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

June 30, 2010

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

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ROSEVILLE OFFICE

2901 Douglas Boulevard, Suite 290
Roseville, CA 95661
TEL 916 774-4208
FAX 916 774-4230

MANN
URRUTIA
NELSON
CPAs
&
ASSOCIATES
LLP

SACRAMENTO OFFICE

2515 Venture Oaks Way, Suite 135
Sacramento, CA 95833
TEL 916 929-0540
FAX 916 929-0541

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, 2010, 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, 2010, 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 September 24, 2010, 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.

The management's discussion and analysis on pages 2-7, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Mann Urrutia Nelson CPAs

Sacramento, California
September 24, 2010

IRONHOUSE SANITARY DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

ASSETS

CURRENT ASSETS	
Cash and cash equivalents (Note 2)	$ 21,714,945
Cash and cash equivalents - restricted (Note 2)	767,793
Accounts receivable	1,389,902
Interest receivable	30,368
Supply inventory	185,257
Prepaid expenses	61,209
Total Current Assets	24,149,474
NON-CURRENT ASSETS	
Prepaid interest (Note 6)	4,214,002
Investment in cattle (net of accumulated depreciation) (Note 3)	717,633
Land, structures and equipment (net of accumulation depreciation) (Note 4)	72,683,552
Total Non-Current Assets	77,615,187
TOTAL ASSETS	$ 101,764,661

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	2,286,228
Payroll related liabilities	103,764
Customer deposits payable	543,893
Current portion of compensated absences	282,134
Current portion of capital lease payable (Note 5)	49,920
Unearned revenues (Note 8)	634,640
Total Current Liabilities	3,900,579
LONG TERM LIABILITIES	
Compensated absences (less current portion)	33,245
Capital lease payable (Note 5)	132,359
State revolving fund loan (Note 6)	25,750,901
Total Long-Term Liabilities	25,916,505
TOTAL LIABILITIES	29,817,084
NET ASSETS	
Invested in capital assets, net of related debt	51,014,294
Restricted for future expansion and trunkline capacity (Note 8)	13,852,689
Restricted for plant maintenance	58,392
Restricted for expenses related to franchise agreement (Note 13)	223,900
Unrestricted	6,798,302
TOTAL NET ASSETS	71,947,577
TOTAL LIABILITIES AND NET ASSETS	$ 101,764,661

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, 2010

OPERATING REVENUES	
Service charges	$ 5,757,155
Fees	135,520
Mineral rights	168,117
Miscellaneous	446,621
Total Operating Revenues	6,507,413
OPERATING EXPENSES	
Salaries and payroll taxes	2,731,924
Administration expenses	233,554
Utilities	485,134
Maintenance expenses	1,183,435
Professional services	392,144
Insurance	719,126
Retirement	558,120
Depreciation	1,779,263
Total Operating Expenses	8,082,700
Operating loss	(1,575,287)
NON-OPERATING REVENUES (EXPENSES)	
Taxes	174,097
Capacity fees (Note 8)	3,186,771
Cattle revenues	692,099
Interest income	142,355
Interest expense	(121,900)
Gain on sale of assets	23,703
Cattle operation expenses	(189,618)
Expansion and replacement costs	(157,753)
Nonoperating revenues (expenses)	3,749,754
INCOME BEFORE CONTRIBUTIONS	2,174,467
Capital contributions	429,229
INCREASE IN NET ASSETS	2,603,696
NET ASSETS, BEGINNING OF YEAR	69,343,881
NET ASSETS, END OF YEAR	$ 71,947,577

