



IRONHOUSE SANITARY DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For Fiscal Year Ended June 30, 2017



Comprehensive Annual Financial Report

**For the Fiscal Year
Ended June 30, 2017**

*Serving the Oakley and
Bethel Island communities
since 1945*

 **IRONHOUSE SANITARY DISTRICT**

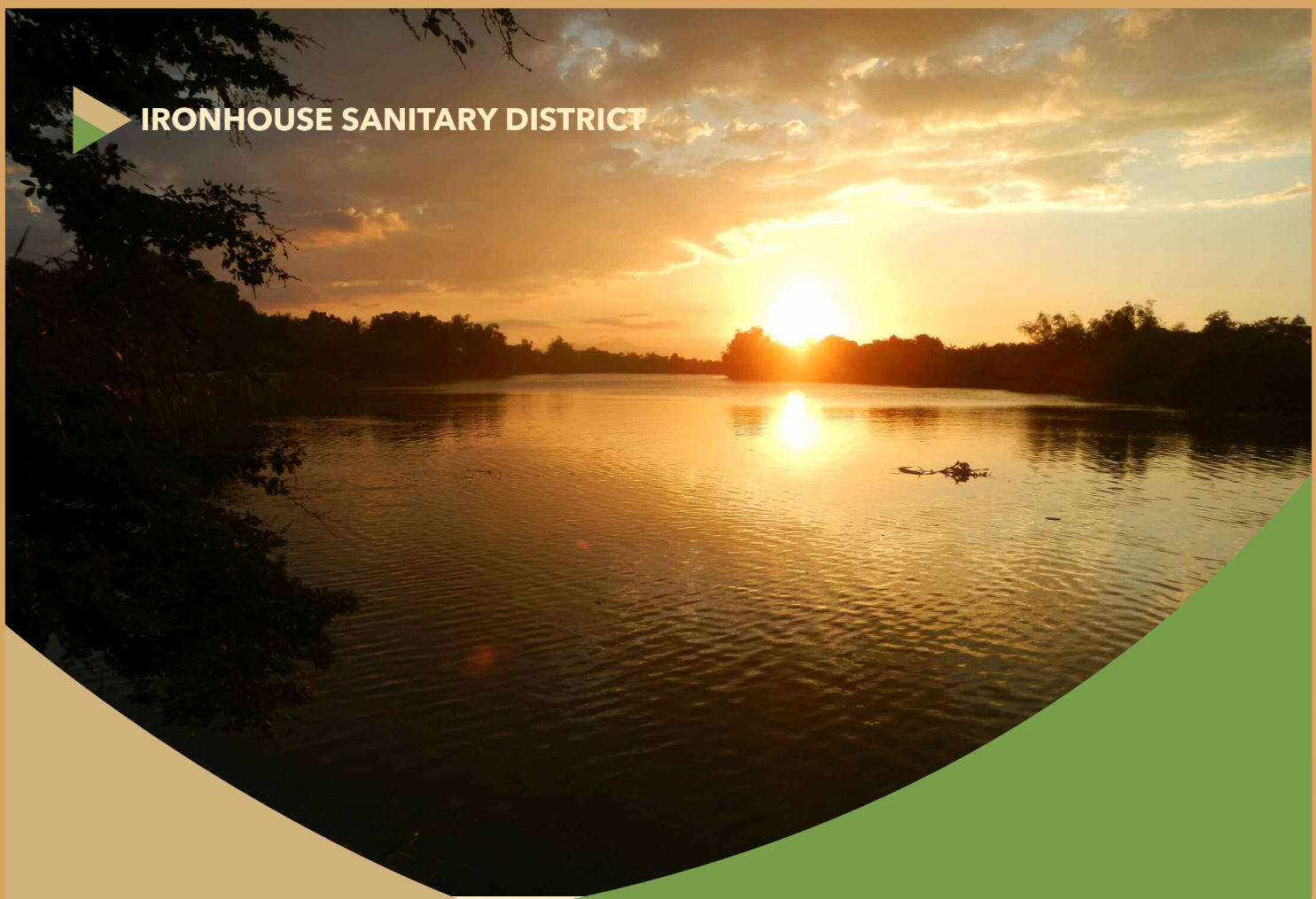


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IRONHOUSE SANITARY DISTRICT

SECTION I: INTRODUCTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For Fiscal Year Ended June 30, 2017



IRONHOUSE SANITARY DISTRICT
450 Walnut Meadows Drive
Oakley, CA 94561
Telephone: (925) 625-2279 * Fax: (925) 625-0169

February 28, 2018

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

Staff is pleased to submit the Comprehensive Annual Financial Report (CAFR) for the Ironhouse Sanitary District (District) for the fiscal year ended June 30, 2017. The purpose of the report is to provide citizens, potential investors, and other interested parties with reliable financial information about the District.

This CAFR 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 believe the data, as presented, is accurate in all material respects and that it is presented in a manner designed to fairly set forth the financial position and that 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, 2017 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, 2017 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.

The District is a governmental agency governed by a publicly elected five-member Board of Directors. The District was incorporated in 1945. The District provides wastewater collection, treatment and recycled water services to the communities of Oakley and Bethel Island. Detailed discussion of the array of District services is provided within the CAFR. 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 and Administration. The District also allocates resources for Debt Service, Capital Expenditures and Capital Expenditure Reserve.

At the close of Fiscal Year 2016/17, the District had outstanding debt in the amount of \$44,065,508. 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 CAFR. More detailed information on the District's accounting policies can be found in the notes to the Financial Statements, pages 32-48 in the CAFR.

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 particularly thank the Board of Directors for their continued dedication supporting the highest level of prudent fiscal management.



Chad Davisson, MBA, SDA
General Manager



Michael Welty, CPA
Chief Financial Officer



Wine grapes are one of the top producing agriculture within the District's service area.

Profile of the District

The Ironhouse Sanitary District provides wastewater collection, treatment and recycled water services for the communities of Oakley, Bethel Island and some unincorporated areas of Contra Costa County. The Ironhouse Sanitary District 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 the 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 the District serves an estimated population of 42,000 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 42,000 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 District.

Routine matters concerning the operational aspects of the District are delegated to professional staff members of the District by the General Manager.

Ironhouse Sanitary District Mission Statement

To protect public health, safety and the environment through responsible wastewater collection, treatment and water reuse.



The District's Water Recycling Facility became operational in 2011.

District at a Glance

WATER RECYCLING FACILITY (WRF)

Function: Treatment and recycling services

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

Population: Approximately 42,000

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

Current Average Daily Flow: 2.5 MGD

Plant Type: Advanced treatment Membrane Bioreactor process

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

Regulatory Permits: The District operates the WRF in compliance with the Waste Discharge Requirements (WDR R5-2013-0010) issued by the California Regional Water Quality Control Regional Board, Central Valley Region. In

addition, the District has obtained a National Pollutant Discharge Elimination System permit (Order R5-2008-0057, NPDES CA0085260) to regulate discharges of tertiary disinfected effluent to the San Joaquin River.

Recycled water use: Land application on Jersey Island for agriculture and discharge 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: 119 miles gravity sewers; 15.9 miles force mains

Number of Lift Stations: 36

Number of service connections: 15,577

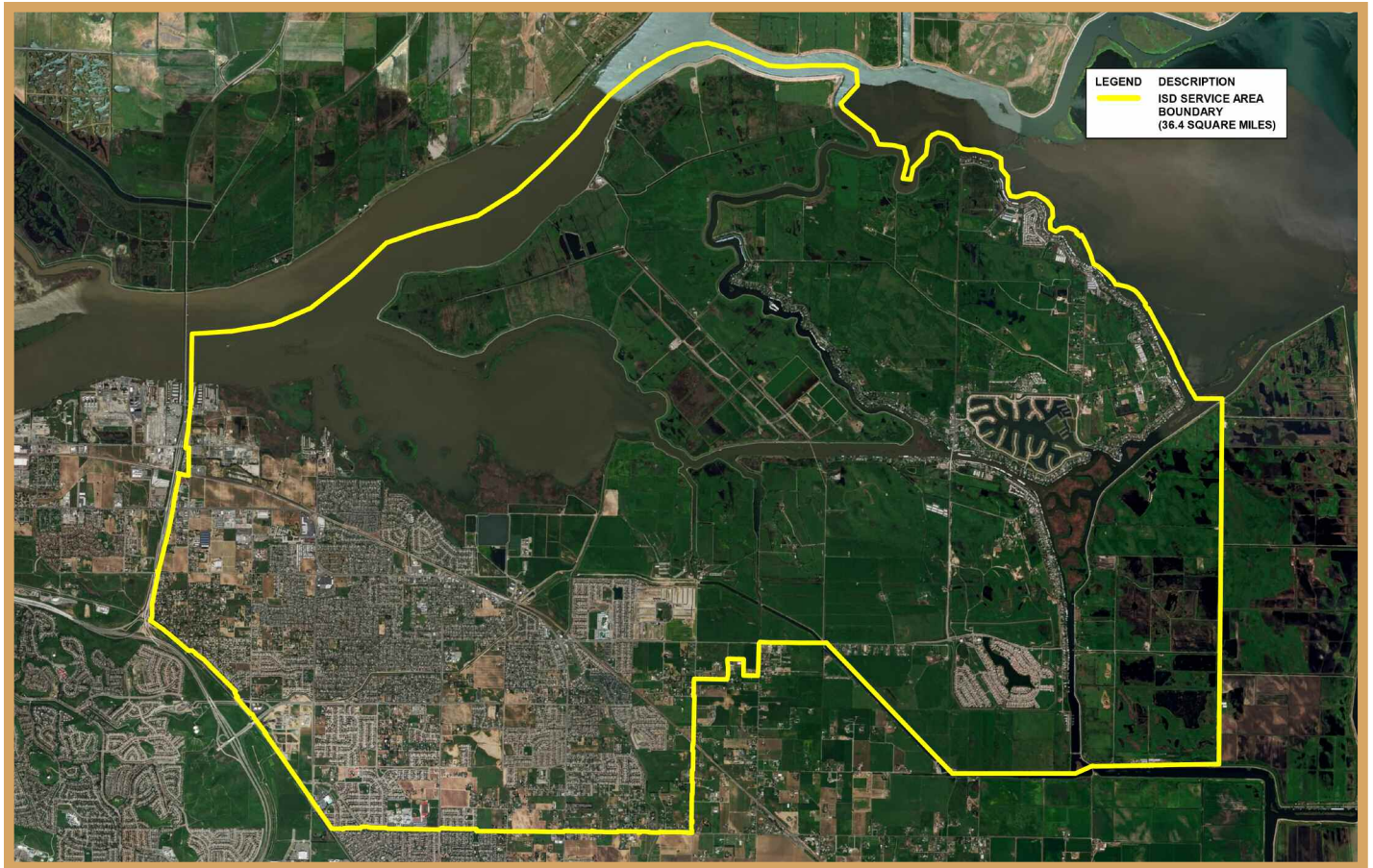
Age of collection system:

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

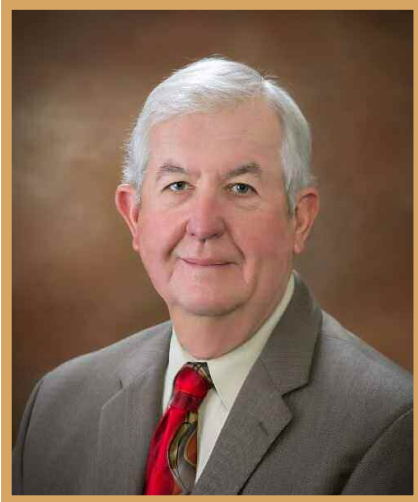
District Service Area

ISD is bounded by the San Joaquin River to the north, the City of Antioch to the west, the

City of Brentwood to the south and unincorporated area in the Holland Tract to the east.



