IRONHOUSE SANITARY DISTRICT
ANNUAL FINANCIAL REPORT
WITH
INDEPENDENT AUDITOR'S REPORT

June 30, 2011

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JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Ironhouse Sanitary District
Oakley, California

We have audited the accompanying financial statements of the business-type activities of Ironhouse Sanitary District (the District) as of and for the year ended June 30, 2011, which comprises the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Ironhouse Sanitary District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the State Controller's *Minimum Auditing Requirements for California Special Districts* 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2011, on our consideration of Ironhouse Sanitary District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress on pages 2 through 7, and 23 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 the financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. We have applied certain limited procedures to the required supplementary informaiton in accordance with auditing standards generally accepted in the United States of America, which consisted of inquireies 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 finnacial satements. we do not express an opinion or provide and assurance on the information because the limited procedures do not provide use with sufficient evidence to express and opinion or provide any assurance.

Mann Urrutia Nelson CPAs

Sacramento, California
October 14, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

The financial statements for the fiscal year 2011 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 and disposal services 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 fees and connection charges 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, fees and connection charges from users of the services provided by the District which totaled $5,886,653 in fiscal 2011, compared to $5,892,675 in fiscal 2010.

The assets of the District exceeded its liabilities at June 30, 2011 by $74,732,214 (net assets) compared to $71,947,577 at June 30, 2010

As of the close of the current fiscal year, the District's Proprietary Fund reported Unrestricted Net Assets of $6,452,650 compared to $6,798,302 for the prior fiscal year.

The District's cash and cash equivalent and investment balance at June 30, 2011 was $17,601,896, representing a decrease of $4,880,842 from the June 30, 2010 balance of $22,482,738.

The District had Operating Revenues of $6,871,327 for fiscal 2011 versus $6,507,413 for fiscal 2010 and Operating Expenses of $8,161,561 for fiscal year 2011 versus $8,082,700 for fiscal year 2010.

There was $32,376,323 in capital outlays for property, plant and equipment for the fiscal year ending June 30, 2011.

B. Using the Annual Report

<u>Management Discussion and Analysis</u>

Management's Discussion and Analysis are intended to serve as an introduction to 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 Assets, Comparative Statements of Activities and Budget Comparison.

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

Comparative Statements of Activities present information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets 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 fees and connection charges. The District's function is to provide wastewater collection and disposal services 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, 2011, 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, 2011, the District's investment in Capital Assets for its Proprietary Fund was $103,058,440 (net of accumulated depreciation). This investment in Capital Assets includes land, plant, collection system, buildings, and furniture and equipment. There was $32,376,323 of major capital assets purchased during the fiscal year including $31,497,976 for engineering and construction costs of a new treatment plant. Infrastructure donated by developers capitalized for 2010/2011 was $272,360

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 treatment plant, expected to be completed in October 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 for $52 million to finance the new construction. The loan is disbursed as costs are incurred. Repayment of the loan will be paid in annual installments commencing one year after completion of the project. The loan bears no interest; however, in order to borrow funds the District is required to provide 16.67% of the total loan amount. This portion of the loan is reported as prepaid interest and is amortized at an effective interest rate of 1.8%.

Additional information on the District's Debt can be found in Note 6 to the Financial Statements included in this report.

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

The following factors were considered in preparing the District's budget for Fiscal Year Ending June 30, 2011:

The state of the economy.

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

The operational needs of the District.

Construction of a new treatment plant. Construction of the new treatment plant was initiated in April 2009. Completion is expected in October 2011.

