



**IRONHOUSE SANITARY DISTRICT  
OAKLEY/BETHEL ISLAND,  
CALIFORNIA**



# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**



**For Fiscal Year Ended June 30, 2018**



# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**For Fiscal Year Ended  
June 30, 2018**

Serving the Oakley and  
Bethel Island communities in California  
since 1945

Prepared by:  
Ironhouse Sanitary District  
Administrative Department

Ironhouse Sanitary District  
450 Walnut Meadows Drive  
Oakley, California 94561  
(925) 625-2279



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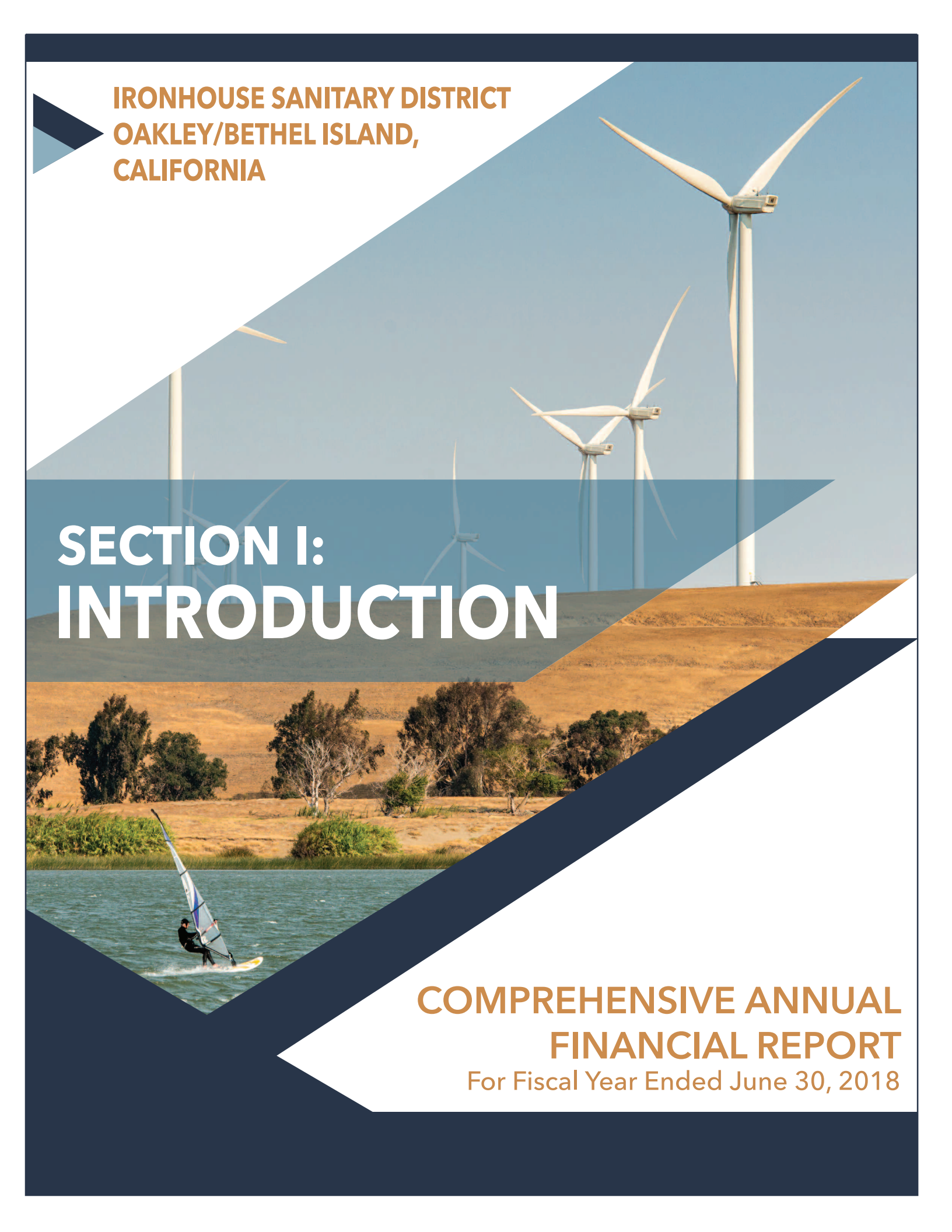
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**IRONHOUSE SANITARY DISTRICT  
OAKLEY/BETHEL ISLAND,  
CALIFORNIA**

# **SECTION I: INTRODUCTION**

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

For Fiscal Year Ended June 30, 2018



**IRONHOUSE SANITARY DISTRICT**

450 Walnut Meadows Drive  
Oakley, CA 94561

Telephone: (925) 625-2279 \* Fax: (925) 625-0169

December 21, 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, 2018. 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, 2018, 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, 2018, 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 and 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 and treatment 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, Debt Service, Capital Expenditures and Capital Expenditure Reserve.

Long term financial planning is critical to the prudent financial management efforts of the District. To this end, staff has completed a reliability study of the Water Recycling Facility (WRF) which identifies the rehabilitation and replacement requirements necessary to ensure reliable and compliant plant operation. In addition to the WRF reliability study, staff has also completed a risk model for the wastewater collection system which identifies both the risk and consequence of failure within the sewer collection and conveyance infrastructure. These efforts have allowed staff to determine the capital expenditures which will be required over the next several years and provides the basis for the requirements of a sewer rate study which is currently underway.

At the close of Fiscal Year 2017/18, the District had outstanding debt in the amount of \$41,127,807. 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 discussion of the Basic Financial Statements.

#### Acknowledgements

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

Respectfully submitted,



Chad Davisson, MBA SDA  
General Manager



Michael Welty, CPA  
Chief Financial Officer



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Ironhouse Sanitary District  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2017**

*Christopher P. Morill*

Executive Director/CEO



## Profile of the District

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

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 43,500 residents in a service area of approximately 37 square miles. The District's sphere of influence (SOI) encompasses an additional 2.4 square miles and includes areas adjacent to the District's southern boundary.

The largest area in the SOI is the Veale Tract adjacent to the southeast corner of the District. The maximum build-out per the General Plan for the City of Oakley is over 65,000 people. Today the City has just under 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.



## District at a Glance

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

### **WATER RECYCLING FACILITY (WRF)**

**Function:** Wastewater collection, treatment and recycling services

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

**Population:** Approximately 44,000

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

**Current Average Daily Flow:** 2.52 MGD

**Plant Type:** Advanced treatment Membrane Bioreactor process

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

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

Elimination System permit (Order R5-2008-0057, NPDES CA0085260) to regulate discharges of tertiary disinfected effluent to the San Joaquin River.

**Recycled Water Disposal:** 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:** 32

**Number of service connections:** 15,800 (EDU)

**Age of collection system:**

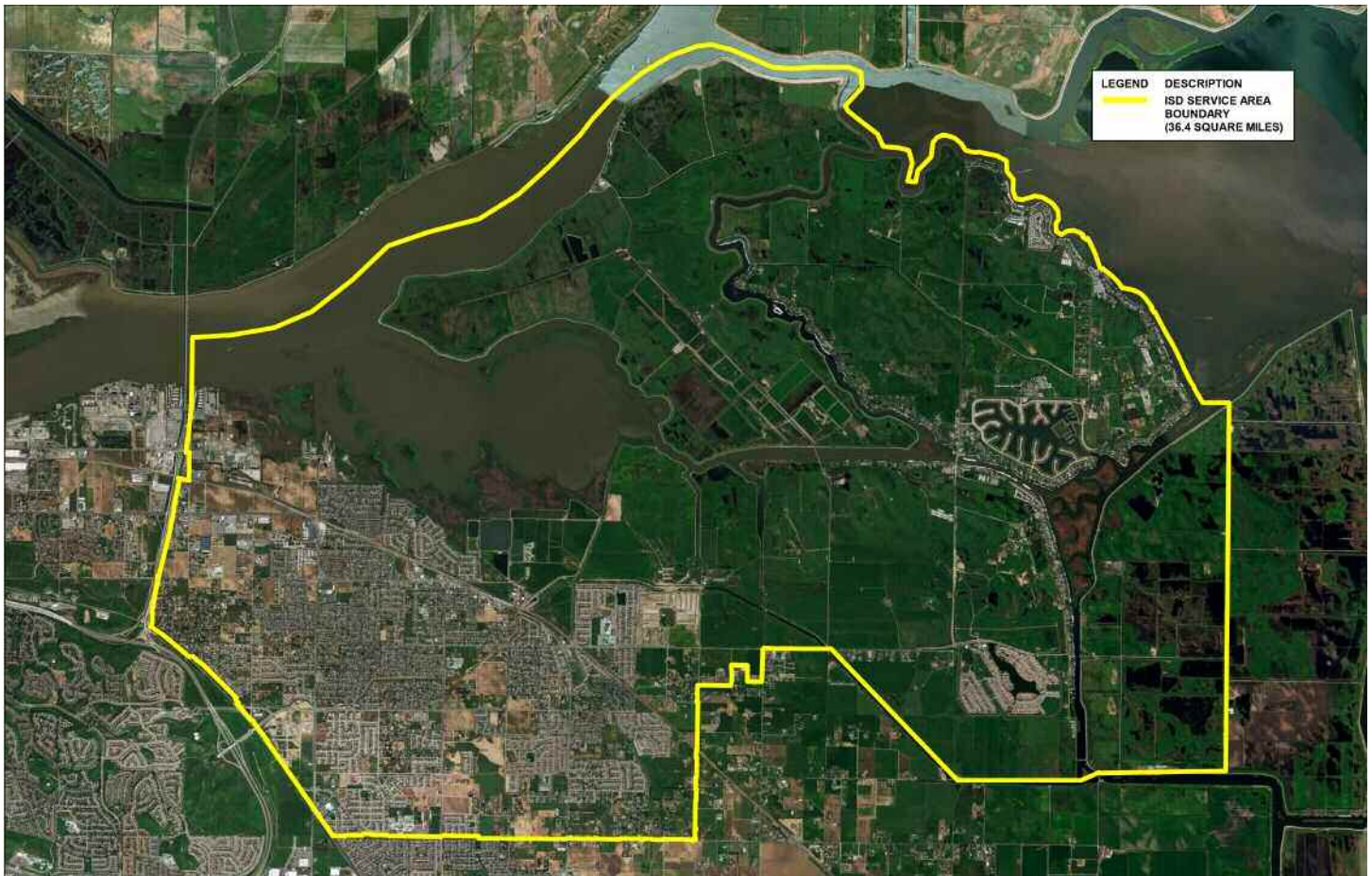
- 0-10 years: 15%
- 10-50 years: 65%
- 50-100 years: 20%
- Over 100 years: 0%

# District Service Area

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

unincorporated area in the Holland Tract to the east.

*Reprinted from Contra Costa LAFCO*



## Board of Directors



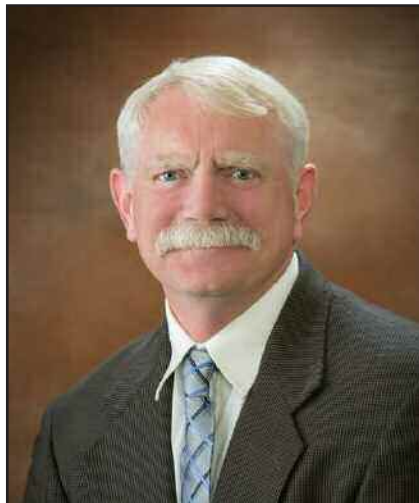
**Chris Lauritzen**  
**President**  
Term ending: 2022



**Peter Zirkle**  
**Vice President**  
Term ending: 2020



**Susan Morgan**  
**Director**  
Term ending: 2022

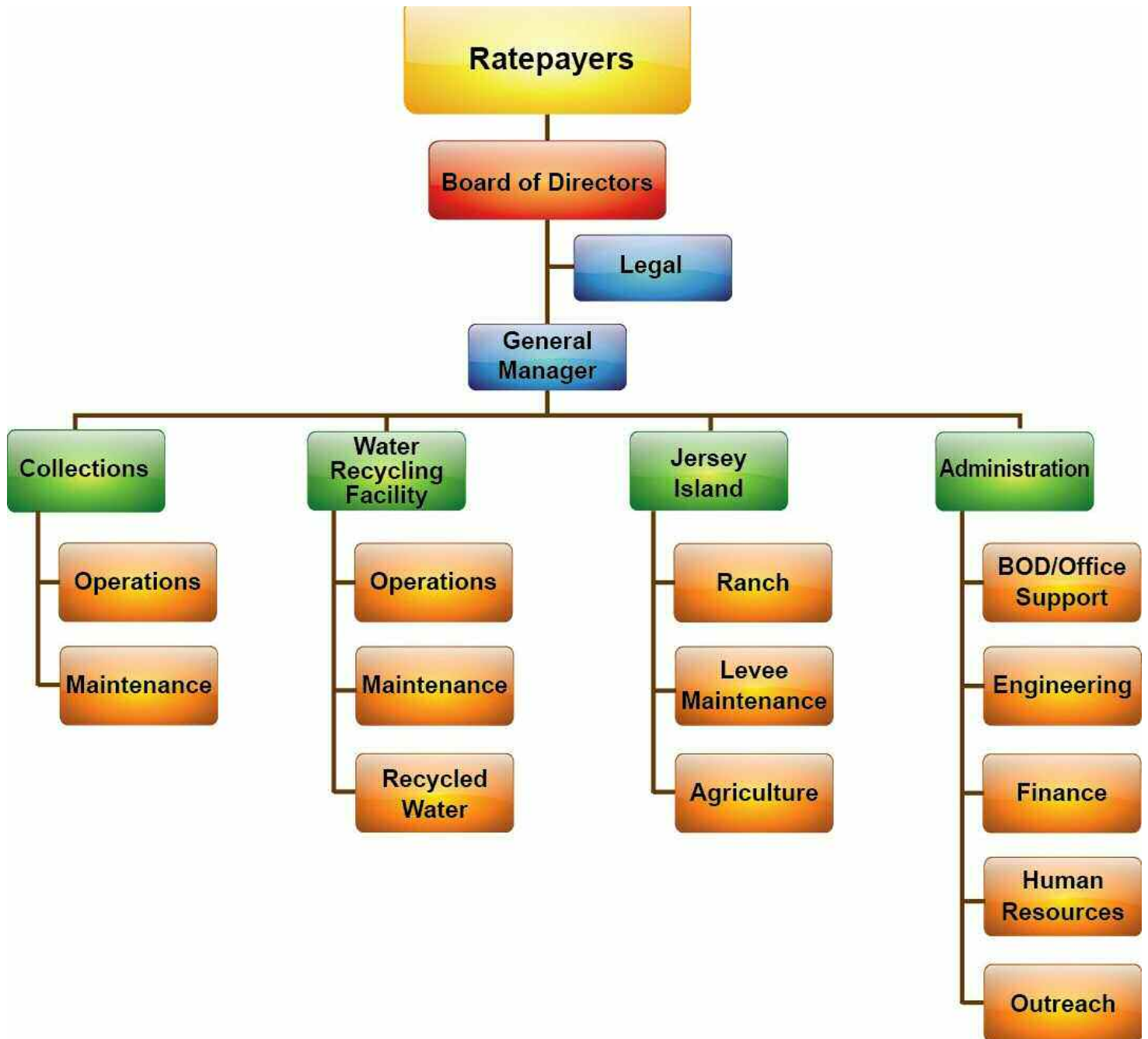


**Doug Scheer**  
**Director**  
Term ending: 2020



**Dawn Morrow**  
**Director**  
Term ending: 2020

# District Organizational Chart





## Resource Recovery

The concept of simply disposing recycled water as a waste is outdated, as is describing other components of wastewater as pollutants or contaminants. Beneficial use and resource recovery are the new goals of wastewater treatment plants. Ironhouse is taking steps to further enhance its resource recovery programs.