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

IRONHOUSE SANITARY DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 5,564,755
Cash paid to employees and for payroll taxes	(3,256,977)
Cash paid to suppliers and vendors	(2,712,053)
Net cash flows used in operating activities	(404,275)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Taxes received	174,097
Net cash flows provided by noncapital financing activities	174,097
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(22,341,895)
Proceeds on the disposition of assets	23,703
Sale of cattle	922,159
Acquisition of cattle	(20,970)
Cattle operations expenses	(494,061)
Proceeds from state revolving fund loan	18,415,627
Principal payments on capital lease	(41,527)
Expansion and replacement costs	(157,753)
Capacity fees collected	3,016,211
Net cash flows used in capital and related financing activities	(678,506)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received on investment	192,095
Net cash provided by investing activities	192,095
NET DECREASE IN CASH	(716,589)
CASH AND CASH EQUIVALENTS - JULY 1, 2009 (including $587,757 reported as restricted)	23,199,327
CASH AND CASH EQUIVALENTS - JUNE 30, 2010 (including $767,793 reported as restricted)	$ 22,482,738
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	
Developer contributions	$ 429,229

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, 2010

OPERATING LOSS	$ (1,575,287)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	1,779,263
Increase in accounts receivable	(1,114,063)
Increase in prepaid expenses	(13,591)
Decrease in supply inventory	(3,320)
Increase in accounts payable	318,251
Increase in accrued liabilities	4,865
Increase in compensated absences	28,202
Increase in deposits payable	171,405
Total adjustments	1,171,012
NET CASH USED IN OPERATING ACTIVITIES	$ (404,275)

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

IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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.

NOTE1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Supply Inventory

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

Fixed Assets

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

Plant and conveyance system - 40 years
Vehicles, furniture and equipment - 5 to 10 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.

NOTE 2: CASH AND CASH EQUIVALENTS

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

	June 30, 2010
Cash and cash equivalents	$ 21,714,945
Restricted cash and cash equivalents	767,793
Total	$ 22,482,738

The components of the District's cash and cash equivalents at June 30, 2010 are as follows:

	June 30, 2010
Cash on hand	$ 100
Deposits with financial institutions	1,314,079
Local Agency Investment Fund	21,168,559
Total	$ 22,482,738

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, 2010, 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, 2010, 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, 2010 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 2: CASH AND INVESTMENTS (continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depositary 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.

As of June 30, 2010, the deposits with financial institutions, in excess of the federal depository insurance limits, were collateralized as required by law. As of June 30, 2010, the carrying amount of the District's bank deposits totaled $1,314,079 and the bank balances totaled $1,337,463. The differences between the carrying amounts and the bank totals are due to the normal deposits in transit and outstanding checks. Of the June 30, 2010 bank balances, $192,407 was covered by federal depository insurances.

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, 2010:

Investment in cattle at July 1, 2009	$ 896,890
Activities of cattle operations, for the fiscal year ended June 30, 2010:	
Purchases of cattle	20,970
Additional capital expenditures	304,443
Cost basis for cattle sold	(322,507)
Investment in cattle at June 30, 2010	899,796
Accumulated depreciation on investment in cattle at June 30, 2010	(182,163)
Net investment in cattle at June 30, 2010	$ 717,633

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 is as follows:

	July 1, 2009	Additions	Deletions	June 30, 2010
Capital assets not being depreciated				
Land and improvements	$ 8,389,532	$ -	$ -	$ 8,389,532
Work in progress	7,741,110	21,761,897	-	29,503,007
Total capital assets not being depreciated	16,130,642	21,761,897	-	37,892,539
Capital assets being depreciated				
Plant and improvements	10,801,049	148,182	-	10,949,231
Collection System	48,914,599	449,957	-	49,364,556
Pipeline	1,409,798	-	-	1,409,798
Vehicles	1,273,847	197,592	(27,805)	1,443,634
Equipment	3,779,698	213,496	(143,408)	3,849,786
Total capital assets being depreciated	66,178,991	1,009,227	(171,213)	67,017,005
Less: accumulated depreciation				
Plant and improvements	(6,033,692)	(292,429)	-	(6,326,121)
Collection System	(19,921,133)	(1,073,066)	-	(20,994,199)
Pipeline	(417,096)	(35,244)	-	(452,340)
Vehicles	(1,084,073)	(98,492)	27,805	(1,154,760)
Equipment	(3,241,807)	(200,173)	143,408	(3,298,572)
Total accumulated depreciation	(30,697,801)	(1,699,404)	171,213	(32,225,992)
Capital Assets, net	$ 51,611,832	$ 21,071,720	$ -	$ 72,683,552

Depreciation expense for the year ended June 30, 2010 totaled $1,779,263, and includes $79,859 in depreciation expense on investment in cattle.