Board of Directors



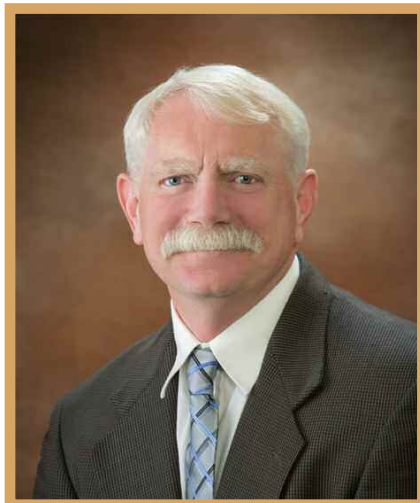
Chris Lauritzen
President
Term ending: 2018



Peter Zirkle
Vice President
Term ending: 2020



Susan Morgan
Director
Term ending: 2018

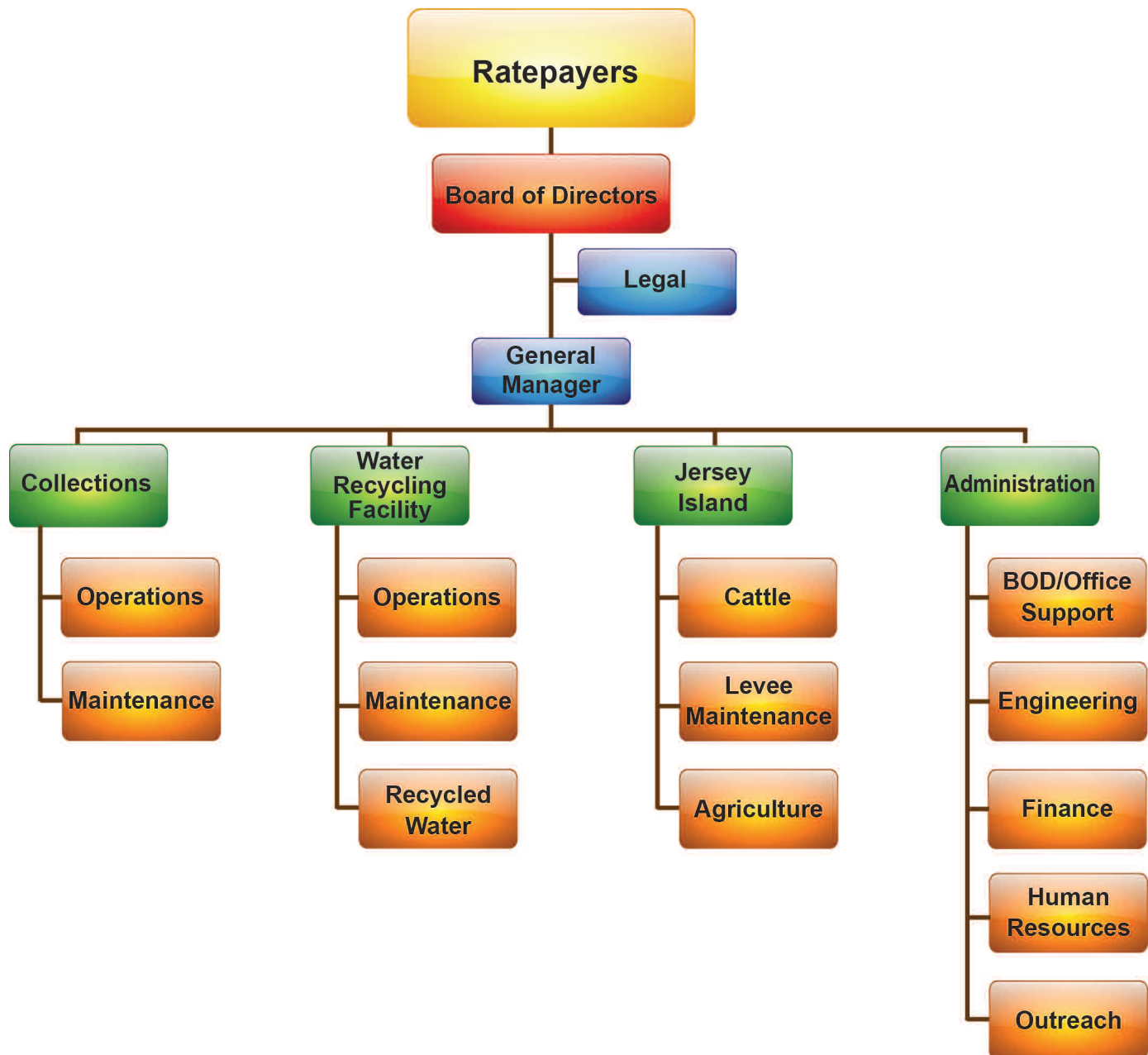


Doug Scheer
Director
Term ending: 2020



Dawn Morrow
Director
Term ending: 2020

District Organizational Chart





Force main project completed in 2017 includes the installation of a 14-inch valve that will allow for operational flexibility of the sewer system. Additionally, the original ductile iron air relief valves that have reached the end of useful life were replaced with stainless steel air relief valves.

Collections and Maintenance

Ironhouse Sanitary District's collection system is comprised of 119 miles of gravity lines, 16 miles of force mains and 36 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.

The fiscal year 2016-17 operations and maintenance budget, excluding both depreciation expense and the allocation of administrative overhead, for Collections and Maintenance was \$1.7 million.

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 cleanest 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 cleaning 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



Inspecting ultraviolet light system at the Water Recycling Facility.

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 six staff members. All of the staff are licensed plant operators 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 2016-17 operations and maintenance budget, excluding depreciation expense and an allocation of administrative overhead, for the Water Recycling Facility was \$2.3 million.



Jersey Island hay fields are irrigated with recycled water from Ironhouse Sanitary District.

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 then, the Water Recycling Facility 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. Currently, the Water Recycling Facility distributes recycled water to Jersey Island outside of the rainy season. It is used for the irrigation of 450 acres of fields that grows approximately 2,000 tons of hay per year.

The District works in cooperation with Reclamation District 830 (RD 830) on the island. RD 830 is responsible for maintenance and levee 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.

Assessments received by the District from various entities offset the expenses of the island.

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 of Taylor Slough and on the south by Dutch Slough.

The fiscal year 2016-17 operations and maintenance budget, excluding depreciation expense and an allocation of administrative overhead, for Jersey Island was \$2.0 million.

Awards, Accreditations and Certifications

Awards (2017)

California Water Environment Association - San Francisco Bay Section (CWEA-SFBS)

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

Community Engagement and Outreach: Person of the Year Award

California Special Districts Association (CSDA)

Supervisor of the Year Award

Awards (2016)

California Water Environment Association - San Francisco Bay Section (CWEA-SFBS)

Plant Overall: Plant of the Year Award - Small Agency

Collection System of the Year Award - Small Agency

Community Engagement and Outreach: Newsletter of the Year Award

California Water Environment Association - San Francisco Bay Section (CWEA-SFBS); AND CWEA Statewide

Community Engagement and Outreach: Project of the Year Award

California Association of Sanitation Agencies (CASA)

Excellence in Public Outreach and Education Award-Small Agency

Accreditations and Certifications

Special District Leadership Foundation

District of Distinction Accreditation

(July 2016 to June 2018)

Special District Leadership Foundation

District Transparency Certificate of Excellence

(June 2014 to March 2018)

Contra Costa Green Business

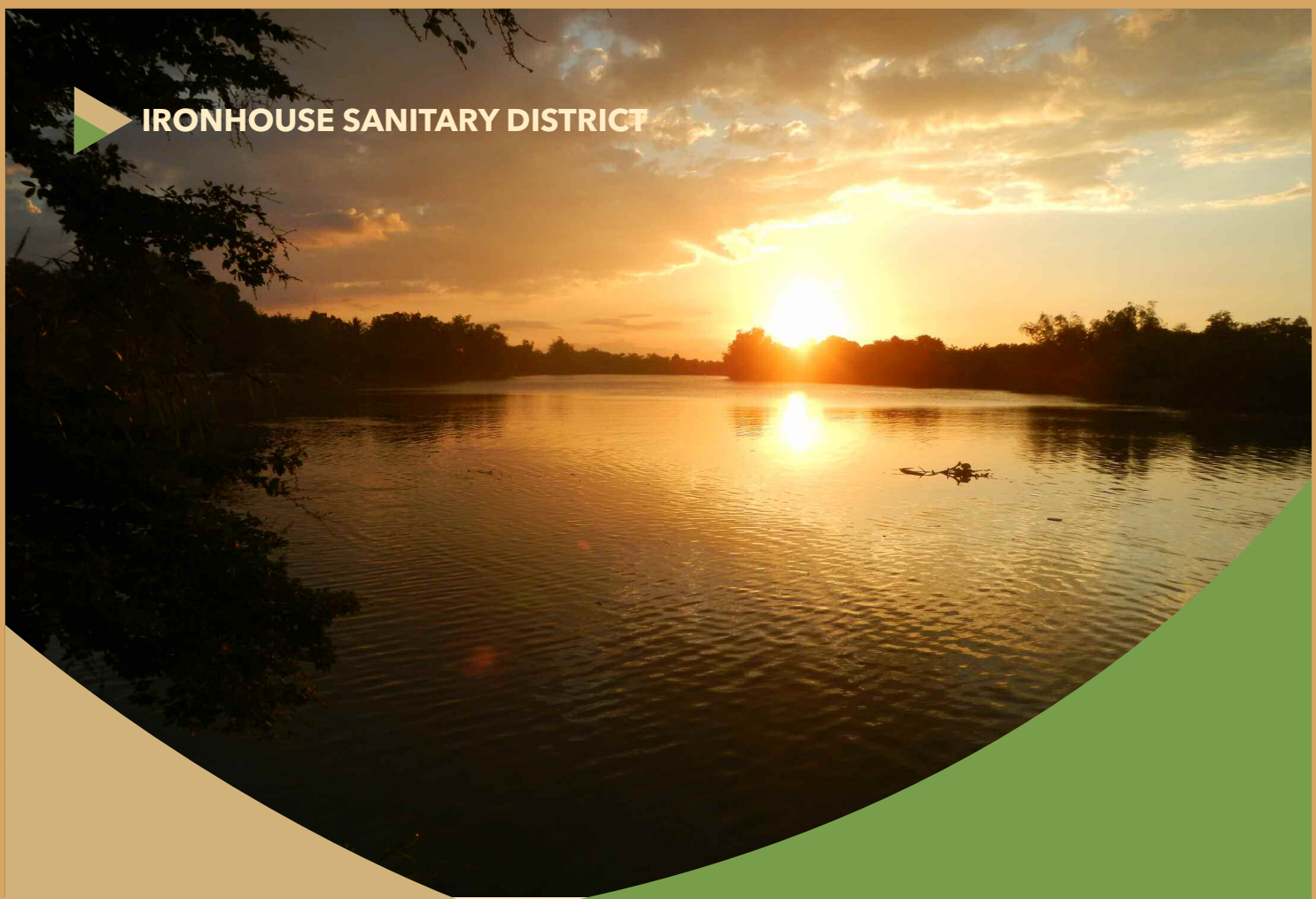
Green Business Certificate

(March 2014 to March 2018)