The main objective of wastewater management agencies, like Ironhouse Sanitary District, was to collect and treat wastewater so it could be safely reintroduced into the environment.

Today, the scarcity of resources as well as sustainability efforts are driving major global changes in the wastewater industry. The new focus is on recovering viable resources from wastewater, including everything from nutrients and energy to water.

The concept of simply disposing recycled water as a waste product has changed. Beneficial use and resource recovery are the new goals of wastewater treatment plants. ISD started on these efforts years ago, and is already taking steps to further enhance its resource recovery programs.

### **Ironhouse's high quality recycled water**

Water recycling means reusing highly treated wastewater for beneficial purposes such as agriculture and landscape irrigation, industrial processes and even replenishing groundwater supplies.

Treatment of recycled water can be tailored to meet the water quality requirements of planned

reuse. From the use of membrane filtration to ultraviolet light, Ironhouse's high-tech treatment process produces arguably the highest quality, most environmentally friendly recycled water in Northern California.

There are many advantages to using recycled water instead of potable water. For more than seven years Ironhouse has used its recycled water to irrigate hay fields on District owned Jersey Island.

Since the recent drought in California, Ironhouse has offered customers the opportunity to use recycled water, provided by the District's Residential Recycled Water Fill Station, for landscaping irrigation.

Ironhouse also provided construction crews working on a major local highway construction project recycled water for dust control.

The District is always working on ways to make Ironhouse's high-quality recycled water available as an alternative to help save California's valuable potable water.

### **BIOSOLIDS: Sustainable and beneficial**

One of the most useful byproducts of the



Biosolids being distributed on Jersey Island.

wastewater treatment process is biosolids, but only recently have they received the attention they deserve as a sustainable resource.

Biosolids are nutrient-rich organic materials can be used as fertilizer to fortify native soils and stimulate healthy plant growth.

In the early 1990s, Ironhouse purchased Jersey Island to support the wastewater treatment process. The island is used for farming and cattle operations as a means to beneficially reuse recycled water that is produced by the District's Water Recycling Facility. Over time, hay fields deplete the soil, resulting in lower crop yields.

Decades of scientific and agricultural research have proven biosolids contain valuable nutrients and organic matter that can improve soil and are vital for crops. The advantages of using biosolids as part of a fertilizer program are many. The greatest is a reduction in fertilizer costs.

Biosolids typically contain about 4 percent nitrogen, which is slowly released into the soil. Biosolids also contain phosphorus and many

micronutrients that can be beneficial to crop growth.

## Regulated and safe

To protect the environment, the application of biosolids on agricultural properties is subject to strict federal and state regulations. Ironhouse is permitted to land apply biosolids to 425 acres on Jersey Island. In 2018, Ironhouse began a pilot application program to reduce the need for chemical fertilizers on farm fields and significantly lower biosolids handling costs. This program was approved by the State Water Resources Control Board and will save the District's ratepayers thousands of dollars each year it is operated.

Applying biosolids on Jersey Island is permitted year round. However, the District's discharge permits require that biosolids storage facilities be used during the wet season. The District is looking into alternatives for wet weather storage solution. In the meantime, biosolids are managed by a third party during the wet season.

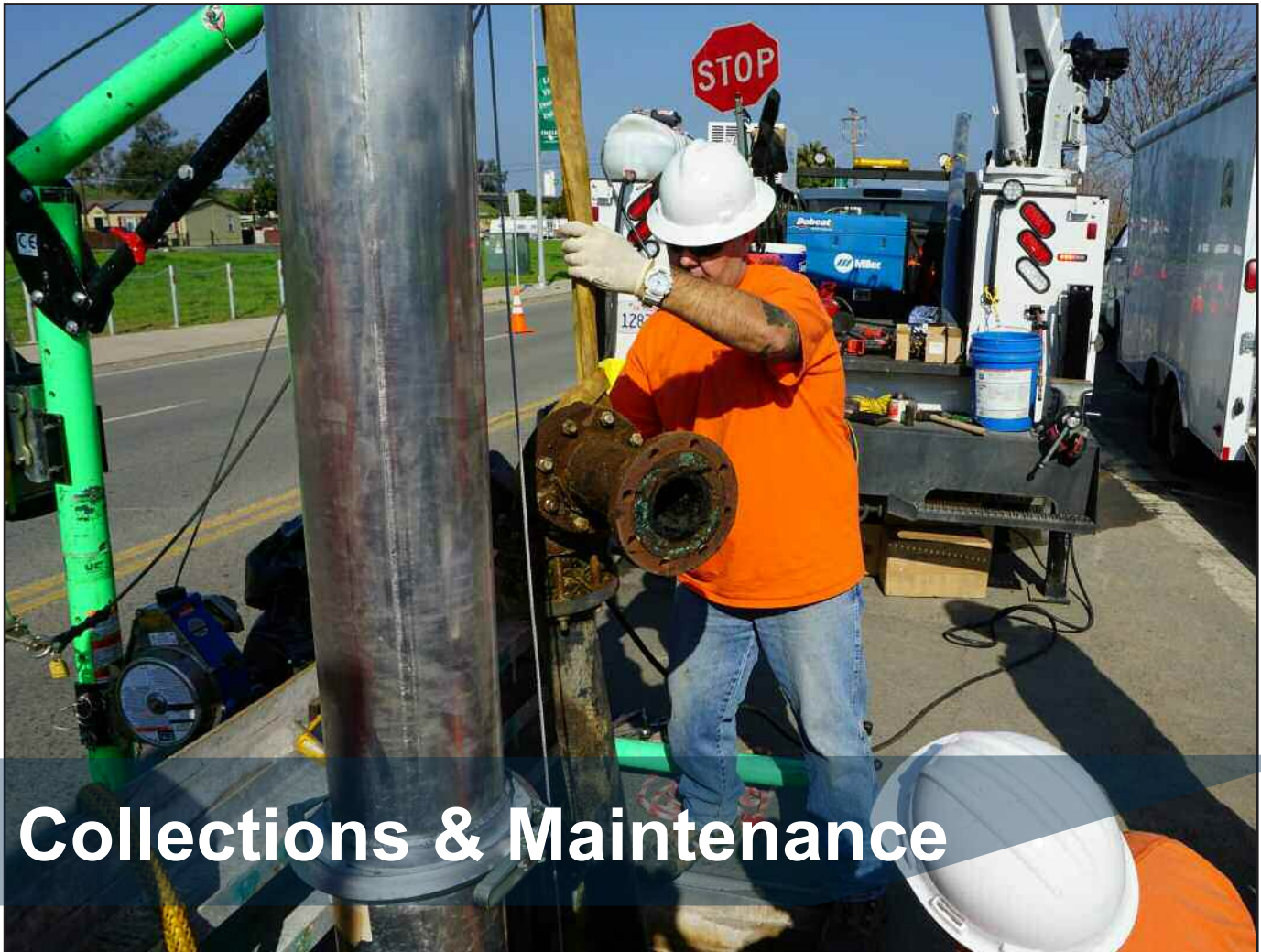
## 1.1 MW Solar Power System

Ironhouse Sanitary District is able to take advantage of solar power to help reduce energy costs for its water recycling facility and administrative building. The District does not own the solar panels; however, in 2014 the District entered into a solar power purchase agreement with a solar company.

The agreement provides that Ironhouse would make available approximately five-acres of land on District property to house the solar company's 1.1 megawatt (MW) solar power system. The solar system is spread between two locations—just outside the District's Water Recycling Facility and adjacent to the administration building.

### Ironhouse Sanitary District Mission Statement

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



## Collections & Maintenance

Ironhouse Collections crews pull rusty pipes out of the District lift station on Bridgehead Road. The lift station repairs included replacing worn piping, installing two new grinder pumps and updating controls with the latest technology. The modification will help increase reliability and reduce time and labor spent on future repairs.

Ironhouse Sanitary District's collection system is comprised of 119 miles of gravity lines, 16 miles of force mains and 32 lift stations. Together this network conveys wastewater from the communities of Oakley and Bethel Island to the state-of-the-art Water Recycling Facility.

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

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

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

The fiscal year 2017-18 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

Anoxic/Aeration Basins are large holding tanks about 16 feet deep, where wastewater is mixed and aerated to allow a biological process to remove soluble matter and nitrogen compounds in the wastewater. The Water Recycling Facility was awarded the California Water Environment Association's Plant of the Year in 2017.

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

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

The project was recognized with the California Association of Sanitation Agencies (CASA) 2011 Technological Innovation and Achievement Award for using advanced membrane filtration technology and ultraviolet light for disinfection to help protect the sensitive Delta environment.

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

Rather than using a chemical based treatment

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

The District is permitted to dispose of effluent in two capacities. An NPDES permit allows the District to dispose of effluent into the San Joaquin river on a year round basis. The District is also permitted to land apply effluent on farm fields located on the mainland and Jersey Island.

The Water Recycling Facility is run by six staff members. Most 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 2017-18 operations and maintenance budget, excluding depreciation expense and an allocation of administrative overhead, for the Water Recycling Facility was \$2.3 million.



## Jersey Island

Jersey Island hay fields are irrigated with recycled water from Ironhouse Sanitary District. The hay is then fed to black baldy cattle raised on the 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.

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

The District works in cooperation with Reclama-

tion 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 operating 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 by Taylor Slough and on the south by Dutch Slough.

The fiscal year 2017-18 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 (2018)**

### ***California Association of Sanitation Agencies (CASA)***

Organizational Excellence-Small Agency  
Outstanding Capital Project-Small Agency

### ***California Water Environment Association (CWEA)***

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

### ***California Special Districts Association (CSDA)***

Board Member of the Year: Director Chris Lauritzen

## **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

## **Accreditations and Certifications**

### ***Special District Leadership Foundation***

District of Distinction Accreditation  
(July 2018 to June 2020)

### ***Special District Leadership Foundation***

District Transparency Certificate of Excellence  
(June 2018 to March 2020)

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**IRONHOUSE SANITARY DISTRICT  
OAKLEY/BETHEL ISLAND,  
CALIFORNIA**



**SECTION II:  
FINANCIAL**



**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**  
For Fiscal Year Ended June 30, 2018



**IRONHOUSE SANITARY DISTRICT  
ANNUAL FINANCIAL REPORT  
WITH  
INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED  
JUNE 30, 2018**

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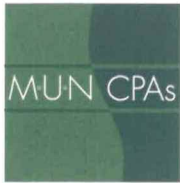
**MANN, URRUTIA, NELSON, CPAS & ASSOCIATES, LLP  
1760 Creekside Oaks Drive, Suite 160  
SACRAMENTO, CA 95833**

IRONHOUSE SANITARY DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2018

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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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Ironhouse Sanitary District, as of June 30, 2018, 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.

**Emphasis of Matter****Change in Accounting Principle**

As described in Note 1 to the financial statements, during the year ended June 30, 2018, the District adopted new accounting guidance, GASB Statement No. 75 *Accounting and Financial Reporting for Post-employment Benefits other than Pensions*. Our opinion is not modified with respect to this matter.

**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 32 - 33, and the schedules related to the District's net OPEB liability on pages 34 - 35 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.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2018, 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.



Sacramento, California  
October 16, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The financial statements for the fiscal year ending June 30, 2018 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 \$12,599,629 in the fiscal year 2018, compared to \$12,254,086 in fiscal year 2017. The 2.8% increase is the result of an increase in service charges resulting from a year over year increase in the number of equivalent dwelling units (EDUs); there was no increase in the service fee per EDU. Additionally, there was a significant increase in plan check and inspection fees related to new development.

The assets of the District exceeded its liabilities at June 30, 2018 by \$71,869,347 (net position) compared to \$71,938,663 at June 30, 2017. Of the \$69,316 decrease in net position, net position decreased by \$2,016,049 related to the adoption and implementation of GASB 75 which was offset by a \$1,946,733 increase in net position from operations.

