



**IRONHOUSE SANITARY DISTRICT
ANNUAL FINANCIAL REPORT
WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2013**

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**IRONHOUSE SANITARY DISTRICT
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Ironhouse Sanitary District
Oakley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Ironhouse Sanitary District as of and for the year ended June 30, 2013, 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 opinions 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 opinions.

Opinions

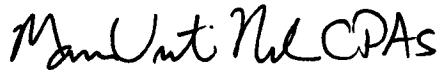
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Ironhouse Sanitary District, as of June 30, 2013, and the respective changes in financial position, and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and analysis and schedules of funding progress on pages 3–7, and 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2013, 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 Ironhouse Sanitary District's internal control over financial reporting and compliance.

Handwritten signature of Mark Untch, CPA, in black ink.

Sacramento, California
October 25, 2013

MANAGEMENT DISCUSSION AND ANALYSIS

The financial statements for the fiscal year 2013 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 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 \$10,077,717 in fiscal 2013, compared to \$8,951,370 in fiscal 2012.

The assets of the District exceeded its liabilities at June 30, 2013 by \$68,880,488 (net position) compared to \$70,555,427 at June 30, 2012.

As of the close of the current fiscal year, the District's Proprietary Fund reported Unrestricted Undesignated Net Position of \$6,240,980 compared to \$6,399,383 for the prior fiscal year, and Unrestricted Dedicated Reserves of \$2,079,902 compared to \$2,296,886 for the prior fiscal year. Restricted Net Position at June 30, 2013 were \$8,288,456 compared to \$8,586,924 at June 30, 2012.

The District's cash and cash equivalent and investment balance at June 30, 2013 was \$16,233,389, representing a decrease of \$779,017 from the June 30, 2012 balance of \$17,012,406.

The District had Operating Revenues of \$10,318,833 for fiscal 2013 versus \$9,888,056 for fiscal 2012 and Operating Expenses of \$12,207,982 for fiscal year 2013 versus \$13,910,280 for fiscal year 2012. Fiscal 2013 Operating Expenses included \$105,540 of costs related to the abandonment of the old waste treatment facility and \$2,494,185 in fiscal 2012.

There was \$601,515 in capital outlays for property, plant and equipment for the fiscal year ending June 30, 2013.

B. Using the Annual Report

Management Discussion and Analysis

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 Position, Comparative Statements of Activities and Budget Comparison.

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 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 service charges, service connection fees and capacity fees. The District's function is to provide wastewater collection, treatment 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, 2013, 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, 2013, the District's investment in Capital Assets for its Proprietary Fund was \$100,747,179 (net of accumulated depreciation). This investment in Capital Assets includes land, plant, collection system, buildings, and furniture and equipment. There was \$601,515 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, 2013, the outstanding balance of the loan is \$55,816,309. The loan incurred no interest; however, in order to borrow funds the District was required to provide 16.67% of the total loan amount. This portion of the loan is reported as prepaid interest and is amortized at an effective interest rate of 1.8%.

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

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

The following factors were considered in preparing the District's budget for Fiscal Year Ending June 30, 2013:

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, 2013**

	<u>ENTERPRISE FUND</u>		
	<u>2013</u>	<u>2012</u>	<u>Percent Change</u>
Assets:			
Current Assets	\$ 16,771,669	\$ 17,660,628	(5.0)%
Net OPEB Asset	195,556	227,797	(14.2)
Prepaid Interest	7,388,397	8,237,109	(10.3)
Investment in Cattle Operations (Net)	794,132	799,116	(0.6)
Capital Assets (Net)	<u>100,747,179</u>	<u>103,883,628</u>	<u>(3.0)</u>
Total Assets	<u>125,896,933</u>	<u>130,808,278</u>	<u>(3.8)</u>
Liabilities:			
Current Liabilities	3,935,191	4,391,969	(10.4)
Long-Term Liabilities	<u>53,081,254</u>	<u>55,860,882</u>	<u>(5.0)</u>
Total Liabilities	<u>57,016,445</u>	<u>60,252,851</u>	<u>(5.4)</u>
Net Position:			
Investment in Capital Assets, net of related debt	52,271,150	53,272,234	(1.9)
Unrestricted Net Position			
Undesignated	6,240,980	6,399,383	(2.5)
Designated Reserves	<u>2,079,902</u>	<u>2,296,886</u>	<u>(9.4)</u>
Total Unrestricted	<u>8,320,882</u>	<u>8,696,269</u>	<u>(4.3)</u>
Restricted Net Position	<u>8,288,456</u>	<u>8,586,924</u>	<u>(3.5)</u>
Total Net Position	<u>\$ 68,880,488</u>	<u>\$ 70,555,427</u>	<u>(2.4)%</u>

