouse Sanitary District

OUTSTANDING DEBT FOR THE PAST FIVE YEARS



Fiscal Year	SWRCB SRF	Total Outstanding Debt
FY 16/17	\$ 44,065,508	\$ 44,065,508
FY 17/18	\$ 41,127,807	\$ 41,127,807
FY 18/19	\$ 38,190,107	\$ 38,190,107
FY 19/20	\$ 35,252,406	\$ 35,252,406
FY 20/21	\$ 32,314,706	\$ 32,314,706

OPEB LIABILITY FOR THE PAST FIVE YEARS



Fiscal Year	Total OPEB Liability	Fiduciary Net Position	Net OPEB Liability
FY 16/17	\$ 3,978,526	\$ 2,289,860	\$ 1,688,666
FY 17/18	\$ 3,978,526	\$ 2,289,860	\$ 1,688,666
FY 18/19	\$ 4,081,762	\$ 2,494,138	\$ 1,587,624
FY 19/20	\$ 4,073,683	\$ 2,672,825	\$ 1,400,858
FY 20/21	\$ 4,146,166	\$ 2,833,775	\$ 1,312,391

Source: Ironhouse Sanitary District as reflected in audited financial statements.



DEMOGRAPHICS AND ECONOMICS

ANNUAL COMPREHENSIVE FINANCIAL REPORT

For Fiscal Year Ended June 30, 2021

DEMOGRAPHIC AND ECONOMIC STATISTICS FOR THE PAST FIVE YEARS (UNAUDITED)

Oakley

Calendar Year	Population*	Per Capita Personal Income*	Average Unemployment Rate*
2016	38,968	\$ 82,584	5.3%
2017	39,950	\$ 89,392	4.4%
2018	40,669	\$ 93,824	3.8%
2019	41,324	\$ 104,893	3.9%
2020	43,357	\$ 115,382	12.7%

Bethel Island

Calendar Year	Population*	Per Capita Personal Income*	Average Unemployment Rate*
2016	2,199	\$ 35,814	3.7%
2017	2,379	\$ 36,176	1.8%
2018	2,010	\$ 38,801	1.3%
2019	2,161	\$ 33,583	4.6%
2020	2,131	\$ 36,941	11.1%

Source: U.S. Bureau of Labor Statistics

U.S. Census Bureau, American Community Survey, 5 Year Estimates

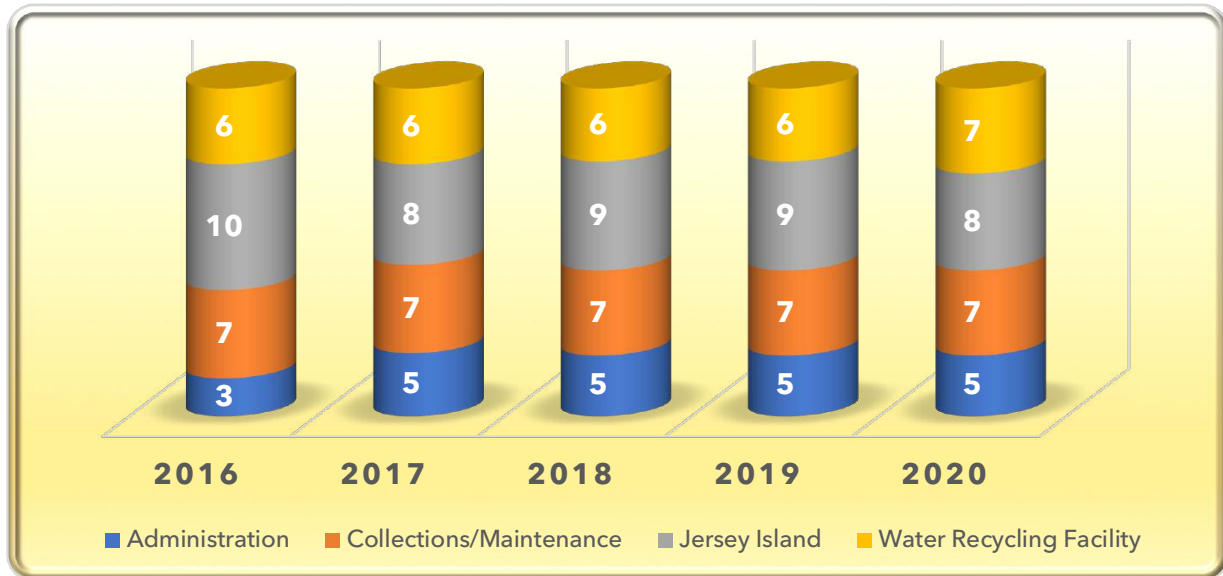
U.S. Bureau of Economic Analysis.



OPERATING INFORMATION

**ANNUAL
COMPREHENSIVE
FINANCIAL REPORT**
For Fiscal Year Ended June 30, 2021

AUTHORIZED FULL TIME EQUIVALENT STAFF BY DEPARTMENT PAST FIVE YEARS



Department	2016	2017	2018	2019	2020
Administration	3	5	5	5	5
Collections/Maintenance	7	7	7	7	7
Jersey Island	10	8	9	9	8
Water Recycling Facility	6	6	6	6	7
District Total	26	26	27	27	27

Source: Ironhouse Sanitary District as reflected in audited financial statements.