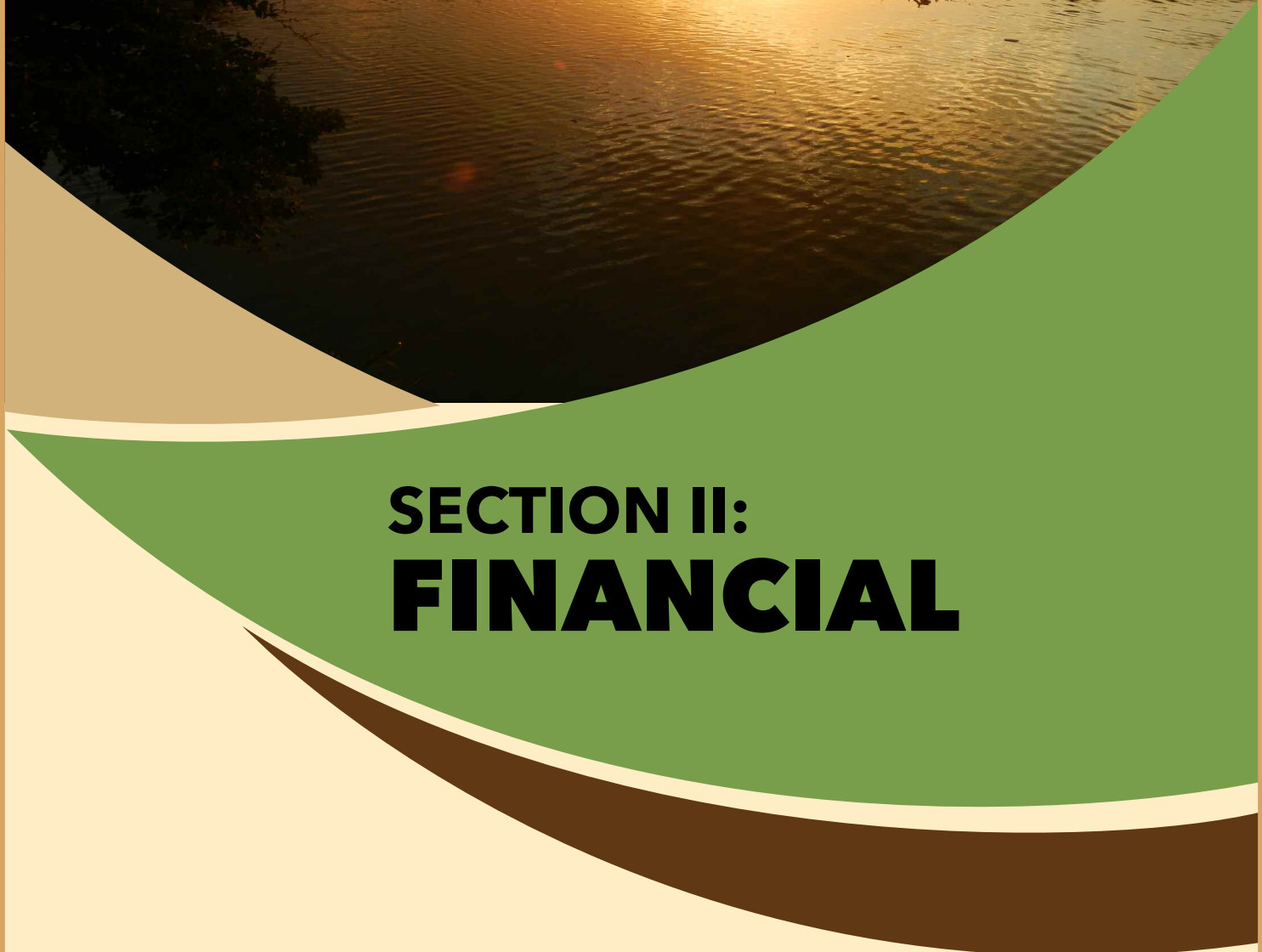


IRONHOUSE SANITARY DISTRICT



The background of the top half of the cover is a photograph of a sunset over a calm lake. The sun is low on the horizon, creating a bright orange glow and reflecting on the water. A small boat is visible in the distance. The sky is filled with soft, orange-tinted clouds. The left side of the image is partially obscured by dark, silhouetted tree branches.

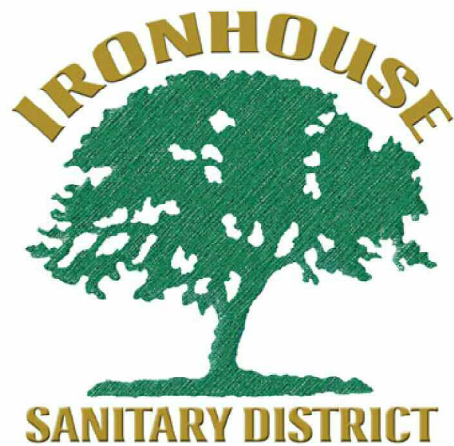
SECTION II: FINANCIAL



Decorative wavy lines in green and brown.

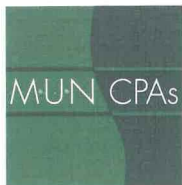
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For Fiscal Year Ended June 30, 2017

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**IRONHOUSE SANITARY DISTRICT
ANNUAL FINANCIAL REPORT
WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2017**

**MANN, URRUTIA, NELSON, CPAS & ASSOCIATES, LLP
2515 VENTURE OAKS WAY, SUITE 135
SACRAMENTO, CA 95833**



MANN • URRUTIA • NELSON CPAs & ASSOCIATES, LLP
GLENDALE • ROSEVILLE • SACRAMENTO • SOUTH LAKE TAHOE • KAUAI, HAWAII

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 as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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. 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, 2017, 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.

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 31-32, and the schedule of funding progress on page 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2017, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Ironhouse Sanitary District's internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Mam Unt. Ad CPAs".

Sacramento, California
December 5, 2017

MANAGEMENT DISCUSSION AND ANALYSIS

The financial statements for the fiscal year 2017 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 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 \$12,254,086 in fiscal 2017, compared to \$11,470,674 in fiscal 2016.

The assets of the District exceeded its liabilities at June 30, 2017 by \$71,938,663 (net position) compared to \$69,743,442 at June 30, 2016.

As of the close of the current fiscal year, the District's Proprietary Fund reported Unrestricted Undesignated Net Position of \$4,962,373 compared to \$3,640,262 for the prior fiscal year, and Unrestricted Designated Reserves of \$10,253,304 compared to \$8,666,509 for the prior fiscal year. Restricted Net Position at June 30, 2017 is \$6,837,602 compared to \$6,468,038 at June 30, 2016.

The District's cash, cash equivalents, and investments at June 30, 2017 were \$22,356,347 representing an increase of \$2,274,211 from the June 30, 2016 balance of \$20,082,136.

The District had Operating Revenues of \$12,566,436 for fiscal 2017 versus \$12,089,961 for fiscal 2016 and Operating Expenses of \$10,957,768 for fiscal year 2017 versus \$10,983,836 for fiscal year 2016.

There was \$268,640 in capital outlays for land improvements, water recycling plant, collection system, buildings, vehicles, and furniture and equipment for the fiscal year ending June 30, 2017 compared to \$1,093,082 in 2016.

B. Using the Annual Report

Management Discussion and Analysis

Management's Discussion and Analysis are 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 and liabilities 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. capacity fees for units to be added to the system in future periods).

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.

C. Budgetary Highlights

For the fiscal year ended June 30, 2017, an agency-wide budget was prepared for the District. The budget was primarily used as a management tool. The budget was prepared in accordance with the accounting procedures prescribed by GAAP.

D. Capital Assets and Debt Administration

Capital Assets:

As of June 30, 2017, the District's investment in Capital Assets for its Proprietary Fund was \$89,355,408 (net of accumulated depreciation). This investment in Capital Assets includes land, plant, collection system, buildings, vehicles, furniture and equipment. There was \$268,640 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, 2017, the outstanding balance of the loan is \$44,065,508. 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 6 to the Financial Statements included in this report.

E. Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the District's budget for Fiscal Year Ending June 30, 2017:

The state of the economy.

The continued growth within the District's area of operations.

The operational needs of the District.

**IRONHOUSE SANITARY DISTRICT
COMPARATIVE STATEMENT OF NET POSITION
June 30, 2017**

	ENTERPRISE FUND		
	2017	2016	Percent Change
Assets:			
Current Assets	\$ 23,584,549	\$ 21,033,436	12.1 %
Receivables Long-Term	-	18,982	(100.0)
Net OPEB Asset	195,556	195,556	-
Prepaid Interest	4,595,484	5,208,215	(11.8)
Investment in Cattle Operations (Net)	1,046,885	948,204	10.4
Capital Assets (Net)	<u>89,355,408</u>	<u>92,763,626</u>	<u>(3.7)</u>
Total Assets	<u>118,777,882</u>	<u>120,168,019</u>	<u>(1.2)</u>
Deferred Outflow of Resources	2,128,554	1,370,134	55.4
Liabilities:			
Current Liabilities	3,617,732	3,810,716	(5.1)
Long-Term Liabilities	<u>45,018,154</u>	<u>47,476,037</u>	<u>(5.2)</u>
Total Liabilities	<u>48,635,886</u>	<u>51,286,753</u>	<u>(5.2)</u>
Deferred Inflow of Resources	331,887	507,958	(34.7)
Net Position:			
Investment in Capital Assets, net of related debt	49,885,384	50,968,633	(2.1)
Unrestricted Net Position			
Undesignated	4,962,373	3,640,262	36.3
Designated Reserves	<u>10,253,304</u>	<u>8,666,509</u>	<u>18.3</u>
Total Unrestricted	15,215,677	12,306,771	23.6
Restricted Net Position	<u>6,837,602</u>	<u>6,468,038</u>	<u>5.7</u>
Total Net Position	<u>\$ 71,938,663</u>	<u>\$ 69,743,442</u>	<u>3.1 %</u>

**IRONHOUSE SANITARY DISTRICT
COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
June 30, 2017**

	ENTERPRISE FUND		
	2017	2016	Percent Change
Revenues:			
Service charges	\$ 10,083,384	\$ 9,914,974	1.7 %
Service connection and related fees	435,107	327,085	33.0
Capacity fees	1,735,595	1,228,615	41.3
Fees other	42,776	42,876	(0.2)
Miscellaneous	269,574	576,411	(53.2)
Total operating revenues	12,566,436	12,089,961	3.9
Expenses:			
Salaries, benefits and payroll taxes	3,780,401	3,900,016	(3.1)
Administrative expenses	427,104	397,950	7.3
Utilities	688,348	666,332	3.3
Operations and maintenance	1,396,216	1,448,378	(3.6)
Professional services	751,969	648,832	15.9
Insurance	127,783	127,975	(0.2)
Depreciation	3,785,947	3,794,353	(0.2)
Total operating expenses	10,957,768	10,983,836	(0.2)
Operating income	1,608,668	1,106,125	45.4
Non-operating revenues:			
Taxes	284,514	244,029	16.6
Cattle revenues	911,244	1,288,036	(29.3)
Hay sales	47,974	25,700	86.7
Mineral rights	8,300	5,686	46.0
Investment income	38,898	124,155	(68.7)
Gain on sale/disposal of assets	460	8,000	(94.3)
Total non-operating revenues	1,291,390	1,695,606	(23.8)
Cattle operations expense	92,106	127,469	(27.7)
Interest expense	612,731	651,027	(5.9)
Total non-operating expenses	704,837	778,496	(9.5)
Non-operating income	586,553	917,110	(36.0)
Change in net position	\$ 2,195,221	\$ 2,023,235	8.5 %

F. The Economic Outlook

The District is dependent upon user service charges and connection charges for the funding of operations. Future rate increases for capacity fees can only be implemented upon holding a public hearing on the plan and approval by the Board. Future increases in service charges can only be implemented upon completing the State of California Proposition 218 process. Any future rate increases are expected to increase revenues to provide for investment in capital asset projects.