As of the close of the current fiscal year, the District's Proprietary Fund reported Unrestricted Undesignated Net Position of \$5,092,624 compared to \$4,962,373 for the prior fiscal year, and Unrestricted Designated Reserves of \$9,532,605 compared to \$10,253,304 for the prior fiscal year. Restricted Net Position at June 30, 2018 is \$7,214,322 compared to \$6,837,602 at June 30, 2017.

The decrease in Unrestricted Designated Net Position primarily reflects the purchase of capital assets of \$1,380,456 from the Capital Expenditure Reserve offset by an increase in the Capital Expenditure Reserve from Unrestricted Undesignated Net Position of \$659,758 in accordance with reserve policies.

The increase in Restricted Net Position of \$376,720 reflects capacity fees received from developers in the amount of \$1,742,750 offset by the developers' annual share of debt service in the amount of \$1,366,030. Restricted capacity related fees are held for the purpose of developers' annual share of debt service, plant capacity expansion, and trunk-line capacity expansion.

The District's cash, cash equivalents, and investments at June 30, 2018 were \$25,351,971 representing an increase of \$2,995,624 from the June 30, 2017 balance of \$22,356,347. The increase reflects cash inflow from operations of \$7,313,781, cash outflow for debt service of \$2,937,701, and cash outflow for the purchase of capital assets of \$1,380,456.

The District had Operating Revenues of \$12,850,814 for the fiscal year 2018 versus \$12,528,631 for fiscal 2017 and Operating Expenses of \$11,946,680 for fiscal year 2018 versus \$10,957,768 for fiscal year 2017.

There was \$1,380,456 in capital outlays for land improvements, water recycling plant, collection system, buildings, vehicles, and furniture and equipment for the fiscal year ending June 30, 2018 compared to \$268,640 in 2017.



**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, 2018, 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, 2018, the District's investment in Capital Assets for its Proprietary Fund was \$87,136,555 (net of accumulated depreciation). This investment in Capital Assets includes land, plant, collection system, buildings, vehicles, furniture and equipment. There was \$1,380,456 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, 2018, the outstanding balance of the loan is \$41,127,807. The loan incurred no interest; however, to borrow funds, the District was required to provide 16.67% of the total loan amount. This portion of the loan is reported as prepaid interest and is amortized at an effective interest rate of 1.8%.

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

**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, 2019:

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, 2018**

|                                       | ENTERPRISE FUND      |                      | Percent<br>Change |
|---------------------------------------|----------------------|----------------------|-------------------|
|                                       | 2018                 | 2017                 |                   |
| Assets:                               |                      |                      |                   |
| Current Assets                        | \$ 26,128,741        | \$ 23,584,549        | 10.8 %            |
| Net OPEB Asset                        | -                    | 195,556              | (100.0)           |
| Prepaid Interest                      | 4,021,048            | 4,595,484            | (12.5)            |
| Investment in Cattle Operations (Net) | 1,085,599            | 1,046,885            | 3.7               |
| Capital Assets (Net)                  | <u>87,136,555</u>    | <u>89,355,408</u>    | <u>(2.5)</u>      |
| Total Assets                          | <u>118,371,943</u>   | <u>118,777,882</u>   | <u>(0.3)</u>      |
| Deferred Outflow of Resources         | 1,961,764            | 2,128,554            | (7.8)             |
| Liabilities:                          |                      |                      |                   |
| Current Liabilities                   | 3,950,757            | 3,617,732            | 9.2               |
| Long-Term Liabilities                 | <u>44,303,070</u>    | <u>45,018,154</u>    | <u>(1.6)</u>      |
| Total Liabilities                     | <u>48,253,827</u>    | <u>48,635,886</u>    | <u>(0.8)</u>      |
| Deferred Inflow of Resources          | 210,533              | 331,887              | (36.6)            |
| Net Position:                         |                      |                      |                   |
| Net Investment in Capital Assets      | 50,029,796           | 49,885,384           | 0.3               |
| Unrestricted Net Position             |                      |                      |                   |
| Undesignated                          | 5,092,624            | 4,962,373            | 2.6               |
| Designated Reserves                   | <u>9,532,605</u>     | <u>10,253,304</u>    | <u>(7.0)</u>      |
| Total Unrestricted                    | <u>14,625,229</u>    | <u>15,215,677</u>    | <u>(3.9)</u>      |
| Restricted Net Position               | <u>7,214,322</u>     | <u>6,837,602</u>     | <u>5.5</u>        |
| Total Net Position                    | <u>\$ 71,869,347</u> | <u>\$ 71,938,663</u> | <u>(0.1)%</u>     |



**IRONHOUSE SANITARY DISTRICT  
COMPARATIVE STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

|                                      | ENTERPRISE FUND |               |                |
|--------------------------------------|-----------------|---------------|----------------|
|                                      | 2018            | 2017          | Percent Change |
| Revenues:                            |                 |               |                |
| Service charges                      | \$ 10,239,268   | \$ 10,083,384 | 1.5 %          |
| Service connection and related fees  | 617,611         | 435,107       | 41.9           |
| Capacity fees                        | 1,742,750       | 1,735,595     | 0.4            |
| Fees other                           | 43,012          | 42,776        | 0.6            |
| Miscellaneous                        | 208,173         | 231,769       | (10.2)         |
| Total operating revenues             | 12,850,814      | 12,528,631    | 2.6            |
| Expenses:                            |                 |               |                |
| Salaries, benefits and payroll taxes | 4,746,092       | 3,780,401     | 25.5           |
| Administrative expenses              | 371,556         | 427,104       | (13.0)         |
| Utilities                            | 606,727         | 688,348       | (11.9)         |
| Operations and maintenance           | 1,441,890       | 1,396,216     | 3.3            |
| Professional services                | 803,602         | 751,969       | 6.9            |
| Insurance                            | 128,091         | 127,783       | 0.2            |
| Depreciation                         | 3,848,722       | 3,785,947     | 1.7            |
| Total operating expenses             | 11,946,680      | 10,957,768    | 9.0            |
| Operating income                     | 904,134         | 1,570,863     | (42.4)         |
| Non-operating revenues:              |                 |               |                |
| Taxes                                | 292,350         | 284,514       | 2.8            |
| Cattle income, net of expenses       | 892,189         | 819,138       | 8.9            |
| Hay sales                            | 116,737         | 47,974        | 143.3          |
| Mineral rights                       | 8,530           | 8,300         | 2.8            |
| Investment income                    | 119,731         | 38,898        | 207.8          |
| Gain on sale/disposal of assets      | 56,498          | 460           | 12,182.2       |
| Capital contributions                | 131,000         | 37,805        | 246.5          |
| Total non-operating revenues         | 1,617,035       | 1,237,089     | 30.7           |
| Interest expense                     | 574,436         | 612,731       | (6.2)          |
| Total non-operating expenses         | 574,436         | 612,731       | (6.2)          |
| Non-operating income                 | 1,042,599       | 624,358       | 67.0           |
| Change in net position               | \$ 1,946,733    | \$ 2,195,221  | (11.3)%        |



**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 just in the past two years recovered enough to provide the number of new connections that were projected in conjunction with the Proposition 218 process. However, prior to FY 16/17, new connections fell short of expectations 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  
AS OF JUNE 30, 2018**

**CURRENT ASSETS**

|                                            |                |
|--------------------------------------------|----------------|
| Cash and investments (Note 2)              | \$ 18,137,649  |
| Cash and investments - restricted (Note 2) | 7,214,322      |
| Accounts receivable                        | 30,798         |
| Related party receivable (Note 11)         | 100,250        |
| Interest receivable                        | 53,998         |
| Supply inventory                           | 458,848        |
| Prepaid expenses                           | <u>132,876</u> |

Total Current Assets 26,128,741

**NON-CURRENT ASSETS**

|                                                                 |                   |
|-----------------------------------------------------------------|-------------------|
| Prepaid interest (Note 5)                                       | 4,021,048         |
| Investment in cattle (net of accumulated depreciation) (Note 3) | 1,085,599         |
| Capital assets (net of accumulation depreciation) (Note 4)      | <u>87,136,555</u> |

Total Non-Current Assets 92,243,202

**TOTAL ASSETS**

118,371,943

**DEFERRED OUTFLOW OF RESOURCES**

|                                               |               |
|-----------------------------------------------|---------------|
| Changes in the net pension liability (Note 7) | 1,937,891     |
| Changes in the net OPEB liability (Note 9)    | <u>23,873</u> |

Total Deferred Outflow of Resources 1,961,764

**TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES**

\$ 120,333,707

**CURRENT LIABILITIES**

|                                                      |               |
|------------------------------------------------------|---------------|
| Accounts payable                                     | \$ 536,437    |
| Payroll related liabilities                          | 108,667       |
| Customer deposits payable                            | 115,481       |
| Compensated absences (current portion) (Note 5)      | 224,264       |
| State revolving fund loan (current portion) (Note 5) | 2,937,701     |
| Unearned revenues (Note 6)                           | <u>28,207</u> |

Total Current Liabilities 3,950,757

**LONG TERM LIABILITIES**

|                                                           |                   |
|-----------------------------------------------------------|-------------------|
| Net pension liability (Note 7)                            | 4,378,364         |
| Net OPEB liability (Note 9)                               | 1,688,666         |
| Compensated absences (less current portion) (Note 5)      | 45,934            |
| State revolving fund loan (less current portion) (Note 5) | <u>38,190,106</u> |

Total Long-Term Liabilities 44,303,070

**TOTAL LIABILITIES**

48,253,827

**DEFERRED INFLOW OF RESOURCES**

|                                               |                |
|-----------------------------------------------|----------------|
| Changes in the net pension liability (Note 7) | <u>210,533</u> |
|-----------------------------------------------|----------------|

**NET POSITION**

|                                            |                  |
|--------------------------------------------|------------------|
| Net investment in capital assets (Note 12) | 50,029,796       |
| Unrestricted (Note 12)                     | 14,625,229       |
| Restricted for:                            |                  |
| Debt Service                               | 2,937,701        |
| Expansion                                  | 469,252          |
| Trunkline Capacity                         | <u>3,807,369</u> |
| Total Restricted (Note 12)                 | <u>7,214,322</u> |

**TOTAL NET POSITION** 71,869,347

**TOTAL LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, AND NET POSITION**

\$ 120,333,707



**IRONHOUSE SANITARY DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2018**

**OPERATING REVENUES**

|                                     |                |
|-------------------------------------|----------------|
| Service charges                     | \$ 10,239,268  |
| Service connection and related fees | 617,611        |
| Capacity fees (Note 6)              | 1,742,750      |
| Fees other                          | 43,012         |
| Miscellaneous                       | <u>208,173</u> |

Total Operating Revenues 12,850,814

**OPERATING EXPENSES**

|                                      |                  |
|--------------------------------------|------------------|
| Salaries, benefits and payroll taxes | 4,746,092        |
| Administration expenses              | 371,556          |
| Utilities                            | 606,727          |
| Operations and maintenance           | 1,441,890        |
| Professional services                | 803,602          |
| Insurance                            | 128,091          |
| Depreciation                         | <u>3,848,722</u> |

Total Operating Expenses 11,946,680

Net Operating income 904,134

**NON-OPERATING REVENUES (EXPENSES)**

|                                |               |
|--------------------------------|---------------|
| Taxes                          | 292,350       |
| Cattle income, net of expenses | 892,189       |
| Hay sales                      | 116,737       |
| Mineral rights                 | 8,530         |
| Interest income                | 305,600       |
| Net unrealized loss            | (185,869)     |
| Interest expense               | (574,436)     |
| Gain on sale of assets         | <u>56,498</u> |

Total Nonoperating Revenues 911,599

**INCOME BEFORE CONTRIBUTIONS** 1,815,733

Capital contributions 131,000

**INCREASE IN NET POSITION** 1,946,733

**NET POSITION, BEGINNING OF YEAR** 71,938,663

**PRIOR PERIOD ADJUSTMENT (Note 13)** (2,016,049)

**NET POSITION, BEGINNING OF YEAR - RESTATED** 69,922,614

**NET POSITION, END OF YEAR** \$ 71,869,347

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



**IRONHOUSE SANITARY DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2018**

**CASH FLOWS FROM OPERATING ACTIVITIES**

|                                                           |                    |
|-----------------------------------------------------------|--------------------|
| Cash received from customers                              | \$ 13,408,715      |
| Cash paid to employees and for benefits and payroll taxes | (4,270,616)        |
| Cash paid to suppliers and vendors                        | <u>(3,131,287)</u> |
| Net Cash Provided by Operating Activities                 | <u>6,006,812</u>   |

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

|                                                      |                |
|------------------------------------------------------|----------------|
| Hay sales                                            | 116,737        |
| Proceeds from mineral rights                         | 8,530          |
| Taxes received                                       | <u>292,350</u> |
| Net Cash Provided by Noncapital Financing Activities | <u>417,617</u> |

**CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES**

|                                                            |                    |
|------------------------------------------------------------|--------------------|
| Acquisition and construction of capital assets             | (1,380,456)        |
| Sale of cattle                                             | 1,265,564          |
| Acquisition of cattle                                      | (46,200)           |
| Cattle operations expenses                                 | (484,302)          |
| Principal payments on state revolving fund loan            | (2,937,701)        |
| Proceeds from the sale of assets                           | <u>56,498</u>      |
| Net Cash Used for Capital and Related Financing Activities | <u>(3,526,597)</u> |

**CASH FLOWS FROM INVESTING ACTIVITIES**

|                                        |                    |
|----------------------------------------|--------------------|
| Interest and dividends income          | 283,661            |
| Purchase of investments                | <u>(2,483,630)</u> |
| Net Cash Used for Investing Activities | <u>(2,199,969)</u> |