**IRONHOUSE SANITARY DISTRICT
COMPARATIVE STATEMENT OF ACTIVITIES
JUNE 30, 2013**

	<u>ENTERPRISE FUND</u>		
	<u>2013</u>	<u>2012</u>	<u>Percent Change</u>
Revenues:			
Service charges	\$ 8,898,197	\$ 8,454,894	5.2 %
Service connection and related fees	317,536	34,772	813.2
Capacity fees	861,984	461,704	86.7
Fees other	92,406	144,643	(36.1)
Miscellaneous	<u>148,710</u>	<u>792,043</u>	<u>(81.2)</u>
Total operating revenues	<u>10,318,833</u>	<u>9,888,056</u>	<u>4.4</u>
Expenses:			
Salaries, benefits and payroll taxes	4,313,750	4,132,641	4.4
Administrative expenses	278,214	316,553	(12.1)
Utilities	654,779	627,180	4.4
Operations and maintenance	1,403,975	1,325,285	5.9
Professional services	789,842	705,313	12.0
Insurance	145,113	87,195	66.4
Expansion related expenses	792,963	2,878,218	(72.4)
Depreciation	<u>3,829,346</u>	<u>3,837,895</u>	<u>(0.2)</u>
Total operating expenses	<u>12,207,982</u>	<u>13,910,280</u>	<u>(12.2)</u>
Operating loss	<u>(1,889,149)</u>	<u>(4,022,224)</u>	<u>(53.0)</u>
Non-operating revenues:			
Taxes	187,200	179,596	4.2
Cattle revenues	938,662	930,135	0.9
Hay sales	91,589	109,042	(16.0)
Mineral rights	15,128	20,465	(26.1)
Interest income	43,737	48,156	(9.2)
Gain (Loss) on sale/disposal of assets	14,038	(1,820,780)	(100.8)
Capital contributions	-	1,424,906	(100.0)
Total non-operating revenues	<u>1,290,354</u>	<u>891,520</u>	<u>44.7</u>
Cattle operations expense	225,125	218,917	2.8
Interest expense	<u>851,019</u>	<u>827,166</u>	<u>2.9</u>
Total non-operating expenses	<u>1,076,144</u>	<u>1,046,083</u>	<u>2.9</u>
Non-operating income (loss)	<u>214,210</u>	<u>(154,563)</u>	<u>(238.6)</u>
Change in net position	<u>\$ (1,674,939)</u>	<u>\$ (4,176,787)</u>	<u>(59.9)%</u>

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, and other saving/efficiencies, the District increased its user fees during fiscal year 2013 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. However, during fiscal year 2013 the District received a significant increase in new connections and is currently seeing a sustained level of new connections that suggests the economy is improving. Another sign the economy is moving in a positive direction is home foreclosures in the District's service area decreased in fiscal year 2013. In addition, a new home development of 537 units recently received its entitlement for development within the District and, for the first time in several years, a new development project is actively moving forward. While these positive signs are encouraging, the District will pay close attention to development trends in its service area and will budget for new development with cautious optimism. Lastly, the District collects the annual sewer use fee from existing users through the Contra Costa County tax roll which provides payment of all secured annual sewer use fees regardless of status of property ownership, which provides the vast majority of the District's annual operating revenue.