In addition, although the local economy is experiencing moderate growth, new development has not recovered to the rate prior to the 2008 severe downturn in the economy. As a result, new connections since the downtown have not materialized at the rate expected when the Proposition 218 process was completed in 2007 which has resulted in lower connection and capacity fee revenue than previously anticipated. However, through sound fiscal and operational management, the District has been able to meet its annual debt service obligation of \$2,937,701 with the California State Water Resource Control Board while maintaining rates below the Proposition 218 maximum rate of \$680 per equivalent service measure.

G. 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.

**IRONHOUSE SANITARY DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017**

CURRENT ASSETS	
Cash and investments (Note 2)	\$ 15,518,745
Cash and investments - restricted (Note 2)	6,837,602
Accounts receivable	567,011
Related party receivable (Note 11)	121,091
Interest receivable	32,059
Supply inventory	353,107
Prepaid expenses	<u>154,934</u>
Total Current Assets	<u>23,584,549</u>
NON-CURRENT ASSETS	
Net OPEB Asset (Note 9)	195,556
Prepaid interest (Note 5)	4,595,484
Investment in cattle (net of accumulated depreciation) (Note 3)	1,046,885
Capital assets (net of accumulation depreciation) (Note 4)	<u>89,355,408</u>
Total Non-Current Assets	<u>95,193,333</u>
TOTAL ASSETS	<u>118,777,882</u>
DEFERRED OUTFLOW OF RESOURCES	
Changes in the net pension liability (Note 7)	<u>2,128,554</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$ 120,906,436</u>
CURRENT LIABILITIES	
Accounts payable	\$ 232,175
Payroll related liabilities	107,572
Customer deposits payable	120,476
Compensated absences (current portion) (Note 5)	197,443
State revolving fund loan (current portion) (Note 5)	2,937,701
Unearned revenues (Note 6)	<u>22,365</u>
Total Current Liabilities	<u>3,617,732</u>
LONG TERM LIABILITIES	
Net pension liability (Note 7)	3,849,906
Compensated absences (less current portion) (Note 5)	40,441
State revolving fund loan (less current portion) (Note 5)	<u>41,127,807</u>
Total Long-Term Liabilities	<u>45,018,154</u>
TOTAL LIABILITIES	<u>48,635,886</u>
DEFERRED INFLOW OF RESOURCES	
Changes in the net pension liability (Note 7)	<u>331,887</u>
NET POSITION	
Net investment in capital assets (Note 12)	49,885,384
Unrestricted:	
Undesignated	4,962,373
Designated reserves	<u>10,253,304</u>
Total Unrestricted (Note 12)	<u>15,215,677</u>
Restricted (Note 12)	<u>6,837,602</u>
TOTAL NET POSITION	<u>71,938,663</u>
TOTAL LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 120,906,436</u>

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

IRONHOUSE SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED
JUNE 30, 2017

OPERATING REVENUES

Service charges	\$ 10,083,384
Service connection and related fees	435,107
Capacity fees (Note 6)	1,735,595
Fees other	42,776
Miscellaneous	<u>269,574</u>

Total Operating Revenues	<u>12,566,436</u>
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OPERATING EXPENSES

Salaries, benefits and payroll taxes	3,780,401
Administration expenses	427,104
Utilities	688,348
Operations and maintenance	1,396,216
Professional services	751,969
Insurance	127,783
Depreciation	<u>3,785,947</u>

Total Operating Expenses	<u>10,957,768</u>
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Operating income	<u>1,608,668</u>
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NON-OPERATING REVENUES (EXPENSES)

Taxes	284,514
Cattle revenues	911,244
Hay sales	47,974
Mineral rights	8,300
Interest income	191,680
Net unrealized loss	(152,782)
Interest expense	(612,731)
Gain on sale of assets	460
Cattle operation expenses	<u>(92,106)</u>

Nonoperating revenues	<u>586,553</u>
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INCREASE IN NET POSITION	<u>2,195,221</u>
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NET POSITION, BEGINNING OF YEAR	<u>69,743,442</u>
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NET POSITION, END OF YEAR	<u>\$ 71,938,663</u>
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The accompanying notes are an integral part of the financial statements.

**IRONHOUSE SANITARY DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
JUNE 30, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 12,354,371
Cash paid to employees and for benefits and payroll taxes	(4,043,045)
Cash paid to suppliers and vendors	<u>(3,815,879)</u>
Net Cash Provided by Operating Activities	<u>4,495,447</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Hay sales	47,974
Proceeds from mineral rights	8,300
Taxes received	<u>284,514</u>
Net cash Provided by Noncapital Financing Activities	<u>340,788</u>

CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(268,640)
Sale of cattle	1,255,759
Acquisition of cattle	(49,175)
Cattle operations expenses	(595,216)
Principal payments on state revolving fund loan	(2,937,700)
Proceeds from the sale of assets	<u>460</u>
Net Cash Used for Capital and related Financing Activities	<u>(2,594,512)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest and dividends income	185,270
Purchase of investments	<u>(3,684,635)</u>
Net Cash Used for Investing Activities	<u>(3,499,365)</u>

NET DECREASE IN CASH (1,257,642)

CASH AND CASH EQUIVALENTS - JULY 1, 2016 2,392,208

CASH AND CASH EQUIVALENTS - JUNE 30, 2017 \$ 1,134,566

RECONCILIATION TO CASH AND INVESTMENTS

Cash and investments	\$ 22,356,347
Less: Investments	<u>\$ (21,221,781)</u>

CASH AND CASH EQUIVALENTS - JUNE 30, 2017 \$ 1,134,566

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

**IRONHOUSE SANITARY DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED
JUNE 30, 2017**

OPERATING INCOME	\$ 1,608,668
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	3,785,947
Increase in net pension liability	707,548
Decrease in deferred inflows	(176,071)
Increase in deferred outflows	(758,420)
Increase in accounts receivable	(217,982)
Increase in prepaid expenses	(31,455)
Increase in supply inventory	(2,073)
Decrease in accounts payable	(390,931)
Decrease in accrued liabilities	(5,413)
Decrease in compensated absences	(30,288)
Increase in unearned revenue	<u>5,917</u>
Total adjustments	<u>2,886,779</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,495,447</u>

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

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017**

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 (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 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.



**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**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.

Fixed 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. Donated capital assets are recorded at estimated fair 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

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. It is the District's intent to continue raising and selling these cattle. 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.

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.

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 December 5, 2017, which is the date the financial statements were issued.

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Government Accounting Standards Board Statements

These statements are not effective until July 1, 2017 or later and may be applicable to the District. However, the District has not determined the effects, if any, on the financial statements.

Government Accounting Standards Board Statement No. 75

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB, and replaces Statements No. 45 and 57. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to OPEB. 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, 2018.

Government Accounting Standards Board Statement No. 85

In March 2017, GASB issued Statement No. 85, *Omibus 2017*. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). Application of this statement is effective for the District's fiscal year ending June 30, 2018. The District has not determined what impact, if any, this pronouncement will have 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 mode 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. Application of this statement is effective for the District's fiscal year ending June 30, 2021. The District has not determined what impact, if any, this pronouncement will have on the financial statements.

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017**

NOTE 2: CASH AND INVESTMENTS

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

	<u>June 30, 2017</u>
Cash and investments	\$ 15,518,745
Restricted cash and investments	<u>6,837,602</u>
Total	<u>\$ 22,356,347</u>

The restricted cash balance is restricted for the current portion of the State Revolving Fund Loan, plant expansion and trunkline capacity. 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, 2017 are as follows:

	<u>June 30, 2017</u>
Cash on hand	\$ 334
Deposits with financial institutions	<u>1,134,232</u>
Total cash	<u>1,134,566</u>
Local Agency Investment Fund	7,652,786
CalTrust Investment Fund	7,561,128
Fixed Income Securities	5,985,943
Money Market Mutual Funds	<u>21,924</u>
Total investments	<u>21,221,781</u>
Total cash and investments	<u>\$ 22,356,347</u>

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017**

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, 2017:

	Remaining Maturity		
	12 months or less	1-5 years	Fair Value
Fixed Income Securities	\$ -	\$ 5,985,943	\$ 5,985,943
Money Market Mutual Funds	-	21,924	21,924
Local Agency Investment Fund	7,652,786	-	7,652,786
CalTRUST Investment Fund	<u>7,561,128</u>	<u>-</u>	<u>7,561,128</u>
	<u>\$ 15,213,914</u>	<u>\$ 6,007,867</u>	<u>\$ 21,221,781</u>

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017**

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	\$ 7,652,786			Not rated
CalTRUST Investment Fund	7,561,128			Not rated
Fixed Income Securities	5,985,943	AAA		
Money Market Mutual Funds	21,924	AAA		
	<u>\$ 21,221,781</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, 2017 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, 2017.

	Level 1	Level 2	Level 3	Total
Fixed Income Securities	\$ -	\$ 5,985,943	\$ -	\$ 5,985,943
Money Market Mutual Funds	<u>21,294</u>	<u>-</u>	<u>-</u>	<u>21,294</u>
Total assets at fair value	<u>\$ 21,294</u>	<u>\$ 5,985,943</u>	<u>\$ -</u>	<u>\$ 6,007,237</u>

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 investments in this pool is classified as a cash equivalent in the accompanying financial statements.