**NET INCREASE IN CASH** 697,863

**CASH AND CASH EQUIVALENTS - JULY 1, 2017** 1,134,566

**CASH AND CASH EQUIVALENTS - JUNE 30, 2018** \$ 1,832,429

**RECONCILIATION TO CASH AND INVESTMENTS ON THE STATEMENT OF NET POSITION**

|                                   |                     |
|-----------------------------------|---------------------|
| Cash and investments              | \$ 18,137,649       |
| Cash and investments - restricted | 7,214,322           |
| Less: Investments (Note 2)        | <u>(23,519,542)</u> |

**CASH AND CASH EQUIVALENTS - JUNE 30, 2018** \$ 1,832,429

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



**IRONHOUSE SANITARY DISTRICT  
STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2018**

**OPERATING INCOME** \$ 904,134

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

|                                   |                  |
|-----------------------------------|------------------|
| Depreciation expense              | 3,848,722        |
| Decrease in net pension liability | 528,458          |
| Increase in OPEB liability        | (131,827)        |
| Decrease in deferred inflows      | (121,354)        |
| Decrease in deferred outflows     | 166,790          |
| Decrease in accounts receivable   | 557,054          |
| Decrease in prepaid expenses      | 22,058           |
| Increase in supply inventory      | (105,741)        |
| Increase in accounts payable      | 304,262          |
| Decrease in customer deposits     | (4,995)          |
| Increase in accrued liabilities   | 1,095            |
| Increase in compensated absences  | 32,314           |
| Increase in unearned revenue      | <u>5,842</u>     |
| Total adjustments                 | <u>5,102,678</u> |

**NET CASH PROVIDED BY OPERATING ACTIVITIES** \$ 6,006,812

**SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL  
AND RELATED FINANCING ACTIVITIES**

|                         |                   |
|-------------------------|-------------------|
| Developer contributions | \$ <u>131,000</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, 2018**

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



**IRONHOUSE SANITARY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2018**

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

**Fair Value Inputs, Methodologies and Hierarchy**

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

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

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

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

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

**Supply Inventory**

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

**Capital Assets**

Purchased or constructed assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. Interest expense incurred during the development period is capitalized. Donated capital assets are recorded at acquisition value at the date of donation. The District established a threshold of \$5,000 for capitalization of depreciable assets. Depreciation has been provided using the straight-line method of accounting over the following estimated useful lives of the assets:

Plant and conveyance system - 40 years

Vehicles, furniture and equipment - 5 to 20 years

**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.



**IRONHOUSE SANITARY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2018**

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

**Pensions**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the 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.

**Other Postemployment Benefits (OPEB)**

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

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

|                    |                              |
|--------------------|------------------------------|
| Valuation Date     | June 30, 2017                |
| Measurement Date   | June 30, 2017                |
| Measurement Period | July 1, 2016 - June 30, 2017 |

**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 October 16, 2018, which is the date the financial statements were issued.

**Implementation of Government Accounting Standards Board Statements**

Effective July 1, 2017, the District implemented the following accounting and financial reporting standards:

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.



**IRONHOUSE SANITARY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2018**

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

Government Accounting Standards Board Statement No. 85

In March 2017, GASB issued Statement No. 85, *Omnibus 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).

**Future Government Accounting Standards Board Statements**

These statements are not effective until July 1, 2018 or later and may be applicable for the District. However, the District has not determined the effects, if any, on the financial statements.

Government Accounting Standards Board Statement No. 86

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishments Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. 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, 2019.

Government Accounting Standards Board Statement No. 87

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. 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.

Government Accounting Standards Board Statement No. 88

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this statement is to clarify which liabilities governments should include in their note disclosures related to debt. GASB is requiring debt borrowings and direct placements to be presented separately because they may expose a government to risks that are different from, or in addition to, risks related to other types of debt. The new standard also requires the disclosure of additional essential debt-related information for all types of debt, including amounts of unused lines of credit and assets pledged as collateral for debt. Also required to be disclosed are terms specified in debt agreements related to: (1) significant events of default with finance-related consequences, (2) significant termination events with finance-related consequences, (3) significant subjective acceleration clauses. 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, 2020.



**IRONHOUSE SANITARY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2018**

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

Government Accounting Standards Board Statement No. 89

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement requires interest costs incurred before the end of a construction period to be recorded as an expenditure in the applicable period. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The District has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this statement is effective for the District's fiscal year ending June 30, 2021.

Government Accounting Standards Board Statement No. 90

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests*. The purpose of this statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The new standard clarifies the differences between a majority equity interests reported as an investment and majority equity interest reported as a component unit of the governmental entity. 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, 2020.

**NOTE 2: CASH AND INVESTMENTS**

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

|                                 | <u><b>June 30, 2018</b></u> |
|---------------------------------|-----------------------------|
| Cash and investments            | \$ 18,137,649               |
| Restricted cash and investments | <u>7,214,322</u>            |
| <b>Total</b>                    | <b><u>\$ 25,351,971</u></b> |

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, 2018 are as follows:

|                                      | <u><b>June 30, 2018</b></u> |
|--------------------------------------|-----------------------------|
| Cash on hand                         | \$ 334                      |
| Deposits with financial institutions | <u>1,832,095</u>            |
| <b>Total cash</b>                    | <b><u>1,832,429</u></b>     |
| Local Agency Investment Fund         | 9,922,959                   |
| Cal Trust Investment Fund            | 7,627,604                   |
| Fixed Income Securities              | 5,911,701                   |
| Money Market Mutual Funds            | <u>57,278</u>               |
| <b>Total investments</b>             | <b><u>23,519,542</u></b>    |
| <b>Total cash and investments</b>    | <b><u>\$ 25,351,971</u></b> |



**IRONHOUSE SANITARY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2018**

**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, 2018:

|                              | Remaining Maturity   |                     |                      |
|------------------------------|----------------------|---------------------|----------------------|
|                              | 12 months or less    | 1-5 years           | Fair Value           |
| Fixed Income Securities      | \$ -                 | \$ 5,911,701        | \$ 5,911,701         |
| Money Market Mutual Funds    | -                    | 57,278              | 57,278               |
| Local Agency Investment Fund | 9,922,959            | -                   | 9,922,959            |
| CalTRUST Investment Fund     | <u>7,627,604</u>     | <u>-</u>            | <u>7,627,604</u>     |
|                              | <u>\$ 17,550,563</u> | <u>\$ 5,968,979</u> | <u>\$ 23,519,542</u> |



**IRONHOUSE SANITARY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2018**

**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         | \$ 9,922,959         |                              |         | Not rated |
| CalTRUST Short-term Investment Fund  | 3,586,983            | AAf                          |         |           |
| CalTRUST Medium Term Investment Fund | 4,040,621            | A+f                          |         |           |
| Fixed Income Securities              | 5,911,701            | various                      |         |           |
| Money Market Mutual Funds            | <u>57,278</u>        | AAAm                         |         |           |
|                                      | <u>\$ 23,519,542</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, 2018 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, 2018.

|                            | Level 1          | Level 2             | Level 3     | Total               |
|----------------------------|------------------|---------------------|-------------|---------------------|
| Fixed Income Securities    | \$ -             | \$ 5,911,700        | \$ -        | \$ 5,911,700        |
| Money Market Mutual Funds  | <u>57,278</u>    | <u>-</u>            | <u>-</u>    | <u>57,278</u>       |
| Total assets at fair value | <u>\$ 57,278</u> | <u>\$ 5,911,700</u> | <u>\$ -</u> | <u>\$ 5,968,978</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  
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JUNE 30, 2018**

**NOTE 3: INVESTMENT IN CATTLE**

The following is a summary of the changes in investment in cattle for the year ended June 30, 2018:

|                                                                           |                     |
|---------------------------------------------------------------------------|---------------------|
| Investment in cattle at July 1, 2017                                      | \$ 1,243,622        |
| Activities of cattle operations, for the fiscal year ended June 30, 2018: |                     |
| Purchases of cattle                                                       | 46,200              |
| Additional capital expenditures                                           | 484,302             |
| Cost basis for cattle sold                                                | <u>(485,795)</u>    |
| Investment in cattle at June 30, 2018                                     | <u>1,288,329</u>    |
| Accumulated depreciation on investment in cattle at June 30, 2018         | <u>(202,730)</u>    |
| Net investment in cattle at June 30, 2018                                 | <u>\$ 1,085,599</u> |

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2018 is as follows:

|                                               | <u>July 1, 2017</u>  | <u>Additions</u>      | <u>Deletions</u> | <u>June 30, 2018</u> |
|-----------------------------------------------|----------------------|-----------------------|------------------|----------------------|
| <b>Capital assets not being depreciated</b>   |                      |                       |                  |                      |
| Land and improvements                         | \$ 8,467,524         | \$ -                  | \$ -             | \$ 8,467,524         |
| Work in progress                              | <u>378,060</u>       | <u>170,141</u>        | <u>-</u>         | <u>483,080</u>       |
| <b>Total capital assets not depreciated</b>   | <u>8,845,584</u>     | <u>170,141</u>        | <u>-</u>         | <u>8,950,604</u>     |
| <b>Capital assets being depreciated</b>       |                      |                       |                  |                      |
| Plant and improvements                        | 52,837,060           | -                     | -                | 52,837,060           |
| Collection system and pipelines               | 55,550,560           | 465,948               | (6,336)          | 56,075,293           |
| Vehicles                                      | 1,831,206            | 547,493               | (97,566)         | 2,281,133            |
| Equipment                                     | <u>21,921,333</u>    | <u>327,874</u>        | <u>(90,997)</u>  | <u>22,158,210</u>    |
| <b>Total capital assets being depreciated</b> | <u>132,140,159</u>   | <u>1,341,315</u>      | <u>(194,899)</u> | <u>133,351,696</u>   |
| <b>Less: accumulated depreciation</b>         |                      |                       |                  |                      |
| Plant and improvements                        | (9,734,778)          | (1,334,354)           | -                | (11,069,132)         |
| Collection system and pipelines               | (31,132,580)         | (1,241,255)           | 6,336            | (32,367,499)         |
| Vehicles                                      | (1,469,891)          | (83,291)              | 97,566           | (1,455,616)          |
| Equipment                                     | <u>(9,293,086)</u>   | <u>(1,071,409)</u>    | <u>90,997</u>    | <u>(10,273,498)</u>  |
| <b>Total accumulated depreciation</b>         | <u>(51,630,335)</u>  | <u>(3,730,309)</u>    | <u>194,899</u>   | <u>(55,165,745)</u>  |
| <b>Capital Assets, net</b>                    | <u>\$ 89,355,408</u> | <u>\$ (2,218,853)</u> | <u>\$ -</u>      | <u>\$ 87,136,555</u> |

Depreciation expense for the year ended June 30, 2018 totaled \$3,848,722, and includes \$118,413 in depreciation expense on investment in cattle.



**IRONHOUSE SANITARY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2018**

**NOTE 5: LONG-TERM LIABILITIES**

A summary of long-term liability activity for the year ended June 30, 2018 is as follows:

|                           | Beginning<br>Balance | Additions         | Reductions            | Ending<br>Balance    | Due within<br>One Year |
|---------------------------|----------------------|-------------------|-----------------------|----------------------|------------------------|
| State Revolving Fund Loan | \$ 44,065,508        | \$ -              | \$ (2,937,701)        | \$ 41,127,807        | \$ 2,937,701           |
| Compensated Absences      | <u>237,884</u>       | <u>229,758</u>    | <u>(197,444)</u>      | <u>270,198</u>       | <u>224,264</u>         |
| Total                     | <u>\$ 44,303,392</u> | <u>\$ 229,758</u> | <u>\$ (3,135,145)</u> | <u>\$ 41,398,005</u> | <u>\$ 3,161,965</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%. \$574,436 of the prepaid balance was amortized in the current year, resulting in a remaining balance of \$4,021,048 as of June 30, 2018.

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

| For the Year<br>Ending, June 30 | Principal            | Total<br>Payments    | Interest<br>Expense |
|---------------------------------|----------------------|----------------------|---------------------|
| 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                            | 2,937,701            | 2,937,701            | 382,957             |
| 2024 - 2028                     | 14,688,505           | 14,688,505           | 1,340,349           |
| 2029 - 2032                     | <u>11,750,797</u>    | <u>11,750,797</u>    | <u>382,957</u>      |
| Total                           | <u>\$ 41,127,807</u> | <u>\$ 41,127,807</u> | <u>\$ 4,021,048</u> |



**IRONHOUSE SANITARY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2018**

**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, 2018, \$4,276,621 had been earned and designated for future expansion. During the year ended June 30, 2018, \$1,742,750 of capacity and trunkline capacity fees were earned.

As of June 30, 2018, the District has accrued \$28,207 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, 2018, are summarized as follows:

|                                                      | Miscellaneous Plan                |                                      |
|------------------------------------------------------|-----------------------------------|--------------------------------------|
|                                                      | Hired prior to<br>January 1, 2013 | Hired on or after<br>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<br>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  
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**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, 2018 were \$586,816.