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 POSITION
JUNE 30, 2013**

ASSETS

CURRENT ASSETS

Cash and cash equivalents (Note 2)	\$ 7,944,932
Cash and cash equivalents - restricted (Note 2)	8,288,457
Accounts receivable	57,613
Related party receivable (Note 12)	105,023
Interest receivable	8,814
Supply inventory	312,288
Prepaid expenses	<u>54,542</u>

Total Current Assets 16,771,669

NON-CURRENT ASSETS

Net OPEB Asset (Note 10)	195,556
Prepaid interest (Note 6)	7,388,397
Investment in cattle (net of accumulated depreciation) (Note 3)	794,132
Land, structures and equipment (net of accumulation depreciation) (Note 4)	<u>100,747,179</u>

Total Non-Current Assets 109,125,264

TOTAL ASSETS **\$ 125,896,933**

LIABILITIES AND NET Position

CURRENT LIABILITIES

Accounts payable	327,693
Payroll related liabilities	110,605
Customer deposits payable	122,081
Compensated absences (Note 6)	182,737
Current portion of capital lease payable (Note 5)	48,116
Current portion of state revolving fund loan (Note 6)	2,937,701
Unearned revenues (Note 7)	<u>206,258</u>

Total Current Liabilities 3,935,191

LONG TERM LIABILITIES

Compensated absences (less current portion)	202,645
State revolving fund loan (Note 6)	<u>52,878,609</u>

Total Long-Term Liabilities 53,081,254

TOTAL LIABILITIES **57,016,445**

NET POSITION

Invested in capital assets, net of related debt	52,271,150
Unrestricted:	
Undesignated	6,240,978
Designated reserves	<u>2,079,903</u>
Total Unrestricted	8,320,881
Restricted (Note 13)	<u>8,288,457</u>

TOTAL NET POSITION **68,880,488**

TOTAL LIABILITIES AND NET POSITION **\$ 125,896,933**

**IRONHOUSE SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED
JUNE 30, 2013**

OPERATING REVENUES

Service charges	\$ 8,898,197
Service connection and related fees	317,536
Capacity fees (Note 7)	861,984
Fees other	92,406
Miscellaneous	<u>148,710</u>
Total Operating Revenues	<u>10,318,833</u>

OPERATING EXPENSES

Salaries, benefits and payroll taxes	4,313,750
Administration expenses	278,214
Utilities	654,779
Operations and maintenance	1,403,975
Professional services	789,842
Insurance	145,113
Expansion and related costs	792,963
Depreciation	<u>3,829,346</u>
Total Operating Expenses	<u>12,207,982</u>
Operating loss	<u>(1,889,149)</u>

NON-OPERATING REVENUES (EXPENSES)

Taxes	187,200
Cattle revenues	938,662
Hay sales	91,589
Mineral rights	15,128
Interest income	43,737
Interest expense	(851,019)
Miscellaneous revenue	14,038
Cattle operation expenses	<u>(225,125)</u>
Nonoperating revenues	<u>214,210</u>

DECREASE IN NET POSITION (1,674,939)

NET POSITION, BEGINNING OF YEAR 70,555,427

NET POSITION, END OF YEAR \$ 68,880,488

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

**IRONHOUSE SANITARY DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
JUNE 30, 2013**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 10,217,706
Cash paid to employees and for benefits and payroll taxes	(4,288,864)
Cash paid to suppliers and vendors	<u>(4,134,728)</u>
Net cash flows provided by operating activities	<u>1,794,114</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Hay sales	91,589
Proceeds from mineral rights	15,128
Taxes received	<u>187,200</u>
Net cash flows provided by noncapital financing activities	<u>293,917</u>

CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(601,515)
Scrap metal sales	14,038
Sale of cattle	999,643
Acquisition of cattle	(60,250)
Cattle operations expenses	(309,477)
Principal payments on state revolving fund loan	(2,054,925)
Interest payments on state revolving fund loan	(880,468)
Principal payments on capital lease	(46,377)
OPEB Contribution	<u>32,241</u>
Net cash flows used in capital and related financing activities	<u>(2,907,090)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received on investment	<u>40,042</u>
Net cash provided by investing activities	<u>40,042</u>

NET DECREASE IN CASH (779,017)

CASH AND CASH EQUIVALENTS - JULY 1, 2012 17,012,406

CASH AND CASH EQUIVALENTS - JUNE 30, 2013 \$ 16,233,389

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, 2013**

OPERATING LOSS **\$ (1,889,149)**

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

Depreciation expense	3,829,346
Decrease in accounts receivable	144,912
Increase in prepaid expenses	(1,794)
Increase in supply inventory	(36,871)
Decrease in accounts payable	(31,177)
Decrease in accrued liabilities	(286)
Increase in compensated absences	25,172
Increase in deposits payable	210,373
Decrease in unearned revenue	<u>(456,412)</u>

Total adjustments	<u>3,683,263</u>
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NET CASH PROVIDED BY OPERATING ACTIVITIES **\$ 1,794,114**

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

**IRONHOUSE SANITARY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Funding Progress for CalPERS

<u>Valuation Date</u>	<u>Accrued Liabilities (AL)</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Unfunded Liabilities (UL)</u>	<u>Funded Ratio (AVA/AL)</u>	<u>Annual Covered Payroll</u>	<u>UL As a % of Payroll/</u>
6/30/06	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
6/30/10	2,297,871,345	1,815,671,616	485,199,729	79.0	434,023,381	111.1

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

<u>Valuation Date</u>	<u>Year-End Date</u>	<u>Accrued Liabilities (AL)</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Unfunded Liabilities (UL)</u>	<u>Funded Ratio (AVA/AL)</u>	<u>Annual Covered Payroll</u>	<u>UL As a % of Payroll</u>
6/30/08	6/30/08	\$2,909,000	\$263,000	\$2,646,000	9%	\$2,178,000	121%
6/30/08	6/30/09	\$3,285,000	\$452,000	\$2,833,000	14%	\$2,285,000	130%
6/30/08	6/30/10	\$3,285,000	\$855,812	\$2,429,188	26%	\$2,203,000	110%
6/30/10	6/30/11	\$2,079,560	\$1,359,887	\$719,673	65%	\$2,156,000	33%
6/30/10	6/30/12	\$2,079,560	\$1,452,801	\$626,759	70%	\$2,156,000	29%
6/30/11	6/30/13	\$2,246,806	\$1,621,508	\$625,298	72%	\$2,523,000	25%

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

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.

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 not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

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.

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Supply Inventory

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

Fixed Assets

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

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

Cattle Operations

During the fiscal year ended June 30, 1997, the district acquired several herds of cattle. These cattle were purchased primarily to maintain the grass levels of the Jersey Island land owned by the District. It is the District's intent to continue raising and selling these cattle. In accordance with SOP-85-3 *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.

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.

Implementation of Government Accounting Standards Board Statements

Effective July 1, 2012, the District implemented the following accounting and financial reporting standards:

Government Accounting Standards Board Statement No. 62

In December 2010, GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989 FASB and AICPA Pronouncements. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in certain pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government Accounting Standards Board Statement No. 63

In June 2011, GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The requirements of this Statement improves financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position.

Future Government Accounting Standards Board Statements

Government Accounting Standards Board Statement No. 65

In March 2012, GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. 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, 2014.

Government Accounting Standards Board Statement No. 66

In March 2012, GASB issued Statement No. 66, Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989 FASB and AICPA Pronouncements. Application of this statement is effective for the District's fiscal year ending June 30, 2014.

Government Accounting Standards Board Statement No. 67

In June 2012, GASB issued Statement No. 67, Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. 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, 2014.

Government Accounting Standards Board Statement No. 68

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. 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, 2015.