IRONHOUSE SANITARY DISTRICT
COMPARATIVE STATEMENT OF NET ASSETS
JUNE 30, 2011

	ENTERPRISE FUND		Percentage Change
	2011	2010	
Assets:			
Current Assets	$ 18,291,849	$ 24,149,474	(24.3) %
Net OPEB Asset	187,915		
Prepaid Interest	8,160,495	4,214,002	93.7
Investment in Cattle Operations (net)	791,842	717,633	10.3
Capital Assets (net)	103,058,440	72,683,552	41.8
Total Assets	$ 130,490,541	$ 101,764,661	28.2 %
Liabilities:			
Current Liabilities	$ 2,287,774	$ 3,900,579	(41.3) %
Long-Term Liabilities	53,470,553	25,916,505	106.3
Total Liabilities	$ 55,758,327	$ 29,817,084	87.0 %
Net Assets:			
Invested in Capital Assets, net of related debt	$ 57,725,348	$ 51,014,294	13.2 %
Restricted Net Assets	10,554,216	14,134,981	(25.3)
Unrestricted Net Assets	6,452,650	6,798,302	(5.1)
Total Net Assets	$ 74,732,214	$ 71,947,577	3.9 %

IRONHOUSE SANITARY DISTRICT
COMPARATIVE STATEMENT OF ACTIVITIES
JUNE 30, 2011

	ENTERPRISE FUND		Percentage Change
	2011	2010	
Revenues:			
Service charges	$ 5,808,923	$ 5,757,155	0.9 %
Fees	77,730	135,520	(42.6)
Mineral rights	66,741	168,117	(60.3)
Miscellaneous	917,933	446,621	105.5
Total operating revenues	6,871,327	6,507,413	5.6
Expenses:			
Salaries and payroll taxes	2,348,003	2,731,924	(14.1)
Administrative expenses	319,235	233,554	36.7
Utilities	432,241	485,134	(10.9)
Maintenance expenses	1,212,636	1,183,435	2.5
Professional services	651,007	392,144	66.0
Insurance	811,366	719,126	12.8
Retirement	588,962	558,120	5.5
Depreciation	1,798,114	1,779,263	1.1
Total operating expenses	8,161,564	8,082,700	1.0
Operating income (loss)	(1,290,237)	(1,575,287)	(18.1)
Non-operating revenues:			
Taxes	187,595	174,097	7.8
Capacity fees	3,558,004	3,186,771	11.6
Cattle revenues	800,486	692,099	15.7
Interest income	87,685	142,355	(38.4)
Gain on Sale of Assets	24,000	23,703	1.3
Capital Contributions	272,360	429,229	(36.5)
Total Non-Operating Revenues	4,930,130	4,648,254	6.1
Cattle operations expense	147,951	189,618	(22.0)
Interest Expense	664,932	121,900	445.5
Expansion and replacement costs	42,373	157,753	(73.1)
Total Non-operating Expenses	855,256	469,271	82.3
Non-Operating Income	4,074,874	4,178,983	(2.5)
Change in Net Assets	$ 2,784,637	$ 2,603,696	6.9 %

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 rate increases for service charges in excess of $680 can only be implemented upon completing the State of California Proposition 218 process. This Proposition 218 process was completed by the District in 2007 for the year ending June 30, 2007 and included a 5 year rate increase to a maximum of $680.00 per equivalent service unit. Due to the treatment plant construction costs being lower than anticipated, the District increased its various connection and user fees during fiscal year 2011 to a lower rate than the estimated schedule of rate increases included in the Proposition 218 notice. These rate increases are expected to increase revenues, capital assets and capital asset replacement projects, fund other post employment benefits, increases in salaries, benefits, utility and operating expenses.

In addition, the current economic downturn is of considerable interest to the District as slower development will result in fewer connections and, therefore, annual revenue from service charges will stagnate. Also, home foreclosures in the District's service area have been significant and the burden of paying the annual sewer use fee often transfers to the loan institution for payment. The District collects the annual sewer use fee through the Contra Costa County tax roll which provides payment of all annual sewer use fees regardless of status of property ownership.