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

As of June 30, 2018, the District reported net pension liability of \$4,378,364 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, 2017, 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, 2016 rolled forward to June 30, 2017 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, 2017 and 2018 was as follows:

|                              | Total      |
|------------------------------|------------|
| Proportion - June 30, 2017   | 0.04449 %  |
| Proportion - June 30, 2018   | 0.04415 %  |
| Change - Increase (Decrease) | (0.00034)% |

For the year ended June 30, 2018, the District recognized pension expense of \$597,767. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|                                                                                                                                       | Deferred Outflow of<br>Resources | Deferred Inflow of<br>Resources |
|---------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|---------------------------------|
| Pension contributions subsequent to measurement date                                                                                  | \$ 586,816                       | \$ -                            |
| Differences between projected and actual experience                                                                                   | 5,936                            | 85,027                          |
| Changes in assumptions                                                                                                                | 736,372                          | 56,149                          |
| Difference between actual contributions made by employer and the employer's proportionate share of the risk pool's total contribution | 116,452                          | -                               |
| Adjustment due to differences in proportions                                                                                          | 325,778                          | 69,357                          |
| Net difference between projected and actual earning on plan investments                                                               | 166,537                          | -                               |
| Total                                                                                                                                 | \$ <u>1,937,891</u>              | \$ <u>210,533</u>               |



**IRONHOUSE SANITARY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 7: DEFINED BENEFIT PENSION PLAN (continued)**

\$586,816 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Fiscal Year Ended June<br>30, |            |
|-------------------------------|------------|
| 2019                          | \$ 418,851 |
| 2020                          | 500,248    |
| 2021                          | 320,319    |
| 2022                          | (98,876)   |

**C. Actuarial Assumptions** – The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

|                                  | Miscellaneous                                                                                                             |
|----------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| Valuation Date                   | June 30, 2016                                                                                                             |
| Measurement Date                 | June 30, 2017                                                                                                             |
| Actuarial Cost Method            | Entry-Age Normal Cost Method                                                                                              |
| Actuarial Assumptions:           |                                                                                                                           |
| Discount Rate                    | 7.15%                                                                                                                     |
| Inflation                        | 2.75%                                                                                                                     |
| Salary Increases                 | Varies by Entry Age and Service                                                                                           |
| Investment Rate of Return        | 7.15% net of pension plan investment expenses, includes inflation                                                         |
| Mortality (1)                    | Derived Using CalPERS membership data for all funds                                                                       |
| Post Retirement Benefit Increase | Contract COLA up to 2.75% 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 information 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, 2016 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.

***Change in Assumptions***

In the fiscal year ending June 30, 2018, the financial reporting discount rate for the Plan was lowered from 7.65% to 7.15%.



**IRONHOUSE SANITARY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2018**

**NOTE 7: DEFINED BENEFIT PENSION PLAN (continued)**

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employees' Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

| Asset Class                   | New Strategic Allocation | Real Return Years 1 - 10(a) | Real Return Years 11+(b) |
|-------------------------------|--------------------------|-----------------------------|--------------------------|
| Global Equity                 | 47.00%                   | 4.90%                       | 5.38%                    |
| Global Fixed Income           | 19.00%                   | 0.80%                       | 2.27%                    |
| Inflation Sensitive           | 6.00%                    | 0.60%                       | 1.39%                    |
| Private Equity                | 12.00%                   | 6.60%                       | 6.63%                    |
| Real Estate                   | 11.00%                   | 2.80%                       | 5.21%                    |
| Infrastructure and Forestland | 3.00%                    | 3.90%                       | 5.36%                    |
| Liquidity                     | 2.00%                    | -0.40%                      | -0.90%                   |

(a) An expected inflation of 2.50% used for this period.

(b) An expected inflation of 3.00% used for this period.



**IRONHOUSE SANITARY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2018**

**NOTE 7: DEFINED BENEFIT PENSION PLAN (continued)**

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

|                                                | <u>Miscellaneous</u> |
|------------------------------------------------|----------------------|
| 1% Decrease<br>Net Pension Liability           | 6.15%<br>\$6,805,658 |
| Current Discount Rate<br>Net Pension Liability | 7.15%<br>\$4,378,364 |
| 1% Increase<br>Net Pension Liability           | 8.15%<br>\$2,368,035 |

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

**NOTE 8: DEFERRED COMPENSATION PLAN**

During the fiscal year ended June 30, 1997 the District approved and established the Ironhouse Sanitary District Deferred Compensation Plan ("the deferred compensation plan") for its employees created in accordance with Internal Revenue Code 457. The deferred compensation plan, administered by Mass Mutual Financial Group and available to all permanent employees and Directors, permits them to defer a portion of their current salary until future years. The deferred compensation, which is held in trust by Mass Mutual, is not available to participants until termination, retirement, death or unforeseeable emergency. During the year ending June 30, 2018, the employees contributed \$19,245.

**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.



**IRONHOUSE SANITARY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2018**

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

***Employees covered***

As of the June 30, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the plan.

|                                                 |             |
|-------------------------------------------------|-------------|
| Active employees                                | 28          |
| Inactive employees currently receiving benefits | 24          |
|                                                 | <hr/>       |
| Total                                           | 52          |
|                                                 | <hr/> <hr/> |

***Contributions***

The District's policy is to fully fund the actuarially determined contribution. The District makes the contributions on behalf of the participants. For the fiscal year ended June 30, 2018, the District contributed \$276,184.

***Net OPEB Liability***

The District's net OPEB liability ("NOL") was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017 based on the following actuarial methods and assumptions.

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



**IRONHOUSE SANITARY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2018**

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

***Discount Rate***

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

***Asset Allocation and Assumed Rate of Return***

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

| <b>Asset Class</b>                             | <b>Percentage of Portfolio</b> | <b>Assumed Gross Return</b> |
|------------------------------------------------|--------------------------------|-----------------------------|
| US Large Cap                                   | 43.0 %                         | 7.7950 %                    |
| US Small Cap                                   | 23.0 %                         | 7.7950 %                    |
| Long-term corporate bonds                      | 12.0 %                         | 5.2950 %                    |
| Long-term government bonds                     | 6.0 %                          | 4.5000 %                    |
| Treasury Inflation Protected Securities (TIPS) | 5.0 %                          | 7.7950 %                    |
| US real estate                                 | 8.0 %                          | 7.7950 %                    |
| All commodities                                | 3.0 %                          | 7.7950 %                    |
|                                                | <u>100.0 %</u>                 |                             |

***Changes in the OPEB liability***

The District invoked Paragraph 244 of GASB 75 for the transition. Consequently to determine the beginning NOL, the District used a "roll-back" technique. The following table shows the results of the roll-back:

|                                    | <b>Total OPEB Liability<br/>(a)</b> | <b>Plan Fiduciary Net Position<br/>(b)</b> | <b>Net OPEB Liability (Asset)<br/>(c) = (a) - (b)</b> |
|------------------------------------|-------------------------------------|--------------------------------------------|-------------------------------------------------------|
| Roll back Balance at June 30, 2016 | \$ 3,891,073                        | \$ 2,070,580                               | \$ 1,820,493                                          |
| Service cost                       | 86,766                              | -                                          | 86,766                                                |
| Interest in TOL                    | 249,231                             | -                                          | 249,231                                               |
| Employer Contributions             | -                                   | 250,102                                    | (250,102)                                             |
| Actual Investment Income           | -                                   | 219,563                                    | (219,563)                                             |
| Administrative Expense             | -                                   | (1,841)                                    | 1,841                                                 |
| Benefit Payments                   | <u>(248,544)</u>                    | <u>(248,544)</u>                           | <u>-</u>                                              |
| Net change during 2016-17          | <u>87,453</u>                       | <u>219,280</u>                             | <u>(131,827)</u>                                      |
| Balance at June 30, 2017           | <u>\$ 3,978,526</u>                 | <u>\$ 2,289,860</u>                        | <u>\$ 1,688,666</u>                                   |



**IRONHOUSE SANITARY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2018**

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

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

Sensitivity of the Net OPEB Liability of the District if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate, for measurement period ended June 30, 2017:

|                    | 1% Decrease<br>6.00% | Current<br>Discount Rate<br>7.00% | 1% Increase<br>8.00% |
|--------------------|----------------------|-----------------------------------|----------------------|
| Net OPEB Liability | \$ <u>2,130,915</u>  | \$ <u>1,688,666</u>               | \$ <u>1,317,571</u>  |

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

The following represents the net OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage-point lower or one percentage-point higher than the current rate, for measurement period ended June 30, 2017:

|                    | 1% Decrease<br>3.00% | Current<br>Healthcare<br>Cost Trend<br>Rate<br>4.00% | 1% Increase<br>5.00% |
|--------------------|----------------------|------------------------------------------------------|----------------------|
| Net OPEB Liability | \$ <u>1,309,498</u>  | \$ <u>1,688,666</u>                                  | \$ <u>2,130,158</u>  |

***Recognition of Deferred Outflows and Deferred Inflows of Resources***

Gains and losses related to changes of total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. At June 30, 2018, the District reported \$23,873 of deferred outflows of resources related to contributions subsequent to the measurement date and no deferred inflows of resources related to OPEB. The \$23,873 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019.

***OPEB Expense***

For the fiscal year ended June 30, 2018, the District recognized OPEB expense/(benefit) of \$(131,827).



**IRONHOUSE SANITARY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2018**

**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, 2018, the District made \$221,378 in insurance premium payments to CSRMA.

Condensed audited financial information for the year ended June 30, 2017 (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, 2018, 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 \$113,094 for levee repairs performed by Ironhouse employees and for the use of its equipment. As of June 30, 2018, \$100,250 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, 2018**

**NOTE 12: NET POSITION**

As of June 30, 2018, net position of the District consisted of the following:

|                                               |                      |
|-----------------------------------------------|----------------------|
| Net investment in capital assets              | \$ 50,029,796        |
| Unrestricted:                                 |                      |
| Undesignated                                  | 5,092,624            |
| Designated reserve for capital expenditures   | 8,766,262            |
| Designated reserve for rate stabilization     | 732,000              |
| Designated reserve for Jersey Island use fees | <u>34,343</u>        |
| Total Unrestricted                            | <u>14,625,229</u>    |
| Restricted                                    |                      |
| Debt service                                  | 2,937,701            |
| Expansion                                     | 469,252              |
| Trunkline capacity                            | <u>3,807,369</u>     |
| Total Restricted                              | <u>7,214,322</u>     |
| Total Net Position                            | <u>\$ 71,869,347</u> |

**NOTE 13: PRIOR PERIOD ADJUSTMENTS**

For the year ending June 30, 2018, the District implemented GASB 75 for their valuation of their Net Other Post Employment Benefits. As mentioned in Note 9, the District used a "roll-back" technique for their net OPEB Liability at the beginning of the year. In the fiscal year end June 30, 2017, the District reported a net OPEB asset of \$195,556. As a result of the roll-back, the District determined that an OPEB liability of \$1,820,493 should have been recorded as of June 30, 2017. The overall change of \$2,016,049 was recorded as a decrease in beginning net position.



**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, 2018  
LAST 10 YEARS\***

|                                                                                                | 2017         | Measurement Period<br>2016 | 2015         | 2014         |
|------------------------------------------------------------------------------------------------|--------------|----------------------------|--------------|--------------|
| Proportion of the net pension liability                                                        | 0.04415 %    | 0.04449 %                  | 0.04578 %    | 0.04365 %    |
| Proportionate share of the net pension liability                                               | \$ 4,378,364 | \$ 3,849,906               | \$ 3,142,358 | \$ 2,722,495 |
| Covered payroll                                                                                | \$ 2,303,744 | \$ 2,531,104               | \$ 2,562,268 | \$ 2,566,478 |
| Proportionate share of the net pension liability as a percentage of covered - employee payroll | 190.05 %     | 152.10 %                   | 122.64 %     | 106.08 %     |
| Plan fiduciary net position as a percentage of the total pension liability                     | 73.31 %      | 74.06 %                    | 78.40 %      | 79.82 %      |

**Notes to Schedule:**

**Changes in assumptions-**

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

\* Schedule is intended to show information for ten years. Fiscal year 2015 was the first year of implementation, therefore only four 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, 2018 LAST 10 YEARS\*

|                                                                          | 2018             | Fiscal Year-End<br>2017 | 2016             | 2015             |
|--------------------------------------------------------------------------|------------------|-------------------------|------------------|------------------|
| Contractually required contribution<br>(actuarially determined)          | \$ 586,816       | \$ 539,201              | \$ 545,636       | \$ 596,008       |
| Contributions in relation to the actuarially determined<br>contributions | <u>(586,816)</u> | <u>(539,201)</u>        | <u>(545,636)</u> | <u>(596,008)</u> |
| Contribution deficiency (excess)                                         | \$ <u>-</u>      | \$ <u>-</u>             | \$ <u>-</u>      | \$ <u>-</u>      |
| Covered payroll                                                          | <u>2,416,559</u> | <u>2,303,744</u>        | <u>2,531,104</u> | <u>2,562,268</u> |
| Contributions as a percentage of covered<br>- employee payroll           | 24.28 %          | 23.41 %                 | 21.56 %          | 23.26 %          |

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



**IRONHOUSE SANITARY DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION**

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

Last 10 Years\*

|                                                                           | <u>2017</u>         |
|---------------------------------------------------------------------------|---------------------|
| <b>Total OPEB liability</b>                                               |                     |
| Service cost                                                              | \$ 86,766           |
| Interest                                                                  | 249,231             |
| Benefit payments                                                          | <u>(248,544)</u>    |
| Net change in total OPEB liability                                        | 87,453              |
| Total OPEB liability, beginning                                           | <u>3,891,073</u>    |
| Total OPEB liability, ending (a)                                          | <u>\$ 3,978,526</u> |
| <br><b>Plan fiduciary net position</b>                                    |                     |
| Contributions - employer                                                  | \$ 250,102          |
| Net investment income                                                     | 219,563             |
| Benefit payments                                                          | (248,544)           |
| Administrative expenses                                                   | <u>(1,841)</u>      |
| Net change in plan fiduciary net position                                 | 219,280             |
| Plan fiduciary net position, beginning                                    | <u>2,070,580</u>    |
| Plan fiduciary net position, ending (b)                                   | <u>\$ 2,289,860</u> |
| District's net OPEB liability, ending (a) - (b)                           | <u>\$ 1,688,666</u> |
| Plan fiduciary net position as a percentage of the total OPEB liability   | 58 %                |
| Covered-employee payroll                                                  | \$ 2,617,893        |
| District's net OPEB liability as a percentage of covered-employee payroll | 1.52 %              |

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



**IRONHOUSE SANITARY DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CONTRIBUTIONS OF OPEB  
For the Fiscal Year Ended June 30**

**Last 10 Years\***

|                                                           | <u>2018</u> |
|-----------------------------------------------------------|-------------|
| Actuarilly Determined Contribution (ADC)                  | \$ 276,184  |
| Contributions in relation to the ADC                      | (276,184)   |
| Contribution deficiency (excess)                          | -           |
| Covered-employee payroll                                  | 2,650,207   |
| Contributions as a percentage of covered-employee payroll | 10 %        |

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



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**IRONHOUSE SANITARY DISTRICT  
OAKLEY/BETHEL ISLAND,  
CALIFORNIA**



**SECTION III:  
STATISTICAL**



**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

For Fiscal Year Ended June 30, 2018

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# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

## **FINANCIAL TRENDS**

Solar farm used to help offset electrical cost at Ironhouse.