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017**

NOTE 3: INVESTMENT IN CATTLE

The following is a summary of the changes in investment in cattle for the year ended June 30, 2017:

Investment in cattle at July 1, 2016	\$ 1,146,204
Activities of cattle operations, for the fiscal year ended June 30, 2017:	
Purchases of cattle	49,175
Additional capital expenditures	503,111
Cost basis for cattle sold	<u>(454,868)</u>
Investment in cattle at June 30, 2017	<u>1,243,622</u>
Accumulated depreciation on investment in cattle at June 30, 2017	<u>(196,737)</u>
Net investment in cattle at June 30, 2017	<u>\$ 1,046,885</u>



**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017**

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 is as follows:

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2017</u>
Capital assets not being depreciated				
Land and improvements	\$ 8,467,524	\$ -	\$ -	\$ 8,467,524
Work in progress	<u>312,939</u>	<u>65,121</u>	<u>-</u>	<u>378,060</u>
Total capital assets not depreciated	<u>8,780,463</u>	<u>65,121</u>	<u>-</u>	<u>8,845,584</u>
Capital assets being depreciated				
Plant and improvements	52,861,907	-	(24,847)	52,837,060
Collection system and pipelines	55,484,656	65,905	-	55,550,561
Vehicles	1,884,582	-	(53,377)	1,831,205
Equipment	<u>22,089,101</u>	<u>137,614</u>	<u>(305,382)</u>	<u>21,921,333</u>
Total capital assets being depreciated	<u>132,320,246</u>	<u>203,519</u>	<u>(383,606)</u>	<u>132,140,159</u>
Less: accumulated depreciation				
Plant and improvements	(8,425,269)	(1,334,354)	24,847	(9,734,776)
Collection system and pipelines	(29,895,356)	(1,237,225)	-	(31,132,581)
Vehicles	(1,463,489)	(59,778)	53,377	(1,469,890)
Equipment	<u>(8,552,969)</u>	<u>(1,045,500)</u>	<u>305,382</u>	<u>(9,293,087)</u>
Total accumulated depreciation	<u>(48,337,083)</u>	<u>(3,676,858)</u>	<u>383,606</u>	<u>(51,630,335)</u>
Capital Assets, net	<u>\$ 92,763,626</u>	<u>\$ (3,408,218)</u>	<u>\$ -</u>	<u>\$ 89,355,408</u>

Depreciation expense for the year ended June 30, 2017 totaled \$3,785,947, and includes \$109,089 in depreciation expense on investment in cattle.

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017**

NOTE 5: LONG-TERM LIABILITIES

A summary of long-term liability activity for the year ended June 30, 2017 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
State Revolving Fund Loan	\$ 47,003,208	\$ -	\$ (2,937,700)	\$ 44,065,508	\$ 2,937,701
Compensated Absences	<u>268,172</u>	<u>204,292</u>	<u>(234,580)</u>	<u>237,884</u>	<u>197,443</u>
Total	<u>\$ 47,271,380</u>	<u>\$ 204,292</u>	<u>\$ (3,172,280)</u>	<u>\$ 44,303,392</u>	<u>\$ 3,135,144</u>

State Revolving Fund Loan

The District entered into a project financing agreement with the California State Water Resources Control 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 expense 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%. \$612,731 of the prepaid balance was amortized in the current year, resulting in a remaining balance of \$4,595,484 as of June 30, 2017.

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>
2018	2,937,701	2,937,701	574,436
2019	2,937,701	2,937,701	536,140
2020	2,937,701	2,937,701	497,844
2021	2,937,701	2,937,701	459,548
2022	2,937,701	2,937,701	421,253
2023 - 2027	14,688,505	14,688,505	1,531,828
2028 - 2032	<u>14,688,498</u>	<u>14,688,498</u>	<u>574,435</u>
Total	<u>\$ 44,065,508</u>	<u>\$ 44,065,508</u>	<u>\$ 4,595,484</u>

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017**

NOTE 6: CAPACITY FEES AND UNEARNED REVENUES

Capacity fees and trunkline 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.

The capacity fees and trunkline 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, 2017, \$3,899,901 had been earned and designated for future expansion. During the year ended June 30, 2017, \$1,735,595 of capacity and trunkline capacity fees were earned.

As of June 30, 2017, the District has accrued \$22,365 in unearned revenue as a result of cash received but not earned. This balance will be recognized in future periods once the District has met its obligations.

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, 2017, 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%	6.5%
Required Employer Contribution Rate	23.01%	6.70%

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017**

NOTE 7: DEFINED BENEFIT PENSION PLAN (continued)

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for 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, 2017 were \$539,201.

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

As of June 30, 2017, the District reported net pension liability of \$3,849,906 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, 2016, 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, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension 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, 2015 and 2016 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2015	.04578%
Proportion - June 30, 2016	.04449%
Change - Increase (Decrease)	(.00129)%

For the year ended June 30, 2017, the District recognized pension expense of \$226,943. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Pension contributions subsequent to measurement date	\$ 539,201	\$ -
Differences between projected and actual experience	19,498	4,468
Changes in assumptions	-	184,469
Difference between actual contributions made by employer and the employer's proportionate share of the risk pool's total contribution	225,036	-
Adjustment due to differences in proportions	384,717	142,950
Net difference between projected and actual earning on plan investments	<u>960,102</u>	<u>-</u>
Total	\$ <u>2,128,554</u>	\$ <u>331,887</u>



**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017**

NOTE 7: DEFINED BENEFIT PENSION PLAN (continued)

\$539,201 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30	
2018	\$ 322,301
2019	\$ 262,519
2020	\$ 423,968
2021	\$ 248,678

C. Actuarial Assumptions – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.65% 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 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more on this table, please refer to the 2014 Experience Study Report.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

D. Discount Rate – The discount rate used to measure the total pension liability was 7.65% 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 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees' Retirement Fund (PERF). The stress test results are presented in a detailed report 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

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017**

NOTE 7: DEFINED BENEFIT PENSION PLAN (continued)

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	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	.99%	2.43%
Inflation Sensitive	6.0%	.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	(.55%)	(1.05%)

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

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

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability for 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:

	Miscellaneous
1% Decrease	6.65%
Net Pension Liability	\$5,937,102
Current Discount Rate	7.65%
Net Pension Liability	\$3,849,906
1% Increase	8.65%
Net Pension Liability	\$2,124,942

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

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017**

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 past year, the employees contributed \$30,275.

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.

Funding Policy and Annual Pension Cost

The District's policy is to fully fund the annual required contribution, which is determined by an actuary. For the year ended June 30, 2017 the District made the annual required contribution (ARC) of \$262,120. The required contribution for fiscal year 2016/2017 was determined as part of the July 1, 2015 actuarial valuation. The significant actuarial assumptions used in the valuation of the plan are as follows:

Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Average remaining period	30 Years as of the Valuation Date
Actuarial assumptions:	
Discount rate	7.00%
Projected salary increases	2.75%
Inflation rate	2.75%
Cap increase	Healthcare 4.00% trend

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017**

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

Annual OPEB Cost and Net OPEB Obligation

For the year ended June 30, 2017, the District's annual cost for the healthcare plan was \$262,120. The District's annual OPEB cost contributed to the plan and the net OPEB obligation (asset) for the year ended June 30, 2017 were as follows:

Normal Cost	\$ 107,395
Initial UAAL Amortization	219,274
Residual UAAL Amortization	<u>(64,549)</u>
Annual required contribution	<u>262,120</u>
Annual OPEB cost	<u>262,120</u>
Less: employer contribution	<u>262,120</u>
Change in Net OPEB asset	<u>-</u>
Net OPEB asset - beginning of year	<u>195,556</u>
Net OPEB asset - end of year	<u><u>\$ 195,556</u></u>

Four-Year Trend Information for the Ironhouse Sanitary District Retiree Healthcare Plan

Fiscal Year Ending	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Asset
6/30/14	197,457	197,457	100%	195,556
6/30/15	197,457	197,457	100%	195,556
6/30/16	255,105	255,105	100%	195,556
6/30/17	262,120	262,120	100%	195,556

Funded Status and Funding Progress

As of June 30, 2017, the plan was 73 percent funded. The actuarial accrued liability for benefits was \$3,128,185, and the market value of assets was \$2,289,860, resulting in an unfunded liability of \$837,325. Estimated covered payroll (annual payroll of active employees covered by the plan) was \$2,390,000, and the ratio of the unfunded liability to the covered payroll was 50 percent.

Actuarial valuations for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continuous revision as actual results are compared to past expectations and new estimates about the future are formulated. Although the valuation results are based on values which the District's actuarial consultant believes are reasonable assumptions, the valuation results reflect a long-term perspective and, as such, are merely an estimate of what future costs may actually be. Deviations in any of several factors, such as future interest rates, medical cost inflation, Medicare coverage, and changes in marital status, could result in actual costs being less or greater than estimated.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017**

NOTE 10: JOINT VENTURE - CALIFORNIA SANITATION RISK MANAGEMENT DISTRICT (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 District (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, 2017, the District made \$190,878 in insurance premium payments to CSRMA.

Condensed audited financial information for the year ended June 30, 2016 (the most recent available) was as follows:

Total assets	\$ 28,336,567
Total liabilities	<u>16,735,609</u>
Total net position	<u>\$ 11,600,958</u>
Total revenues	\$ 11,843,583
Total expenses	<u>10,946,085</u>
Increase in net position	<u>\$ 897,498</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 and Reclamation Superintendent of the District are also the President 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, 2017, the District paid \$332,565 in assessments to RD830. RD830 paid the District \$60,000 for management services. In addition, RD830 reimbursed the District in the amount of \$141,278 for levee repairs performed by Ironhouse employees and for the use of its equipment. As of June 30, 2017, \$121,091 was due from RD830. Management believes these transactions were consummated on terms equivalent to those that prevail in arms length transactions.

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017**

NOTE 12: NET POSITION

As of June 30, 2017, net position of the District consisted of the following:

Net investment in capital assets	\$ 49,885,384
Unrestricted:	
Undesignated	4,962,373
Designated reserve for capital expenditures	9,487,921
Designated reserve for rate stabilization	732,000
Designated reserve for Jersey Island use fees	<u>33,383</u>
Total Unrestricted	<u>15,215,677</u>
Restricted	
Debt service	2,937,701
Expansion	373,449
Trunkline capacity	<u>3,526,452</u>
Total Restricted	<u>6,837,602</u>
Total Net Position	<u>\$ 71,938,663</u>

Required Supplementary Information

**IRONHOUSE SANITARY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2017
LAST 10 YEARS***

	Measurement Period		
	2016	2015	2014
Proportion of the net pension liability	0.04449 %	0.04578 %	0.04365 %
Proportionate share of the net pension liability	\$ 3,849,906	\$ 3,142,358	\$ 2,722,495
Covered - employee payroll	\$ 2,405,602	\$ 2,514,393	\$ 2,570,428
Proportionate share of the net pension liability as a percentage of covered - employee payroll	160.04 %	124.97 %	105.92 %
Plan's fiduciary net position	\$ 11,653,165	\$ 10,946,158	\$ 10,219,369
Plan fiduciary net position as a percentage of the total pension liability	75.20 %	77.70 %	79.00 %

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



**IRONHOUSE SANITARY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CONTRIBUTIONS TO THE COST SHARING DEFINED BENEFIT PENSION PLAN
AS OF JUNE 30, 2017
LAST 10 YEARS***

	2017	Fiscal Year-End 2016	2015
Contractually required contribution (actuarially determined)	\$ 539,201	\$ 545,636	\$ 596,008
Contributions in relation to the actuarially determined contributions	<u>(539,201)</u>	<u>(545,636)</u>	<u>(596,008)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	2,405,602	2,514,393	2,570,428
Contributions as a percentage of covered - employee payroll	22.41 %	21.70 %	23.19 %

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

Schedule of Funding Progress for the Ironhouse Sanitary District Retiree Healthcare Plan
(Rounded to the nearest thousand)