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2: CASH AND CASH EQUIVALENTS

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

	<u>June 30, 2013</u>
Cash and cash equivalents	\$ 7,944,932
Restricted cash and cash equivalents	<u>8,288,457</u>
Total	<u>\$ 16,233,389</u>

The restricted cash balance is restricted for the current portion of the State Revolving Fund Loan, plant expansion and trunkline capacity. The restricted cash is also presented as restricted net position in the statement of net position.

The components of the District's cash and cash equivalents at June 30, 2013 are as follows:

	<u>June 30, 2013</u>
Cash on hand	\$ 100
Deposits with financial institutions	1,576,568
Local Agency Investment Fund	<u>14,656,721</u>
Total	<u>\$ 16,233,389</u>

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2: CASH AND INVESTMENTS (continued)

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, 2013, 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, 2013, 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, 2013 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.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counter-party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The California Government Code and the District's investments policy do not contain legal or policy requirements that would limit the exposure of custodial risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state and local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must be equal to at least 100% of the total amount deposited by public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The Government Code requires California banks and savings and loan associations to secure the District's bank balances not covered by federal deposit insurance. The banks must fully collateralize all bank balances by pledging mortgages or government securities as collateral. The market value of the mortgages must equal at least 150% and the market value of the government securities must equal at least 110% of the face value of the deposits. Such collateral must be held in the pledging bank's trust department or in a separate depository in an account for the District.

The District's investments are carried at fair value, as required by generally accepted accounting principles. Fair value equals fair market value, since all of the District's investments are readily marketable.

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2: CASH AND INVESTMENTS (continued)

As of June 30, 2013, the deposits with financial institutions, in excess of the federal depository insurance limits, were collateralized as required by law. As of June 30, 2013, the carrying amount of the District's bank deposits totaled \$1,576,568 and the bank balances totaled \$1,299,954. The differences between the carrying amounts and the bank totals are due to the normal deposits in transit and outstanding checks.

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.

NOTE 3: INVESTMENT IN CATTLE

The following is a summary of the changes in investment in cattle for the year ended June 30, 2013:

Investment in cattle at July 1, 2012	\$ 959,910
Activities of cattle operations, for the fiscal year ended June 30, 2013:	
Purchases of cattle	60,250
Additional capital expenditures	309,477
Cost basis for cattle sold	<u>(371,009)</u>
Investment in cattle at June 30, 2013	<u>958,628</u>
Accumulated depreciation on investment in cattle at June 30, 2013	<u>(164,496)</u>
Net investment in cattle at June 30, 2013	<u>\$ 794,132</u>

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 is as follows:

	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2013</u>
Capital assets not being depreciated				
Land and improvements	\$ 8,467,524	\$ -	\$ -	\$ 8,467,524
Work in progress	<u>307,933</u>	<u>-</u>	<u>-</u>	<u>307,933</u>
Total capital assets not depreciated	<u>8,775,457</u>	<u>-</u>	<u>-</u>	<u>8,775,457</u>
Capital assets being depreciated				
Plant and improvements	51,971,260	422,752	-	52,394,012
Collection system and pipelines	54,406,582	21,652	-	54,428,234
Vehicles	1,515,238	-	-	1,515,238
Equipment	<u>20,998,235</u>	<u>157,111</u>	<u>-</u>	<u>21,155,346</u>
Total capital assets being depreciated	<u>128,891,315</u>	<u>601,515</u>	<u>-</u>	<u>129,492,830</u>
Less: accumulated depreciation				
Plant and improvements	(3,131,095)	(1,312,121)	-	(4,443,216)
Collection system and pipelines	(25,050,248)	(1,202,602)	-	(26,252,850)
Vehicles	(1,341,047)	(66,779)	-	(1,407,826)
Equipment	<u>(4,260,754)</u>	<u>(1,156,462)</u>	<u>-</u>	<u>(5,417,216)</u>
Total accumulated depreciation	<u>(33,783,144)</u>	<u>(3,737,964)</u>	<u>-</u>	<u>(37,521,108)</u>
Capital Assets, net	<u>\$ 103,883,628</u>	<u>\$ (3,136,449)</u>	<u>\$ -</u>	<u>\$ 100,747,179</u>

Certain capital assets were re-categorized in the July 1, 2012 balance to accurately reflect their asset type. Depreciation expense for the year ended June 30, 2013 totaled \$3,829,346, and includes \$91,382 in depreciation expense on investment in cattle.