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

|                                                                           | FY 17/18          | FY 16/17          | FY 15/16          | FY 14/15          | FY 13/14          |
|---------------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Assets</b>                                                             |                   |                   |                   |                   |                   |
| Current assets                                                            | \$ 26,129         | \$ 23,585         | \$ 21,033         | \$ 19,386         | \$ 17,209         |
| Capital assets                                                            | 87,137            | 89,355            | 92,764            | 95,361            | 98,194            |
| Other long-term assets                                                    | 5,106             | 5,838             | 6,371             | 6,930             | 7,587             |
| <b>Total Assets</b>                                                       | <b>118,372</b>    | <b>118,778</b>    | <b>120,168</b>    | <b>121,677</b>    | <b>122,990</b>    |
| <b>Deferred Outflow of Resources</b>                                      |                   |                   |                   |                   |                   |
| Changes in the net pension liability                                      | 1,938             | 2,128             | 1,370             | 753               | -                 |
| Changes in the net OPEB liability                                         | 24                | -                 | -                 | -                 | -                 |
| Total Deferred Outflow of Resources                                       | 1,962             | 2,128             | 1,370             | 753               | -                 |
| <b>Total Assets and Deferred Outflows of Resources</b>                    | <b>\$ 120,334</b> | <b>\$ 120,906</b> | <b>\$ 121,538</b> | <b>\$ 122,430</b> | <b>\$ 122,990</b> |
| <b>Liabilities</b>                                                        |                   |                   |                   |                   |                   |
| Current liabilities                                                       | \$ 3,951          | \$ 3,617          | \$ 3,810          | \$ 4,114          | \$ 4,035          |
| Long-term liabilities                                                     | 44,303            | 45,018            | 47,476            | 49,779            | 50,048            |
| <b>Total Liabilities</b>                                                  | <b>48,254</b>     | <b>48,635</b>     | <b>51,286</b>     | <b>53,893</b>     | <b>54,083</b>     |
| <b>Deferred Inflows of Resources</b>                                      |                   |                   |                   |                   |                   |
| Changes in the net pension liability                                      | 211               | 332               | 508               | 817               | -                 |
| <b>Net Position</b>                                                       |                   |                   |                   |                   |                   |
| Net investment in capital assets                                          | 50,030            | 49,885            | 50,969            | 51,279            | 51,863            |
| Unrestricted:                                                             |                   |                   |                   |                   |                   |
| Undesignated                                                              | 5,093             | 4,962             | 3,640             | 3,398             | 6,142             |
| Designated                                                                | 9,532             | 10,254            | 8,667             | 6,198             | 3,561             |
| Total Unrestricted                                                        | 14,625            | 15,216            | 12,307            | 9,596             | 9,703             |
| Restricted for debt service, expansion and capacity                       | 7,214             | 6,838             | 6,468             | 6,845             | 7,341             |
| <b>Total Net Position</b>                                                 | <b>\$ 71,869</b>  | <b>\$ 71,939</b>  | <b>\$ 69,744</b>  | <b>\$ 67,720</b>  | <b>\$ 68,907</b>  |
| <b>Total Liabilities, Deferred Outflows of Resources and Net Position</b> | <b>\$ 120,334</b> | <b>\$ 120,906</b> | <b>\$ 121,538</b> | <b>\$ 122,430</b> | <b>\$ 122,990</b> |

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 17/18         | FY 16/17         | FY 15/16         | FY 14/15         | FY 13/14         |
|------------------------------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Operating Revenues</b>                |                  |                  |                  |                  |                  |
| Services charges                         | \$ 10,239        | \$ 10,083        | \$ 9,915         | \$ 9,385         | \$ 9,038         |
| Service connection and related fees      | 618              | 435              | 327              | 476              | 243              |
| Capacity fees                            | 1,743            | 1,736            | 1,229            | 1,150            | 833              |
| Other fees and revenue                   | 251              | 274              | 619              | 1,123            | 774              |
| <b>Total Operating Revenues</b>          | <b>12,851</b>    | <b>12,528</b>    | <b>12,090</b>    | <b>12,134</b>    | <b>10,888</b>    |
| <b>Operating Expenses</b>                |                  |                  |                  |                  |                  |
| Salaries, benefits and payroll taxes     | 4,746            | 3,780            | 3,900            | 4,357            | 4,432            |
| Administration expenses                  | 372              | 427              | 398              | 337              | 308              |
| Operations and maintenance               | 1,442            | 1,396            | 1,449            | 1,309            | 1,647            |
| Professional services                    | 804              | 752              | 649              | 698              | 591              |
| Insurance                                | 128              | 128              | 128              | 135              | 135              |
| Utilities                                | 607              | 688              | 666              | 665              | 629              |
| Expansion related costs                  | -                | -                | -                | 37               | 23               |
| Depreciation                             | 3,848            | 3,786            | 3,794            | 3,781            | 3,802            |
| <b>Total Operating Expenses</b>          | <b>11,947</b>    | <b>10,957</b>    | <b>10,984</b>    | <b>11,657</b>    | <b>11,567</b>    |
| <b>Operating income (loss)</b>           | <b>904</b>       | <b>1,571</b>     | <b>1,106</b>     | <b>477</b>       | <b>(679)</b>     |
| <b>Non-Operating Revenues (Expenses)</b> |                  |                  |                  |                  |                  |
| Cattle income, net of expenses           | 892              | 819              | 1,161            | 1,442            | 911              |
| Taxes                                    | 292              | 285              | 244              | 239              | 191              |
| Investment income                        | 120              | 39               | 124              | 37               | 33               |
| Other non-operating revenue              | 182              | 56               | 40               | 92               | 118              |
| Interest expense                         | (574)            | (612)            | (651)            | (689)            | (840)            |
| <b>Total Net Non-Operating Revenues</b>  | <b>912</b>       | <b>587</b>       | <b>918</b>       | <b>1,121</b>     | <b>413</b>       |
| Income before capital contributions      | 1,816            | 2,158            | 2,024            | 1,598            | (266)            |
| Capital contributions                    | 131              | 38               | -                | -                | 293              |
| <b>Increase in net position</b>          | <b>1,947</b>     | <b>2,196</b>     | <b>2,024</b>     | <b>1,598</b>     | <b>27</b>        |
| Net position, beginning of year (Note 1) | 69,922           | 69,743           | 67,720           | 66,122           | 68,880           |
| <b>Net position, end of year</b>         | <b>\$ 71,869</b> | <b>\$ 71,939</b> | <b>\$ 69,744</b> | <b>\$ 67,720</b> | <b>\$ 68,907</b> |

Notes: (1) The beginning net position for fiscal year 2018 was adjusted as a result of implementation of GASB 75. The beginning net position for fiscal year 2015 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

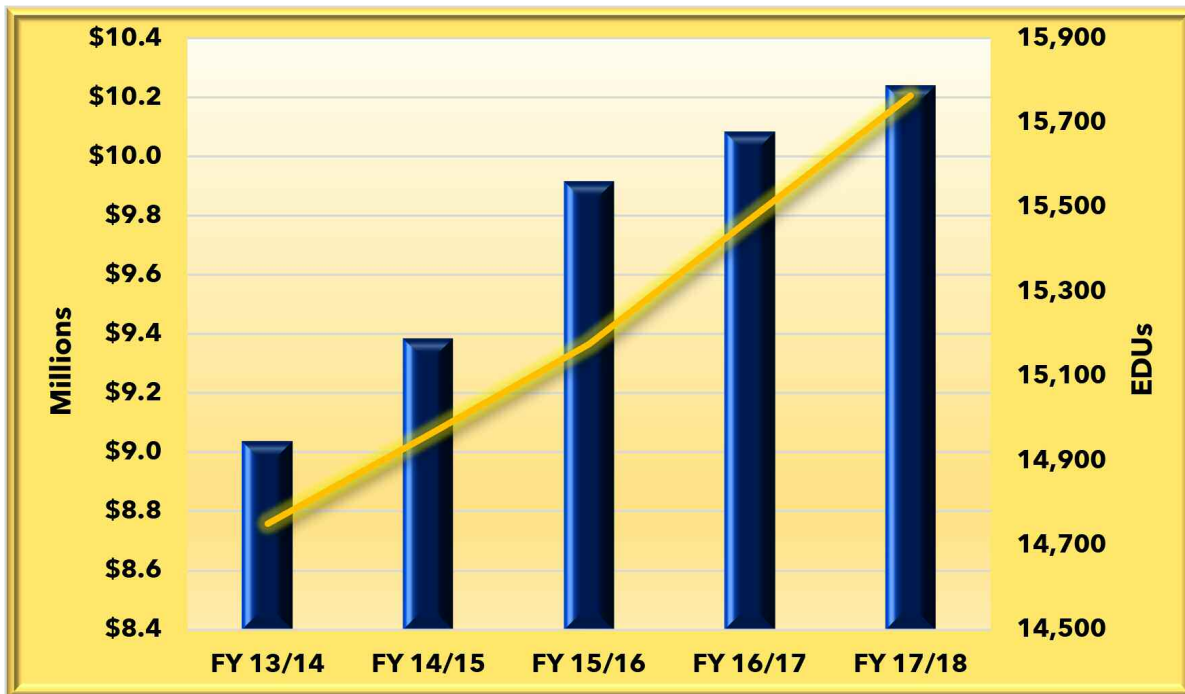


| Fiscal Year | Service Rate per EDU | Percent Change |
|-------------|----------------------|----------------|
| FY 13/14    | \$618                | 0.0%           |
| FY 14/15    | \$637                | 3.1%           |
| FY 15/16    | \$658                | 3.3%           |
| FY 16/17    | \$658                | 0.0%           |
| FY 17/18    | \$658                | 0.0%           |

Source: Ironhouse Sanitary District Finance



## Ironhouse Sanitary District Service Charge Revenue and Total EDUs Past Five Years



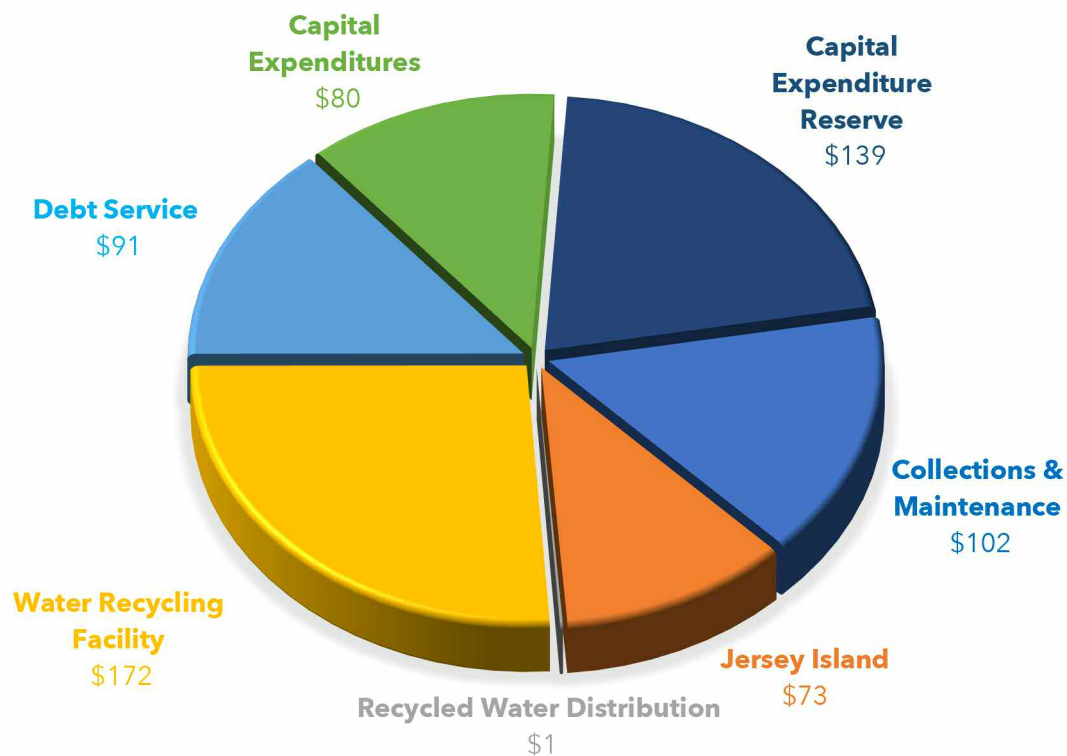
### Historical Service Charge Revenues

| Fiscal Year     | Service Charges | Percent Change | Total EDUs | Percent Change |
|-----------------|-----------------|----------------|------------|----------------|
| <b>FY 13/14</b> | \$ 9,037,779    | 1.6%           | 14,751     | 1.2%           |
| <b>FY 14/15</b> | \$ 9,384,874    | 3.8%           | 14,961     | 1.4%           |
| <b>FY 15/16</b> | \$ 9,914,974    | 5.6%           | 15,176     | 1.4%           |
| <b>FY 16/17</b> | \$ 10,083,384   | 1.7%           | 15,471     | 1.9%           |
| <b>FY 17/18</b> | \$ 10,239,268   | 1.5%           | 15,764     | 1.9%           |