H. 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 ASSETS
JUNE 30, 2011

ASSETS

CURRENT ASSETS	
Cash and cash equivalents (Note 2)	$ 17,407,301
Cash and cash equivalents - restricted (Note 2)	194,595
Accounts receivable	104,802
Related party receivable (Note 13)	209,880
Interest receivable	20,060
Supply inventory	304,745
Prepaid expenses	50,466
Total Current Assets	18,291,849
NON-CURRENT ASSETS	
Net OPEB Asset	187,915
Prepaid interest (Note 6)	8,160,495
Investment in cattle (net of accumulated depreciation) (Note 3)	791,842
Land, structures and equipment (net of accumulation depreciation) (Note 4)	103,058,440
Total Non-Current Assets	112,198,692
TOTAL ASSETS	$ 130,490,541

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	1,153,772
Payroll related liabilities	106,044
Customer deposits payable	116,795
Current portion of compensated absences	282,134
Current portion of capital lease payable (Note 5)	49,920
Unearned revenues (Note 7)	579,109
Total Current Liabilities	2,287,774
LONG TERM LIABILITIES	
Compensated absences (less current portion)	26,886
Capital lease payable (less current portion) (Note 5)	89,274
State revolving fund loan (Note 6)	53,354,393
Total Long-Term Liabilities	53,470,553
TOTAL LIABILITIES	55,758,327
NET ASSETS	
Invested in capital assets, net of related debt	57,725,348
Restricted for future expansion and trunkline capacity (Note 7)	10,476,416
Restricted for expenses related to franchise agreement (Note 12)	77,800
Unrestricted	6,452,650
TOTAL NET ASSETS	74,732,214
TOTAL LIABILITIES AND NET ASSETS	$ 130,490,541

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

IRONHOUSE SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED
JUNE 30, 2011

OPERATING REVENUES	
Service charges	$ 5,808,923
Fees	77,730
Mineral rights	66,741
Miscellaneous	917,933
Total Operating Revenues	6,871,327
OPERATING EXPENSES	
Salaries and payroll taxes	2,348,003
Administration expenses	319,235
Utilities	432,241
Maintenance expenses	1,212,636
Professional services	651,007
Insurance	811,366
Retirement	588,962
Depreciation	1,798,114
Total Operating Expenses	8,161,564
Operating loss	(1,290,237)
NON-OPERATING REVENUES (EXPENSES)	
Taxes	187,595
Capacity fees (Note 7)	3,558,004
Cattle revenues	800,486
Interest income	87,685
Interest expense	(664,932)
Gain on sale of assets	24,000
Cattle operation expenses	(147,951)
Expansion and replacement costs	(42,373)
Nonoperating revenues (expenses)	3,802,514
INCOME BEFORE CONTRIBUTIONS	2,512,277
Capital contributions	272,360
INCREASE IN NET ASSETS	2,784,637
NET ASSETS, BEGINNING OF YEAR	71,947,577
NET ASSETS, END OF YEAR	$ 74,732,214

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

IRONHOUSE SANITARY DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 7,519,449
Cash paid to employees and for payroll taxes	(2,941,044)
Cash paid to suppliers and vendors	(4,667,686)
Net cash flows used in operating activities	(89,281)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Taxes received	187,595
Net cash flows provided by noncapital financing activities	187,595
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(31,816,562)
Proceeds on the disposition of assets	24,000
Sale of cattle	1,023,636
Acquisition of cattle	(41,560)
Cattle operations expenses	(487,830)
Proceeds from state revolving fund loan	22,992,067
Principal payments on capital lease	(43,085)
Expansion and replacement costs	(42,373)
Capacity fees collected	3,502,473
Additional OPEB Contribution	(187,915)
Net cash flows used in capital and related financing activities	(5,077,149)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received on investment	97,993
Net cash provided by investing activities	97,993
NET DECREASE IN CASH	(4,880,842)
CASH AND CASH EQUIVALENTS - JULY 1, 2010 (including $767,793 reported as restricted)	22,482,738
CASH AND CASH EQUIVALENTS - JUNE 30, 2011 (including $194,595 reported as restricted)	$ 17,601,896
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	
Developer contributions	$ 272,360

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

IRONHOUSE SANITARY DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED
JUNE 30, 2011