<u>Valuation Date</u>	<u>Year-End Date</u>	<u>Accrued Liabilities (AL)</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Unfunded Liabilities (UL)</u>	<u>Funded Ratio (AVA/AL)</u>	<u>Annual Covered Payroll</u>	<u>UL As a % of Payroll</u>
6/30/08	6/30/08	\$2,909,000	\$263,000	\$2,646,000	9%	\$2,178,000	121%
6/30/08	6/30/09	\$3,285,000	\$452,000	\$2,833,000	14%	\$2,285,000	130%
6/30/08	6/30/10	\$3,285,000	\$855,812	\$2,429,188	26%	\$2,203,000	110%
6/30/10	6/30/11	\$2,079,560	\$1,359,887	\$719,673	65%	\$2,156,000	33%
6/30/10	6/30/12	\$2,079,560	\$1,452,801	\$626,759	70%	\$2,156,000	29%
6/30/11	6/30/13	\$2,246,806	\$1,621,508	\$625,298	72%	\$2,523,000	25%
7/1/13	6/30/14	\$2,763,311	\$1,612,241	\$1,151,070	58%	\$2,634,000	44%
7/1/15	6/30/15	\$3,128,185	\$1,951,259	\$1,176,926	62%	\$2,371,000	50%
7/1/15	6/30/16	\$3,128,185	\$1,951,259	\$1,176,926	62%	\$2,390,000	49%



IRONHOUSE SANITARY DISTRICT

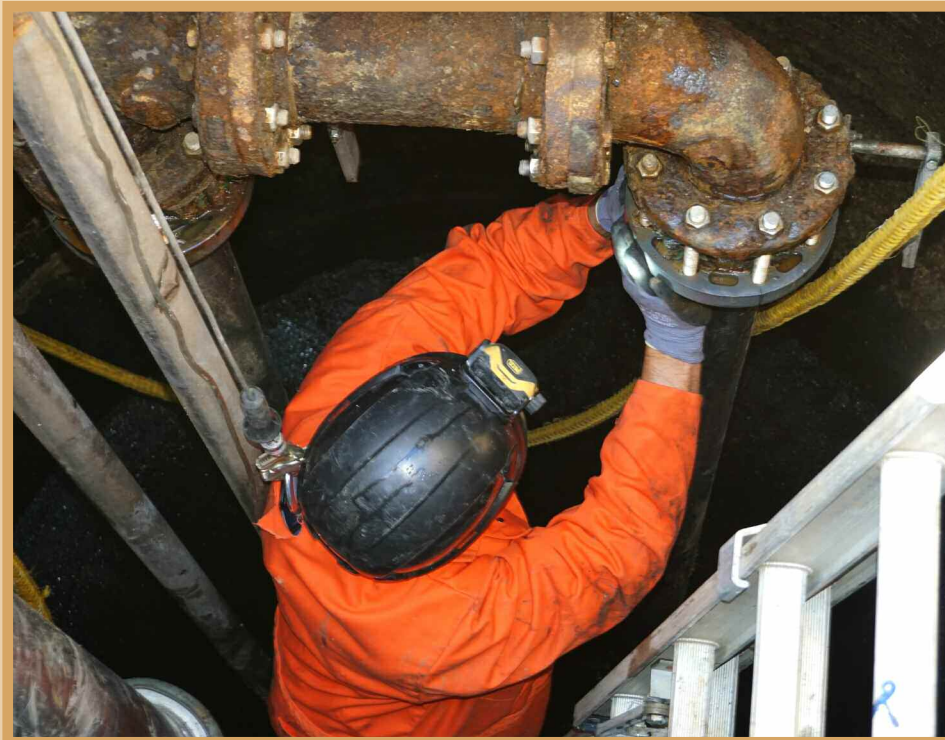


SECTION III:
STATISTICAL

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For Fiscal Year Ended June 30, 2017

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FINANCIAL TRENDS



Ironhouse Sanitary District
Statement of Net Position
For the Past Five Fiscal Years
(in thousands)

	FY 16/17	FY 15/16	FY 14/15	FY 13/14	FY 12/13
Assets					
Current assets	\$23,585	\$21,033	\$19,386	\$17,209	\$16,772
Capital assets	89,355	92,764	95,361	98,194	100,747
Other long-term assets	5,838	6,371	6,930	7,587	8,378
Total Assets	118,778	120,168	121,677	122,990	125,897
Deferred Outflows of Resources					
Changes in the net pension liability	2,128	1,370	753	-	
Total Assets and Deferred Outflows of Resources	\$120,906	\$121,538	\$122,430	\$122,990	\$125,897
Liabilities					
Current liabilities	\$3,617	\$3,810	\$4,114	\$4,035	\$3,935
Long-term liabilities	45,018	47,476	49,779	50,048	53,081
Total Liabilities	48,635	51,286	53,893	54,083	57,016
Deferred Inflows of Resources					
Changes in the net pension liability	332	508	817	-	-
Net Position					
Net investment in capital assets	49,885	50,969	51,279	51,863	52,271
Unrestricted					
Undesignated	4,962	3,640	3,398	6,142	6,241
Designated	10,254	8,667	6,198	3,561	2,080
Total Unrestricted	15,216	12,307	9,596	9,703	8,321
Restricted for debt service, expansion and capacity	6,838	6,468	6,845	7,341	8,289
Total Net Position	71,939	69,744	67,720	68,907	68,881
Total Liabilities, Deferred Outflows of Resources and Net Position	\$120,906	\$121,538	\$122,430	\$122,990	\$125,897

Source: Ironhouse Sanitary District as reflected in audited financial statements

Ironhouse Sanitary District

Statement of Revenues, Expenses and Changes in Net Position

For the Past Five Fiscal Years (in thousands)

	FY 16/17	FY 15/16	FY 14/15	FY 13/14	FY 12/13
Operating Revenues					
Services charges	\$10,083	\$9,915	\$9,385	\$9,038	\$8,898
Service connection and related fees	435	327	476	243	318
Capacity fees	1,736	1,229	1,150	833	848
Other fees and revenue	274	619	1,123	774	255
Total Operating Revenues	12,528	12,090	12,134	10,888	10,319
Operating Expenses					
Salaries, benefits and payroll taxes	3,780	3,900	4,357	4,432	4,314
Administration expenses	427	398	337	308	278
Operations and maintenance	1,396	1,449	1,309	1,647	1,404
Professional services	752	649	698	591	790
Insurance	128	128	135	135	145
Utilities	688	666	665	629	655
Expansion related costs	-	-	375	23	793
Depreciation	3,786	3,794	3,781	3,802	3,829
Total Operating Expenses	10,957	10,984	11,657	11,567	12,208
Operating income (loss)	1,571	1,106	477	(679)	(1,889)
Non-Operating Revenues (Expenses)					
Cattle sales revenue	911	1,288	1,618	1,072	939
Taxes	285	244	239	191	187
Investment income	39	124	37	33	44
Other non-operating revenue	56	40	92	118	120
Cattle operation expenses	(92)	(128)	(176)	(162)	(225)
Interest expense	(613)	(651)	(689)	(840)	(851)
Total Non-Operating Revenues (Expenses)	586	917	1,121	412	214
Income before capital contributions	2,157	2,023	1,598	(267)	(1,675)
Capital contributions	38	-	-	293	-
Increase (decrease) in net position	2,195	2,023	1,598	26	(1,675)
Net position, beginning of year (Note 1)	69,744	67,720	66,122	68,880	70,555
Net position, end of year	\$71,939	\$69,743	\$67,720	\$68,906	\$68,880

Notes: (1) The beginning net position for fiscal year FY 14/15 was adjusted as a result of implementation of GASB 68.

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

Ironhouse Sanitary District Service Charge Rates per EDU Past Five Years



Fiscal Year	Service Rate per EDU	Percent Change
FY 12/13	\$618	4.4%
FY 13/14	\$618	0.0%
FY 14/15	\$637	3.1%
FY 15/16	\$658	3.3%
FY 16/17	\$658	0.0%

Source: Ironhouse Sanitary District Finance

Ironhouse Sanitary District Capacity Fees Past Five Years



Fiscal Year	Capacity Fee Per EDU	Total Collected	Number of EDUs
FY 12/13	3,972	\$848,465	224.5
FY 13/14	5,296	\$832,916	172.1
FY 14/15	5,566	\$1,149,909	209.6
FY 15/16	5,708	\$1,228,615	214.9
FY 16/17	5,873	\$1,735,595	295.5

Notes:

(1) Total revenue collected includes connections where fees were prepaid in 2005 when capacity fees were much lower than reflected on this chart. Prepaid revenue was recognized as revenue when connections occurred.

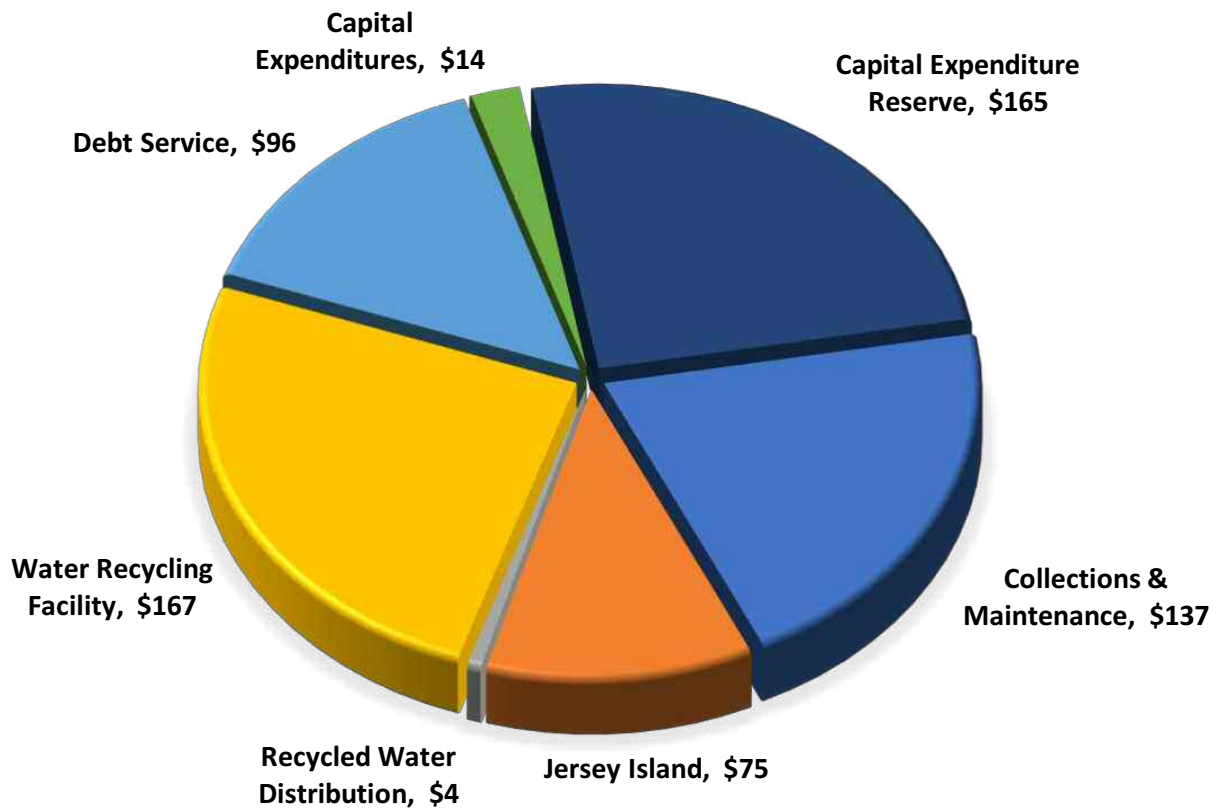
Source: Ironhouse Sanitary District Finance