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



## Ironhouse Sanitary District \$658 Service Charge by Activity FY 17/18

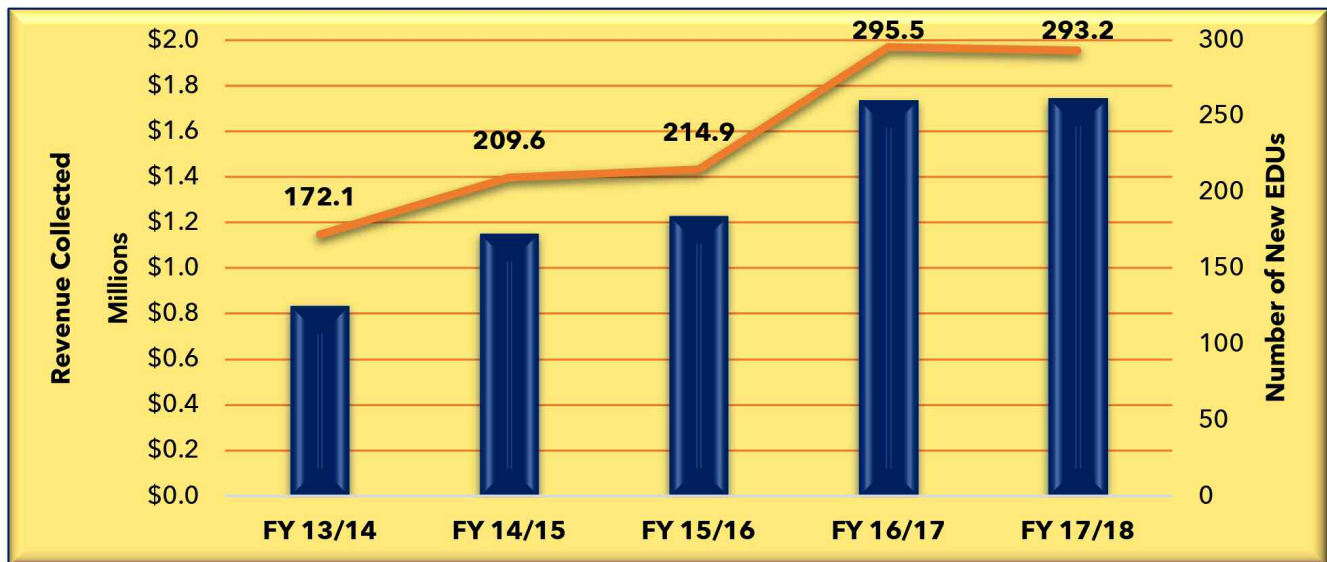
**Notes:**

(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 Capacity Fees Past Five Years



| Fiscal Year     | Capacity Fee per EDU | Total Collected | Number of New EDUs |
|-----------------|----------------------|-----------------|--------------------|
| <b>FY 13/14</b> | 5,296                | \$832,916       | 172.1              |
| <b>FY 14/15</b> | 5,566                | \$1,149,909     | 209.6              |
| <b>FY 15/16</b> | 5,708                | \$1,228,615     | 214.9              |
| <b>FY 16/17</b> | 5,873                | \$1,735,595     | 295.5              |
| <b>FY 17/18</b> | 5,944                | \$1,742,750     | 293.2              |

### 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



**Ironhouse Sanitary District  
Principal Revenue Payors  
Current Fiscal Year**

**FY 2017-2018**

| Payor                             | Service Charge Revenue | Percent of Total Service Charge Revenue |
|-----------------------------------|------------------------|-----------------------------------------|
| Freedom High School               | \$171,080              | 1.7%                                    |
| Sr./Family Apts (Carol Lane)      | 138,180                | 1.3%                                    |
| Willows Mobile Home Park          | 114,295                | 1.1%                                    |
| Santiago Village Mobile Home Park | 104,885                | 1.0%                                    |
| Eagle City Mobile Home Park       | 96,726                 | 0.9%                                    |
| Raley's Shopping Center           | 89,422                 | 0.9%                                    |
| Iron House Elementary             | 69,656                 | 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%                                    |
|                                   | <b>\$951,231</b>       | <b>9.3%</b>                             |

**Source:** Ironhouse Sanitary District Finance



## Ironhouse Sanitary District Principal Revenue Payors Five Years Ago

**FY 2013-2014**

| Payor                             | Service Charge Revenue | Percent of Total Service Charge Revenue |
|-----------------------------------|------------------------|-----------------------------------------|
| Freedom High School               | \$155,180              | 1.7%                                    |
| Sr./Family Apts (Carol Lane)      | 129,780                | 1.4%                                    |
| 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             | 62,066                 | 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%                                    |
|                                   | <b>\$884,735</b>       | <b>9.8%</b>                             |

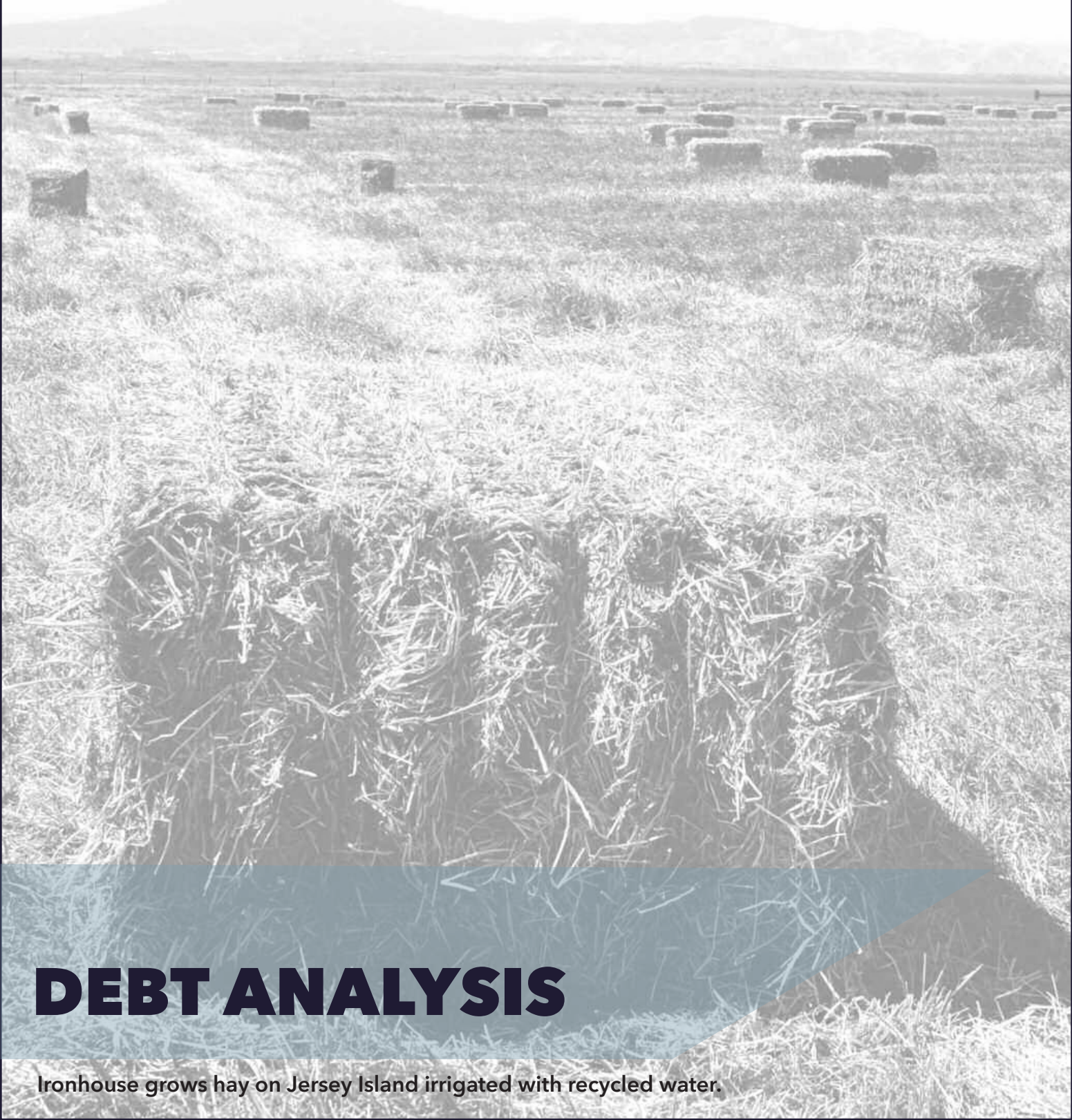
**Source:** Ironhouse Sanitary District Finance



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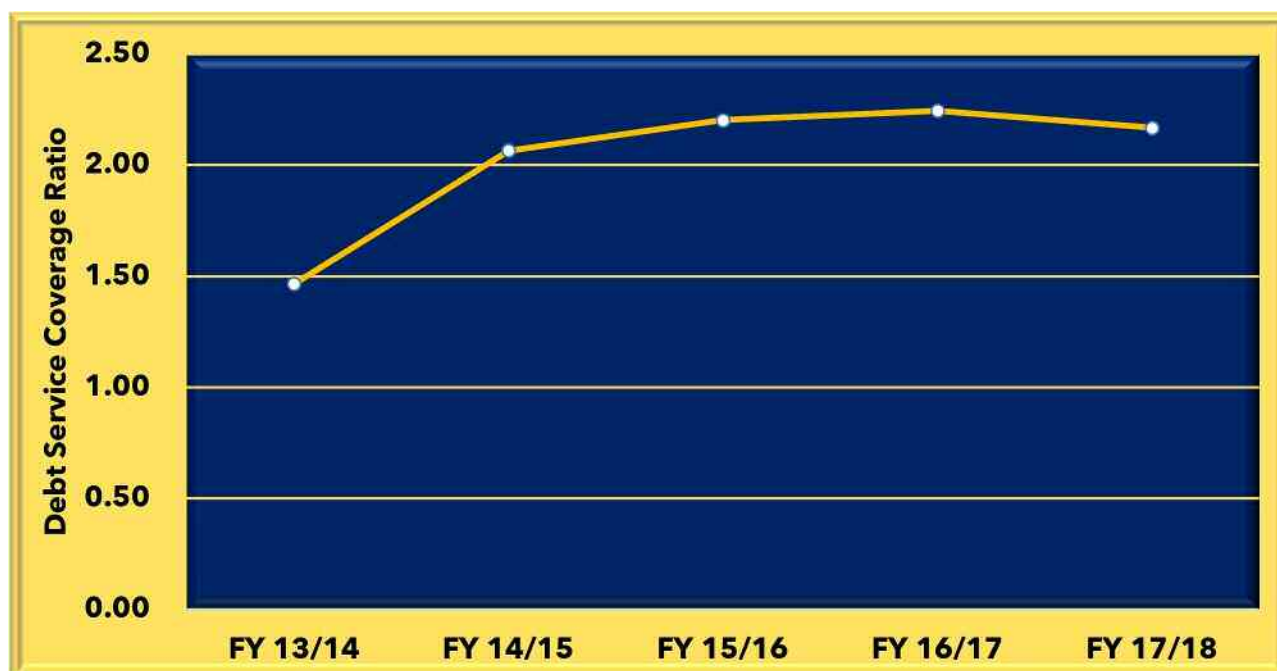
# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**



## **DEBT ANALYSIS**

Ironhouse grows hay on Jersey Island irrigated with recycled water.

## Ironhouse Sanitary District Debt Service Coverage For the Past Five Years



| Fiscal Year | Gross Revenues<br>(Note 1) | Operating Expense<br>(Note 2) | Net Revenues | Debt Service | Debt Service Coverage Ratio |
|-------------|----------------------------|-------------------------------|--------------|--------------|-----------------------------|
| 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                        |
| FY 17/18    | \$14,600,634               | \$8,230,741                   | \$6,369,893  | \$2,937,700  | 2.17                        |

### Notes:

1. Includes operating and non-operating revenues.

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

Sources: Ironhouse Sanitary District.



## Ironhouse Sanitary District Outstanding Debt For the Past Five Years

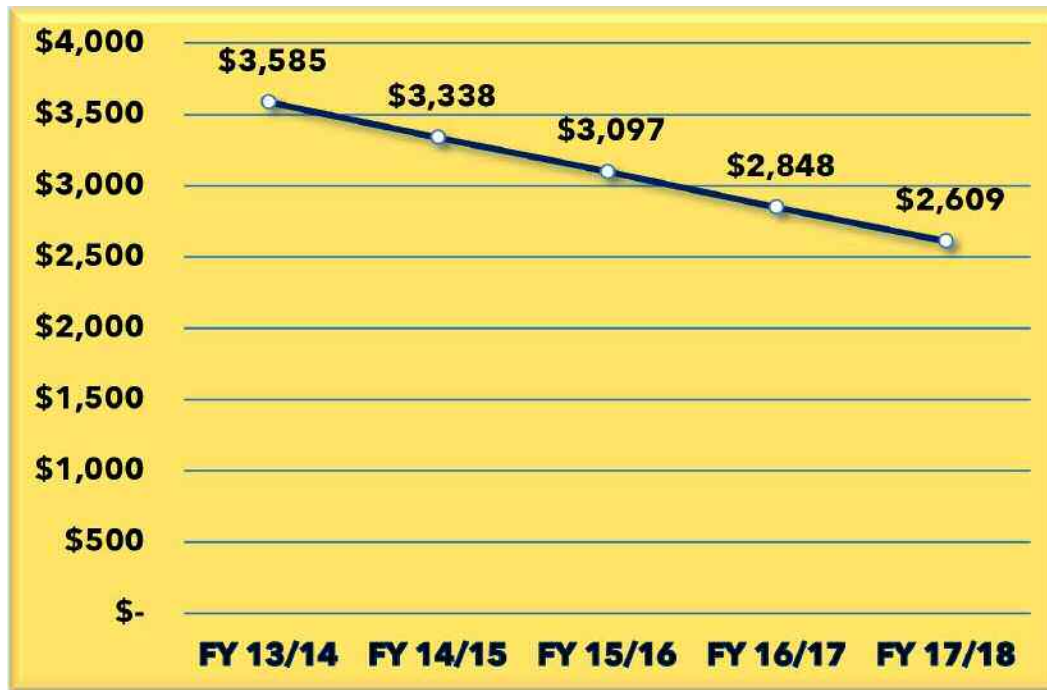


| Fiscal Year | SWRCB SRF    | Total Outstanding Debt |
|-------------|--------------|------------------------|
| FY 13/14    | \$52,878,609 | \$52,878,609           |
| FY 14/15    | \$49,940,909 | \$49,940,909           |
| FY 15/16    | \$47,003,208 | \$47,003,208           |
| FY 16/17    | \$44,065,508 | \$44,065,508           |
| FY 17/18    | \$41,127,807 | \$41,127,807           |