The District's old Waste Water Treatment Plant was de-commissioned as a result of placing in service a new Waste Water Treatment Plant in July of 2011. The District incurred an impairment loss of \$1,855,181 which was reported in the statement of revenues, expenses and changes in net position as a non-operating expense, net of \$34,401 in proceeds from disposal of other capital assets for the year ended June 30, 2012. The District incurred abandonment costs of \$105,540 associated with this disposal for the year ended June 30, 2013.

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5: CAPITAL LEASE

The District has entered into a lease agreement as lessee for financing the acquisition of equipment. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The asset acquired through the capital lease is as follows:

Equipment	\$ 223,806
Less: Accumulated depreciation	<u>(201,426)</u>
Total	<u>\$ 22,380</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2013, were as follows:

2014	<u>49,921</u>
Total minimum lease payments	49,921
Less: amount representing interest	<u>(1,805)</u>
Present value of minimum lease payments	<u>\$ 48,116</u>

Amortization of equipment under capital assets is included with depreciation expense.

NOTE 6: LONG-TERM LIABILITIES

A summary of long-term liability activity for the year ended June 30, 2013 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
State Revolving Fund Loan	\$ 58,754,010	\$ -	\$ (2,937,700)	\$ 55,816,310	\$ 2,937,701
Capital Lease (Note 5)	98,036	-	(49,920)	48,116	48,116
Compensated Absences	<u>360,210</u>	<u>197,201</u>	<u>(172,028)</u>	<u>385,383</u>	<u>182,737</u>
Total	<u>\$ 59,212,256</u>	<u>\$ 197,201</u>	<u>\$ (3,159,648)</u>	<u>\$ 56,249,809</u>	<u>\$ 3,168,554</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 will be repaid 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%.

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6: LONG-TERM LIABILITIES (continued)

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

<u>For the Year Ending, June 30</u>	<u>Principal</u>	<u>Total Payments</u>	<u>Interest Expense</u>
2014	\$ 2,937,701	\$ 2,937,701	\$ 745,261
2015	2,937,701	2,937,701	706,037
2016	2,937,701	2,937,701	666,813
2017	2,937,701	2,937,701	627,589
2018	2,937,701	2,937,701	588,364
2019 - 2023	14,688,505	14,688,505	2,353,457
2024 - 2028	14,688,505	14,688,505	1,372,850
2029 - 2033	<u>11,750,795</u>	<u>11,750,795</u>	<u>328,026</u>
Total	<u>\$ 55,816,310</u>	<u>\$ 55,816,310</u>	<u>\$ 7,388,397</u>

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, 2013, \$5,350,756 had been earned and designated for future expansion. During the year ended June 30, 2013, \$861,984 of capacity and trunkline capacity fees were earned. At June 30, 2013, \$206,258 of capacity fee amounts received are recorded as unearned revenues. These amounts will not be recognized as earned revenues until the individual homes are 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 21.793% 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.

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 8: DEFINED BENEFIT PENSION PLAN (continued)

Annual Pension Cost

For the year ended June 30, 2013 the District's annual pension cost of \$529,750 was equal to the District's required and actual contributions. The required contribution for fiscal year 2012/2013 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
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%

Three-Year Trend Information for The Miscellaneous Plan of the Ironhouse Sanitary District

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/11	424,740	100	0
6/30/12	506,886	100	0
6/30/13	529,750	100	0

Funded Status and Funding Progress

The District is required by CalPERS to participate in a risk pool. The following information represents the entire pool, not just the District. As of June 30, 2010, the most recent actuarial valuation date, the plan was 62.6 percent funded. The actuarial accrued liability for benefits was \$2,297,871,345, and the actuarial value of assets was \$1,438,018,113, resulting in a UAAL of \$859,853,232. The covered payroll (annual payroll of active employees covered by the plan) was \$434,023,381, and the ratio of the UAAL to the covered payroll was 50.5 percent.