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REVENUE CAPACITY



**Ironhouse Sanitary District
\$658 Service Charge by Activity
FY 16/17**



Notes:

1. Administration costs allocated to the following activities:
 - Collections and Maintenance
 - Jersey Island
 - Recycled Water Distribution
 - Water Recycling Facility

Source: Ironhouse Sanitary District

**Ironhouse Sanitary District
Principal Customers
Current Fiscal Year**

FY 2016-2017		
Customers	Service Charge Revenue	Percent of Total Service Charge Revenue
Freedom High School	\$172,659	1.7%
Sr./Family Apts (Carol Lane)	138,180	1.4%
Willows Mobile Home Park	114,295	1.1%
Santiago Village Mobile Home Park	104,885	1.0%
Eagle City Mobile Home Park	95,410	0.9%
Raley's Shopping Center	89,422	0.9%
Iron House Elementary	67,406	0.7%
Courtyards @ Cypress Grove Apts	63,826	0.6%
Oakley Senior Apts (Empire)	54,732	0.5%
Big Oak Mobile Home Park	48,429	0.5%
	\$949,244	9.4%

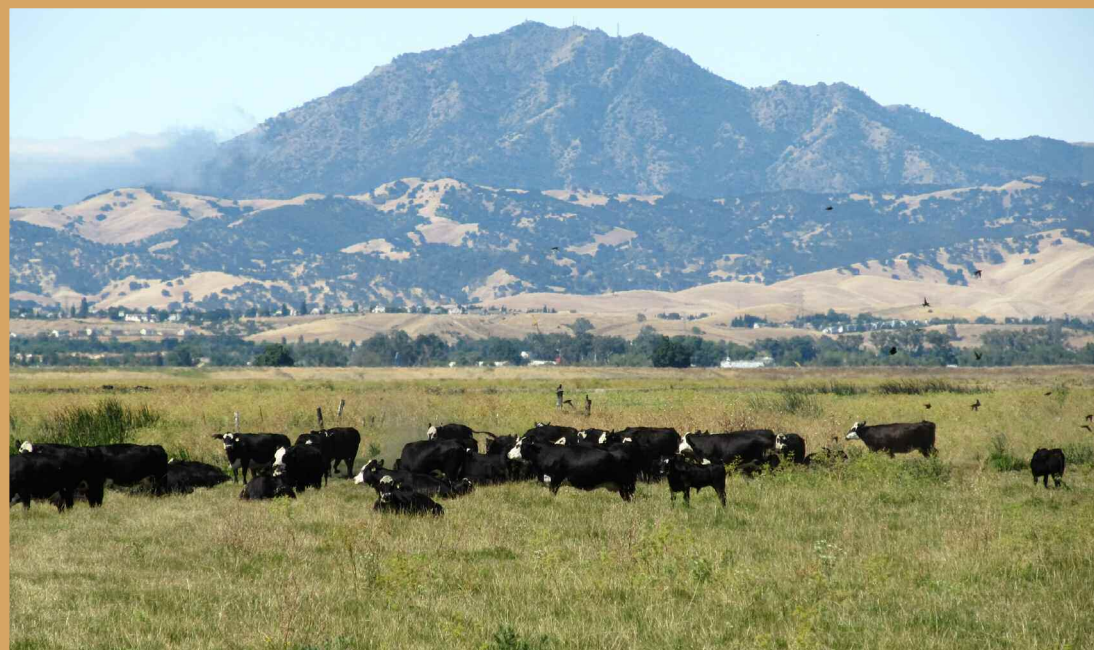
Source: Ironhouse Sanitary District Finance

**Ironhouse Sanitary District
Principal Customers
Five Years Ago**

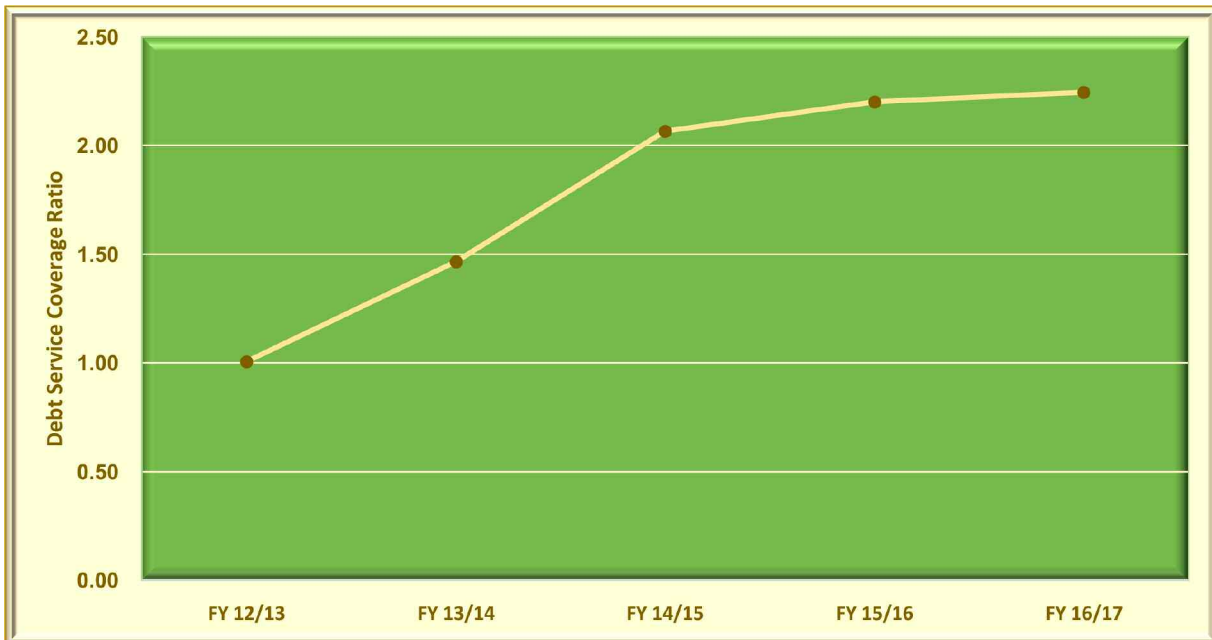
FY 2012-2013		
Customers	Service Charge Revenue	Percent of Total Service Charge Revenue
Freedom High School	\$156,725	1.8%
Sr./Family Apts (Carol Lane)	129,780	1.5%
Willows Mobile Home Park	108,768	1.2%
Santiago Village Mobile Home Park	98,509	1.1%
Eagle City Mobile Home Park	89,610	1.0%
Raley's Shopping Center	83,986	0.9%
Iron House Elementary	60,162	0.7%
Courtyards @ Cypress Grove Apts	59,946	0.7%
Oakley Senior Apts (Empire)	51,405	0.6%
Big Oak Mobile Home Park	45,485	0.5%
	\$884,377	9.9%

Source: Ironhouse Sanitary District Finance

DEBT CAPACITY



Ironhouse Sanitary District Debt Service Coverage For the Past Five Years



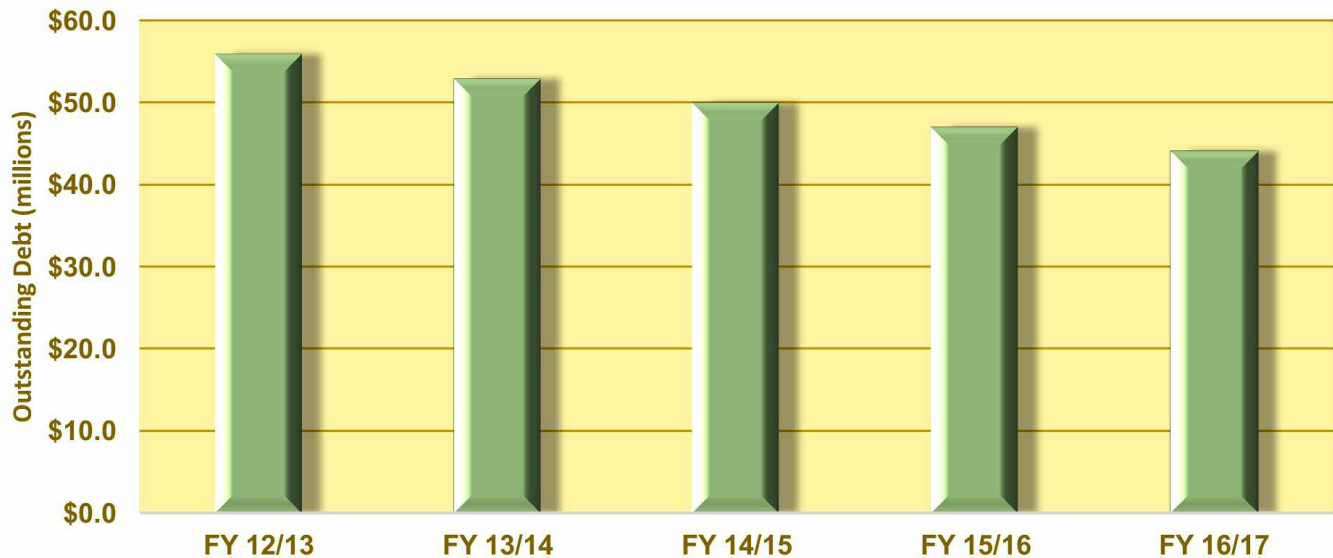
Fiscal Year	Gross Revenues (Note 1)	Operating Expense (Note 2)	Net Revenues	Debt Service	Debt Service Coverage Ratio
FY 12/13	\$11,609,187	\$8,603,761	\$3,005,426	\$2,986,377	1.01
FY 13/14	\$12,302,041	\$7,926,831	\$4,375,210	\$2,986,357	1.47
FY 14/15	\$14,120,901	\$8,052,618	\$6,068,283	\$2,937,700	2.07
FY 15/16	\$13,785,567	\$7,316,952	\$6,468,615	\$2,937,700	2.20
FY 16/17	\$13,857,826	\$7,263,927	\$6,593,899	\$2,937,700	2.24

Notes:

1. The Debt-Service Coverage Ratio (DSCR) is a measure of the cash flow available to pay current debt obligations. The ratio states net operating income as a multiple of debt obligations due within one year, including interest, principal, sinking-fund and lease payments
2. Includes operating and non-operating revenues.
3. Excludes depreciation and interest expense. Includes cattle operation expenses classified as non-operating in audited financial statements.

Sources: Ironhouse Sanitary District; Investopedia. Debt-Service Coverage Ratio (DSCR).
www.investopedia.com/terms/d/dscr.asp#ixzz57I733Osv. Accessed 16 Feb 2018.