Source: Ironhouse Sanitary District



## Ironhouse Sanitary District Debt Per Connection For the Past Five Years

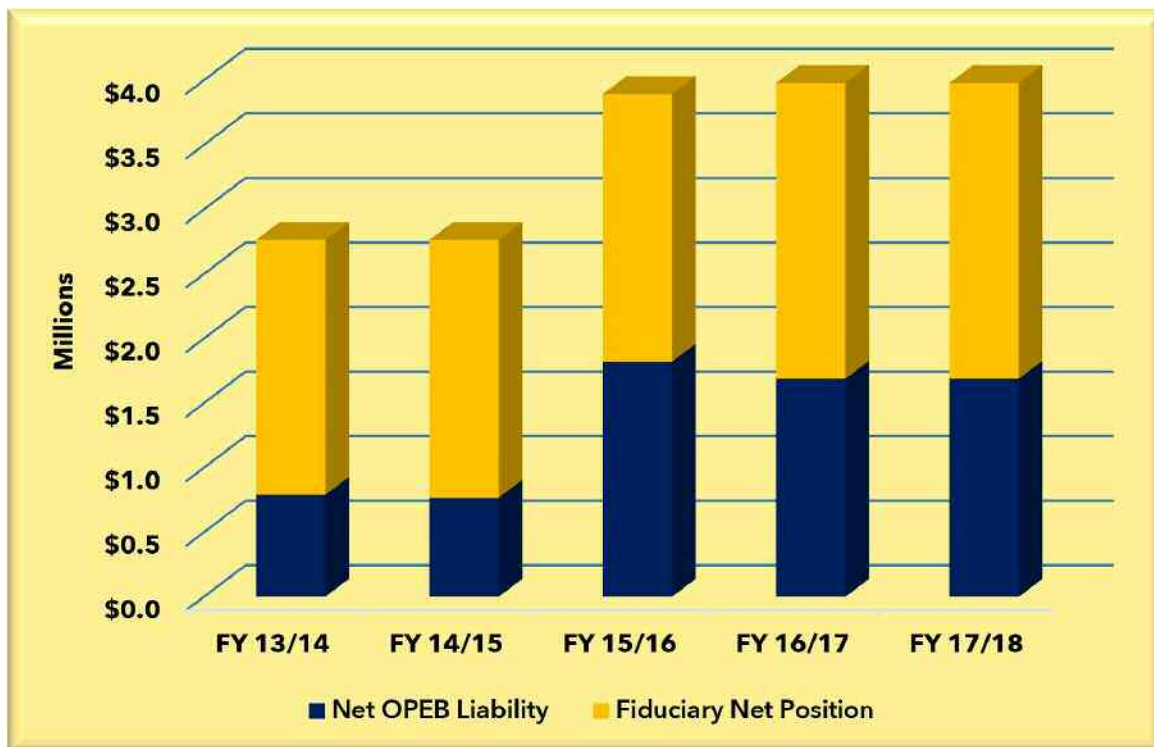


| Fiscal Year | Total EDUs | Debt per Connection |
|-------------|------------|---------------------|
| FY 13/14    | 14,751     | \$3,585             |
| FY 14/15    | 14,961     | \$3,338             |
| FY 15/16    | 15,176     | \$3,097             |
| FY 16/17    | 15,471     | \$2,848             |
| FY 17/18    | 15,764     | \$2,609             |

Source: Ironhouse Sanitary District



## Ironhouse Sanitary District OPEB Liability Past Five Years

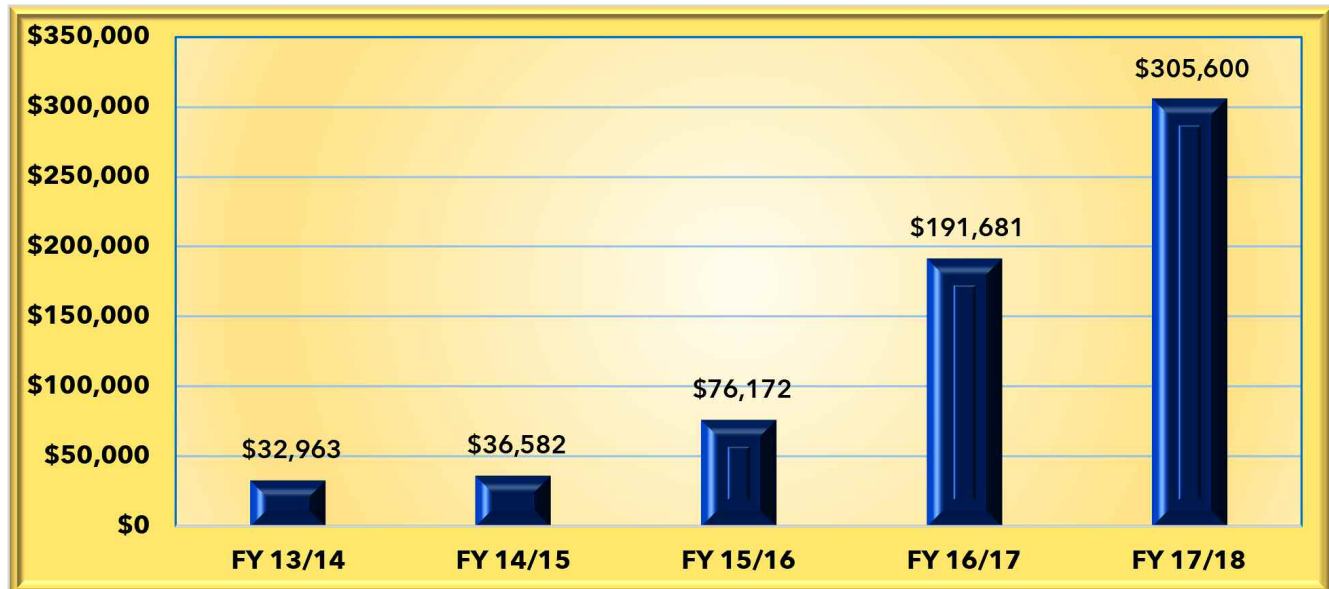


| Fiscal Year | Total OPEB Liability | Fiduciary Net Position | Net OPEB Liability |
|-------------|----------------------|------------------------|--------------------|
| FY 13/14    | \$2,763,311          | \$1,974,762            | \$ 788,549         |
| FY 14/15    | \$2,763,311          | \$1,996,635            | \$ 766,676         |
| FY 15/16    | \$3,891,073          | \$2,070,580            | \$1,820,493        |
| FY 16/17    | \$3,978,526          | \$2,289,860            | \$1,688,666        |
| FY 17/18    | \$3,978,526          | \$2,289,860            | \$1,688,666        |

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



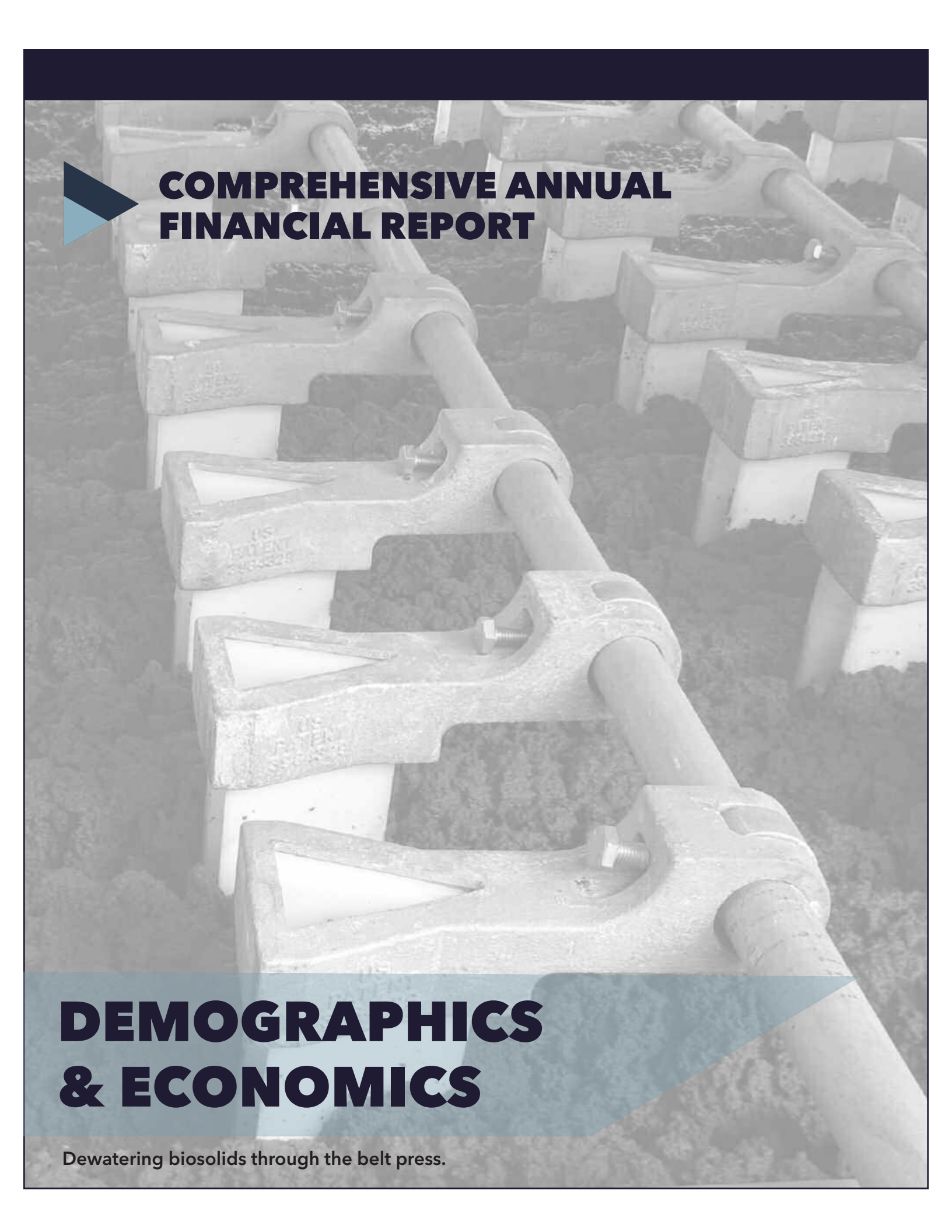
**Ironhouse Sanitary District  
Investment Income  
(Excludes Unrealized Gains and Losses)  
Past Five Years**



| Fiscal Year | Investment Income | Percent Change |
|-------------|-------------------|----------------|
| FY 13/14    | \$ 32,963         | -24.6%         |
| FY 14/15    | \$ 36,582         | 11.0%          |
| FY 15/16    | \$ 76,172         | 108.2%         |
| FY 16/17    | \$191,681         | 151.6%         |
| FY 17/18    | \$305,600         | 59.4%          |

Source: Ironhouse Sanitary District





# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

## **DEMOGRAPHICS & ECONOMICS**

Dewatering biosolids through the belt press.

## 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* |
|---------------|-------------|----------------------------------------|-----------------------------|----------------------------|
| 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%                       |
| 2017          | 41,714      | \$1,215,406                            | \$29,137                    | 4.2%                       |

### Bethel Island

| Calendar Year | Population* | Personal income (thousands of dollars) | Per Capita Personal Income* | Average Unemployment Rate* |
|---------------|-------------|----------------------------------------|-----------------------------|----------------------------|
| 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%                       |
| 2017          | 2,219       | \$66,844                               | \$30,126                    | 1.8%                       |

**Source:** U.S. Census Bureau, 2012-2016 American Community Survey 5-Year Estimates  
 State of California Department of Finance  
 State of California Employment Development Department  
 U.S. Bureau of Economic Analysis  
<https://factfinder.census.gov/faces/tableservice/isf/pages/productview/xhtml?src=CF>





# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**



## **OPERATING INFORMATION**

Residential Recycled Water Fill Station at Ironhouse.

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



| Department               | 2014 | 2015 | 2016 | 2017 | 2018 |
|--------------------------|------|------|------|------|------|
| Administration           | 5    | 4    | 3    | 5    | 5    |
| Collections/Maintenance  | 9    | 8    | 7    | 7    | 7    |
| Jersey Island            | 12   | 12   | 10   | 10   | 8    |
| Water Recycling Facility | 6    | 5    | 6    | 6    | 6    |
| District Total           | 32   | 29   | 26   | 28   | 26   |

Source: Ironhouse Sanitary District





# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

## **FINANCIAL POLICIES & CAPITAL IMPROVEMENT PROGRAM**

Applying biosolids on Jersey Island hay fields.

## **Ironhouse Sanitary District Operating Budget Policy Summary**

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

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



## **Ironhouse Sanitary District Investment Policy Summary**

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

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

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



## Ironhouse Sanitary District Unrestricted Designated Financial Reserve Policy Summary

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

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

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

### ***Operating Reserves Summary***

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

### ***Capital Expenditure Reserve Summary***

The purpose of Capital Expenditure Reserve is to ensure that adequate funds are available to purchase new capital assets that benefit current ratepayers, 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.

See Ironhouse's website at <http://ironhousesanitarydistrict.com/184/District-Transparency> 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 Reserves Summary***

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

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



## **Ironhouse Sanitary District Capital Improvement Program (CIP)**

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

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



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