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.

NOTE 9: 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 Hartford Life 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 Hartford Life, is not available to participants until termination, retirement, death or unforeseeable emergency. During the past year, the employees contributed \$63,433.

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 10: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Description of Plan

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

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

Funding Policy and Annual Pension Cost

The District's policy is to fully fund the annual required contribution, which is determined by an actuary. For the year ended June 30, 2013 the District's annual required contribution (ARC) of \$164,665 was more than the District's actual contribution of \$132,424. The difference was due to changes in actuarial assumptions used for the 2011/2012 ARC calculation. The required contribution for fiscal year 2012/2013 was determined as part of the June 30, 2011 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	7.6%
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 OPEB Asset
6/30/11	167,677	355,591	212%	187,915
6/30/12	167,677	207,559	124%	227,797
6/30/13	164,655	132,424	80%	195,556

Funded Status and Funding Progress

As of June 30, 2013, the plan was 72 percent funded. The actuarial accrued liability for benefits was \$2,246,806, and the market value of assets was \$1,621,508, resulting in an unfunded liability of \$625,298. Estimated covered payroll (annual payroll of active employees covered by the plan) was \$2,523,000, and the ratio of the unfunded liability to the covered payroll was 25 percent.

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

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

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.

NOTE 11: 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, 2013, the District made \$236,919 in insurance premium payments to CSRMA.

Condensed audited financial information for the year ended June 30, 2012 (the most recent available) was as follows:

Total assets	\$ 30,047,691
Total liabilities	<u>17,709,465</u>
Total net position	\$ <u>12,338,226</u>
Total revenues	\$ 8,879,110
Total expenses	<u>12,460,997</u>
Decrease in net position	\$ <u>(3,581,887)</u>

Complete financial statements for CSRMA can be obtained from the CSRMA, care of Alliant Insurance Services, Inc., 600 Montgomery Street, 9th floor, San Francisco, California, 94111.

NOTE 12: RELATED PARTY

The General Manager, O&M Superintendent, and the District Engineer of the District are also the President, Secretary, and Treasurer, respectively, of Reclamation District No. 830 (RD830). RD830 was established to maintain the integrity of the levee system on Jersey Island. During the year ended June 30, 2013 the district paid \$338,370 in assessments to RD830. In addition, RD830 reimbursed the District in the amount of \$42,423 for levee repairs performed by Ironhouse employees and for the use of its equipment. 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
JUNE 30, 2013**

NOTE 13: NET POSITION

As of June 30, 2013, net position of the District consisted of the following:

Invested in capital assets, net of related debt	\$ 52,271,150
Unrestricted:	
Undesignated	6,240,978
Designated reserve for replacement	2,039,763
Designated reserve for Jersey Island use fees	<u>40,140</u>
Total Unrestricted	<u>8,320,881</u>
Restricted	
Debt service	2,937,701
Expansion	2,531,713
Trunkline capacity	<u>2,819,043</u>
Total Restricted	<u>8,288,457</u>
Total Net Position	\$ <u>68,880,488</u>



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

**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, in accordance with the 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, the financial statements of the business-type activities of Ironhouse Sanitary District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Ironhouse Sanitary District's basic financial statements, and have issued our report thereon dated October 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ironhouse Sanitary District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ironhouse Sanitary District's internal control. Accordingly, we do not express an opinion on the effectiveness of Ironhouse Sanitary District's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ironhouse Sanitary District's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Mark A. Nadel".

Sacramento, California
October 25, 2013