FINANCIAL POLICIES AND CAPITAL IMPROVEMENT PROGRAM

**ANNUAL
COMPREHENSIVE
FINANCIAL REPORT**

For Fiscal Year Ended June 30, 2021

OPERATING BUDGET

Ironhouse Sanitary District Operating Budget Policy Summary

It is the policy of the District to prepare and adhere to an annual budget to adequately support the District's operating and capital expenditures, and to maintain a financially viable District that can maintain a level of services identified in the strategic plan.

See Ironhouse's website at <http://ironhousesanitarydistrict.com/184/District-Transparency> to view the full policy.

INVESTMENT POLICY

Ironhouse Sanitary District Investment Policy Summary

It is the policy of the District to invest public funds in a manner which ensures the safety and preservation of capital while meeting reasonably anticipated operating expenditure needs, achieving a reasonable rate of return and conforming to all state and local statutes governing the investment of public funds.

The purpose of this policy is to provide guidelines for the prudent investment of funds of the District and to outline the policies for maximizing the efficiency of the District's cash management. The District's goal is to enhance the economic status of the District consistent with the prudent protection of the District's investments. This investment policy has been prepared in conformance with all pertinent existing laws of the State of California.

See Ironhouse's website at <http://ironhousesanitarydistrict.com/184/District-Transparency> to view the full policy.

FINANCIAL RESERVE POLICY

Ironhouse Sanitary District Unrestricted Designated Financial Reserve Policy Summary

It is the Policy of the Board of Directors of the District to designate unrestricted financial reserves in order to protect the District's investment in its various assets, satisfy its commitments under its numerous financial, regulatory and contractual obligations and to stabilize long-term rates for its customers.

Designated unrestricted reserves are earmarked by the Board of Directors for purposes such as funding new capital facilities, construction, repair, replacement or refurbishment of existing facilities, rate stabilization, emergencies, and operating reserves. These funds can be utilized at the discretion of the District. The Board can change reserve designations at any time. Designated unrestricted reserves are different than restricted reserves, which are used strictly to meet requirements established by creditors, grant agencies, ordinances or law.

If the District is contractually obligated to hold additional reserves, the more stringent requirement takes precedence.

Operating Reserves Summary

The purpose of the Operating Reserve is to ensure adequate cash is available when needed to pay the District's normal and recurring operating costs. It also serves as the District's line-of-credit for service fees in which the first County installment of 55% is not paid until December of the fiscal year.

Capital Expenditure Reserve Summary

The purpose of Capital Expenditure Reserve is to ensure that adequate funds are available to purchase new capital assets that benefit current ratepayers, as well as replacements, improvements and major refurbishments to existing capital assets.

Rate Stabilization Reserve Summary

The purpose of Rate Stabilization Reserve is to support the Board's strategic goal to manage public funds to assure financial stability, including stability of revenues and the rates and charges related to the District.

Over the course of time, the District will have years where there is a financial surplus above the Operating Reserve target established by the District and years when unexpected events may cause reserves to decrease below the target. The Rate Stabilization Reserve allows the District to manage these different sets of circumstances.

See Ironhouse's website at <http://ironhousesanitarydistrict.com/184/District-Transparency> to view the full policy.

FINANCIAL RESERVE POLICY

Ironhouse Sanitary District Restricted Financial Reserves Policy Summary

To provide guidance for the prudent accumulation and management of restricted financial reserves. It is the Policy of the Board of Directors of the District to ensure restricted financial reserves are used to satisfy its commitments under its numerous financial, regulatory and contractual obligations.

The District has limited discretion as to the use of these funds.

Capacity Reserves Summary

The purpose of capacity reserves is to ensure adequate cash is available when needed to pay costs associated with the District's expansion of its plant and trunk-line capacity, and related developer share of debt service. The District maintains two capacity reserves, Expansion Reserve and Trunk-Line Capacity Reserve. These reserves are funded by developers.

Debt Service Reserves Summary

The purpose of the Debt Service Reserve is to maintain one year of debt service as required by the terms of the State Water Resources Control Board (SWRCB) loan.

See Ironhouse's website at <http://ironhousesanitarydistrict.com/184/District-Transparency> to view the full policy.

CAPITAL IMPROVEMENT POLICY

Ironhouse Sanitary District Capital Improvement Program (CIP)

The District has developed a robust Capital Improvement Program (CIP) that addresses growth, rehabilitation and replacement. Increased operational efficiencies throughout the District have allowed the District to transfer additional funds to the unrestricted Capital Expenditure Reserve. Due to the strong housing market the District has also seen increased connections, which has led to an increase in annual revenues.

See Ironhouse's website at <http://ironhousesanitarydistrict.com/184/District-Transparency> to view the full policy.

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