OPERATING LOSS	$ (1,290,237)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	1,798,114
Decrease in accounts receivable	1,075,220
Decrease in prepaid expenses	10,743
Increase in supply inventory	(119,488)
Decrease in accounts payable	(1,132,456)
Increase in accrued liabilities	2,280
Decrease in compensated absences	(6,359)
Decrease in deposits payable	(427,098)
Total adjustments	1,200,956
NET CASH USED IN OPERATING ACTIVITIES	$ (89,281)

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Ironhouse Sanitary District (The District) provides sewage collection, treatment and disposal services 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. The more significant of the District's accounting policies are described below.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do no conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Budgetary Reporting

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

Cash and Cash Equivalents

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

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	5 years	None	40%
Commercial Paper	180 days	40%	10%
Negotiable Certificates of Deposit	5 years	30%	10%
Repurchase Agreements	1 year	None	None
Medium-Term Corporate Notes	5 years	30%	None
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
Local Agency Investment Fund (LAIF)	N/A	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.

As of June 30, 2011, the District had no investments other than its investment in the Local Agency Investment Fund. The fair value of the District's investments in this pool is classified as a cash equivalent.

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. As of June 30, 2011, the District's investments were in compliance with the rating required by the District's investment policy.

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, 2011 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.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 is as follows:

	July 1, 2010	Additions	Deletions	June 30, 2011
Capital assets not being depreciated				
Land and improvements	$ 8,389,532	$ 9,150	$ -	$ 8,398,682
Work in progress	29,503,007	31,805,909	(287,401)	61,021,515
Total capital assets not being depreciated	37,892,539	31,815,059	(287,401)	69,420,197
Capital assets being depreciated				
Plant and improvements	10,949,231	7,510	-	10,956,741
Collection System	49,364,556	304,406	-	49,668,962
Pipeline	1,409,798	-	-	1,409,798
Vehicles	1,443,634	49,171	-	1,492,805
Equipment	3,849,786	200,177	(60,918)	3,989,045
Total capital assets being depreciated	67,017,005	561,264	(60,918)	67,517,351
Less: accumulated depreciation				
Plant and improvements	(6,326,121)	(305,777)	-	(6,631,898)
Collection System	(20,994,199)	(1,085,900)	-	(22,080,099)
Pipeline	(452,340)	(35,245)	-	(487,585)
Vehicles	(1,154,760)	(101,744)	-	(1,256,504)
Equipment	(3,298,572)	(185,368)	60,918	(3,423,022)
Total accumulated depreciation	(32,225,992)	(1,714,034)	60,918	(33,879,108)
Capital Assets, net	$ 72,683,552	$ 30,662,289	$ (287,401)	$ 103,058,440

Depreciation expense for the year ended June 30, 2011 totaled $1,798,114, and includes $84,080 in depreciation expense on investment in cattle.

NOTE 7: 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, 2011, $10,476,416 had been earned and designated for future expansion. During the year ended June 30, 2011, $3,558,004 of capacity and trunkline capacity fees were earned. At June 30, 2011, $579,109 of capacity fee amounts received are recorded as unearned revenues. These amounts will not be recognized as earned revenues until the individual homes are actually built and connected to the sewer lines.

NOTE 8: DEFINED BENEFIT PENSION PLAN

The following information conforms to the requirements of Governmental Accounting Standards Board (GASB) Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as amended by GASB Statement No. 50, Pension Disclosures:

Description of Plan

The District's defined benefit pension plan, The Miscellaneous Plan of the Ironhouse Sanitary District (the Plan), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by 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.