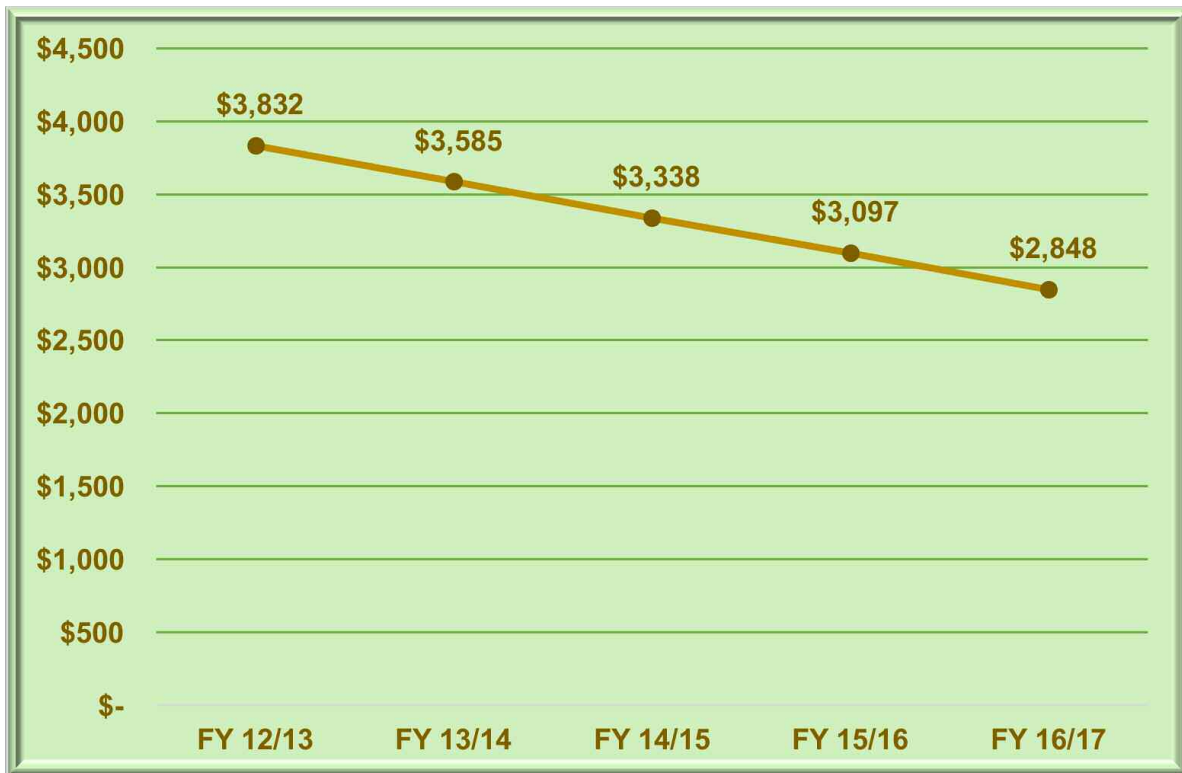
Ironhouse Sanitary District Outstanding Debt For the Past Five Years



Fiscal Year	SWRCB SRF	Capital Lease	Total Outstanding Debt
FY 12/13	\$55,816,310	\$48,116	\$55,864,426
FY 13/14	\$52,878,609		\$52,878,609
FY 14/15	\$49,940,909		\$49,940,909
FY 15/16	\$47,003,208		\$47,003,208
FY 16/17	\$44,065,508		\$44,065,508

Source: Ironhouse Sanitary District

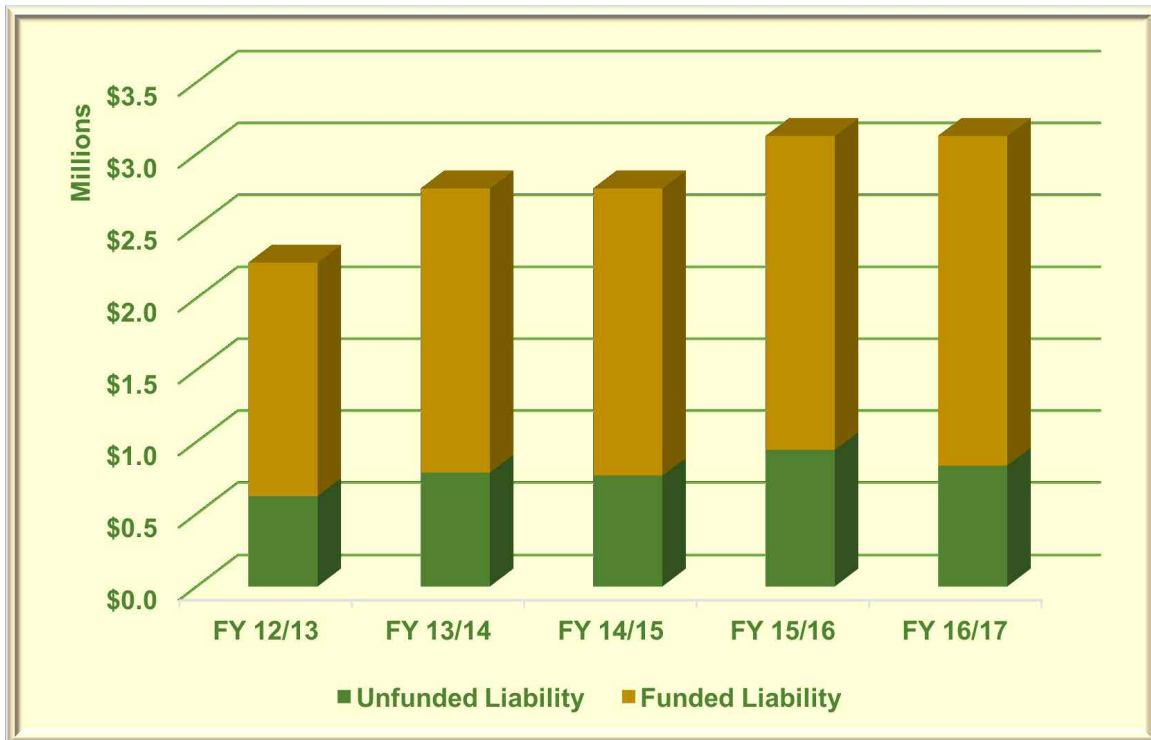
Ironhouse Sanitary District Debt Per Connection For the Past Five Years



Fiscal Year	Total Connections	Debt per Connection
FY 12/13	14,579	\$3,832
FY 13/14	14,751	\$3,585
FY 14/15	14,961	\$3,338
FY 15/16	15,176	\$3,097
FY 16/17	15,471	\$2,848

Source: Ironhouse Sanitary District

Ironhouse Sanitary District OPEB Liability Past Five Years



Fiscal Year	Actuarial Accrued Liability	Funded Liability	Unfunded Liability
FY 12/13	\$2,246,806	\$1,621,508	\$625,298
FY 13/14	\$2,763,311	\$1,974,762	\$788,549
FY 14/15	\$2,763,311	\$1,996,635	\$766,676
FY 15/16	\$3,128,185	\$2,182,001	\$946,184
FY 16/17	\$3,128,185	\$2,290,860	\$837,325

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

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DEMOGRAPHICS & ECONOMICS



Ironhouse Sanitary District
Demographic and Economic Statistics
Last Five Years (unaudited)

Oakley

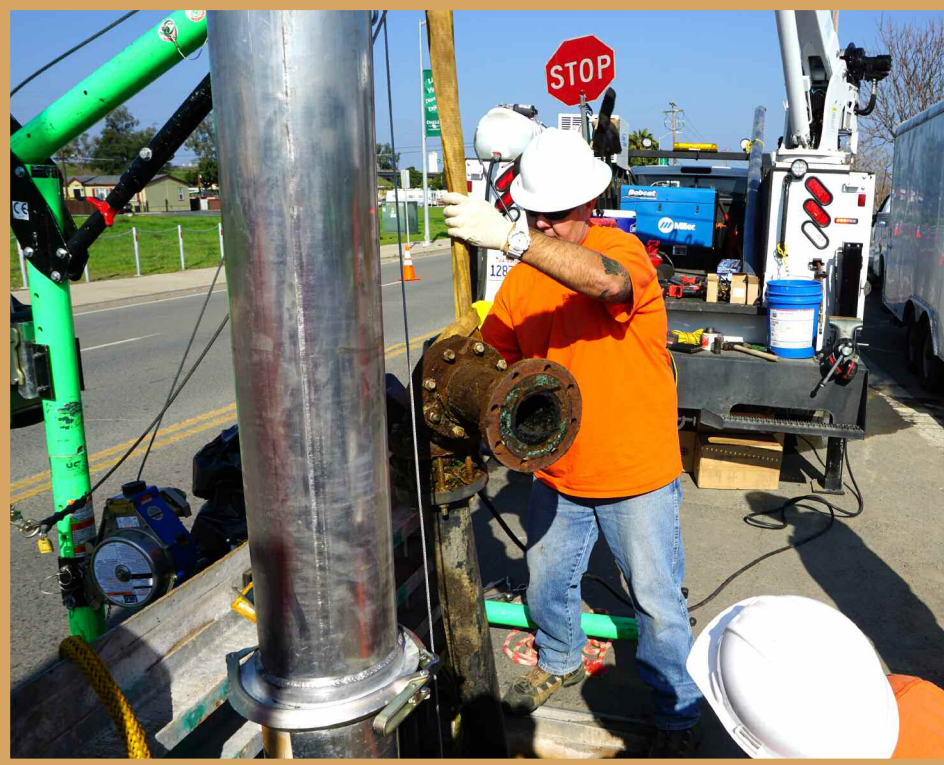
Calendar Year	Population*	Personal income (thousands of dollars)	Per Capita Personal Income*	Average Unemployment Rate*
2012	35,535	\$996,792	\$28,051	9.3%
2013	36,443	\$1,010,127	\$27,718	12.7%
2014	37,391	\$1,046,686	\$27,993	10.7%
2015	38,243	\$1,074,705	\$28,102	9.6%
2016	38,968	\$1,102,327	\$28,288	8.4%

Bethel Island

Calendar Year	Population*	Personal income (thousands of dollars)	Per Capita Personal Income*	Average Unemployment Rate*
2012	1,910	\$58,918	\$30,847	11.5%
2013	2,172	\$66,079	\$30,423	13.3%
2014	2,158	\$65,577	\$30,388	12.2%
2015	2,172	\$64,715	\$29,795	6.0%
2016	2,199	\$64,319	\$29,249	3.7%

*Source: U.S. Census Bureau, 2012-2016 American Community Survey 5-Year Estimates

OPERATING INFORMATION



Ironhouse Sanitary District Authorized Full Time Equivalent Staff By Department Past Five Years



Department	2013	2014	2015	2016	2017
Administration	5	5	4	3	5
Collections/Maintenance	8	9	8	7	7
Jersey Island	13	12	12	10	10
Water Recycling Facility	6	6	5	6	6
District Total	32	32	29	26	28

Source: Ironhouse Sanitary District

FINANCIAL POLICIES AND CAPITAL IMPROVEMENT PROGRAM



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.

[Click here to view the full 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.

[Click here to view the full 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 Reserve 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, to fund new capital assets, 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.

[Click here to view the full 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 no 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 in the form of capacity fees.

Debt Service Reserve Summary

The purpose of the Debt Service Reserve is to maintain one year of debt service as required by the terms of the Clean Water State Revolving Fund Program administered by the California State Water Resources Control Board.

[Click here to view the full policy.](#)



Ironhouse Sanitary District Capital Improvement Program (CIP)

The District is currently developing 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.

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IRONHOUSE SANITARY DISTRICT

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