Funding Policy

Active plan members in the Plan are required to contribute 8 percent of their annual covered salary. The District is required to contribute at an actuarially determined rate; the current rate is 19.029% percent of annual covered payroll. The contribution requirements of plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

For the year ended June 30, 2011 the District's annual pension cost of $424,740 was equal to the District's required and actual contributions. The required contribution for fiscal year 2010/2011 was determined as part of the June 30, 2008 actuarial valuation. The significant actuarial assumptions used in the valuation of the plan are as follows:

Actuarial cost method	Entry Age
Amortization method	Level Percent of Payroll
Average remaining period	19 Years as of the Valuation Date
Asset valuation method	15 Year Smoothed Market
Actuarial assumptions:	
Investment rate of return	7.75% (net of administrative expenses)
Projected salary increases	3.55% to 14.45% depending on Age, Service, and type of employment
Inflation rate	3.00%
Payroll growth	3.25%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

NOTE 10: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

Funding Policy and Annual Pension Cost

The District's policy is to fully fund the annual required contribution, which is determined by an actuary. For the year ended June 30, 2011 the District's annual required contribution (ARC) of $167,677 was less than the District's actual contribution of 355,591. The difference was due to changes in actuarial assumptions used for the 2010/2011 ARC calculation. The required contribution for fiscal year 2010/2011 was determined as part of the June 30, 2010 actuarial valuation. The significant actuarial assumptions used in the valuation of the plan are as follows:

Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Average remaining period	30 Years as of the Valuation Date
Actuarial assumptions:	
Discount rate	7.75%
Projected salary increases	3.00%
Inflation rate	3.00%
Cap increase	Healthcare 4.00% trend

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

Fiscal Year Ending	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net Pension Option
6/30/08	329,000	329,000	100	0
6/30/09	339,000	339,000	100	0
6/30/10	426,000	426,000	100	0
6/30/11	167,677	355,591	100	187,915

Funded Status and Funding Progress

As of June 30, 2011, the plan was 65 percent funded. The actuarial accrued liability for benefits was $2,079,560, and the actuarial value of assets was $1,359,887, resulting in a UAAL of $719,673 estimated covered payroll (annual payroll of active employees covered by the plan) was $2,156,000, and the ratio of the UAAL to the covered payroll was 33 percent.

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

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

IRONHOUSE SANITARY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for CalPERS

Valuation Date	Accrued Liabilities (AL)	Actuarial Value of Assets (AVA)	Unfunded Liabilities (UL)	Funded Ratio (AVA/AL)	Annual Covered Payroll	UL As a % of Payroll/
6/30/05	872,345,612	769,556,809	142,789,803	83.6	203,995,039	70.0
6/30/06	1,280,157,040	1,069,546,974	210,610,066	83.6	304,898,179	69.1
6/30/07	1,627,025,950	1,362,059,317	264,966,633	83.7	376,292,121	70.4
6/30/08	1,823,366,479	1,529,548,799	293,817,680	83.9	414,589,514	70.9
6/30/09	2,140,438,884	1,674,260,302	446,178,582	78.2	440,071,499	105.9

Schedule of Funding Progress for the Ironhouse Sanitary District Retiree Healthcare Plan

(Rounded to the nearest thousand)

Valuation Date	Year-End Date	Accrued Liabilities (AL)	Actuarial Value of Assets (AVA)	Unfunded Liabilities (UL)	Funded Ratio (AVA/AL)	Annual Covered Payroll	UL As a % of Payroll
6/30/08	6/30/08	$2,909,000	$263,000	$2,646,000	9%	$2,178,000	121%
6/30/08	6/30/09	$3,285,000	$452,000	$2,833,000	14%	$2,285,000	130%
6/30/08	6/30/10	$3,285,000	$855,812	$2,429,188	26%	$2,203,000	110%
6/30/10	6/30/11	$2,079,560	$1,359,887	$719,673	65%	$2,156,000	33%

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Ironhouse Sanitary District
Oakley, California

We have audited the financial statements of the business-type activities of Ironhouse Sanitary District, as of and for the year ended June 30, 2011, which comprise Ironhouse Sanitary District's basic financial statements and have issued our report thereon dated October 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the State Controller's *Minimum Auditing Requirements for California Special Districts* and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Ironhouse Sanitary District in a separate letter dated October 14, 2011.

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

Mann Urrutia Nelson CPAs

Sacramento, California
October 14, 2011