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	(44,762)
Total	$ 179,044

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010, were as follows:

2011	49,920
2012	49,920
2013	49,920
2014	49,921
Total minimum lease payments	199,681
Less: amount representing interest	(17,403)
Present value of minimum lease payments	$ 182,278

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

NOTE 6: LONG-TERM LIABILITIES

A summary of long-term liability activity for the year ended June 20, 2010 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
State Revolving Fund Loan	$ 3,559,261	$ 22,151,640	$ -	$ 25,710,901	$ -
Capital Lease (Note 5)	223,806	-	(41,527)	182,279	49,920
Compensated Absences	287,177	203,149	(174,947)	315,379	282,134
Total	$ 4,070,244	$ 22,354,789	$ (216,474)	$ 26,208,559	$ 332,054

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 estimated cost for the Project is $62,400,000. The loan is disbursed as costs are incurred. Repayment of the loan will be repaid in annual installments commencing one year after the completion of the project (estimated to be October 2011). 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 is 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 Assets as prepaid interest. Interest expense is amortized over the life of the loan at an effective interest rate of 1.8%.

NOTE 7: COMMITMENTS

Engineering and construction contracts relating to the construction of the Wastewater Treatment Plan Upgrade and Expansion Project aggregated approximately $54,455,000. These contracts will be paid in future periods as work is performed. Payment will be made with proceeds from the State Revolving Fund Loan.

NOTE 8: 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, 2010, $13,852,689 had been earned and designated for future expansion. During the year ended June 30, 2010, $3,186,771 of capacity and trunkline capacity fees were earned. At June 30, 2010, $634,640 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 9: 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 19.209% 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, 2010 the District's annual pension cost of $402,373 was equal to the District's required and actual contributions. The required contribution for fiscal year 2008/2009 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	17 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	3.25% 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 9: DEFINED BENEFIT PENSION PLAN (continued)

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
6/30/08	336,827	100	0
6/30/09	381,739	100	0
6/30/10	402,373	100	0

Funded Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date, the plan was 83.9 percent funded. The actuarial accrued liability for benefits was $1,823,366,479, and the actuarial value of assets was $1,529,548,799, resulting in a UAAL of $293,817,680. The covered payroll (annual payroll of active employees covered by the plan) was $414,589,514, and the ratio of the UAAL to the covered payroll was 70.9 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 10: 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 $99,275.

NOTE 11: 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.

NOTE 11: 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, 2010 the District's annual required contribution of $426,000 was equal to the District's actual contributions. The required contribution for fiscal year 2009/2010 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 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	3.25%
Inflation rate	3.00%
Cap increase	Healthcare 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 Obligation
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

Funded Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date, the plan was 9 percent funded. The actuarial accrued liability for benefits was $2,909,000, and the actuarial value of assets was $263,000, resulting in a UAAL of $2,646,000. The covered payroll (annual payroll of active employees covered by the plan) was $2,178,000, and the ratio of the UAAL to the covered payroll was 121 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.

NOTE 12: 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, 2010, the District made $166,504 in insurance premium payments to CSRMA.

Condensed audited financial information for the year ended June 30, 2009 was as follows:

Total assets	$ 29,209,229
Total liabilities	14,730,899
Total net assets	$ 14,478,330
Total revenues	$ 11,002,376
Total expenses	7,809,040
Increase in net assets	$ 3,193,336

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 13: FRANCHISE AGREEMENT

The District has a franchise agreement with Oakley Disposal Service, Inc. (ODS), which grants ODS the exclusive contract right, franchise and privilege to collect all refuse generated from residences and commercial facilities within the geographic area inside Ironhouse borders. ODS pays the District 5% of all revenue collected from this activity. Contra Costa County (the County) administers certain programs on behalf of the District in compliance with the California Waste Management Act of 1989 for which the district has agreed to pay the County 40% of the 5% franchise fee from ODS. In addition, 20% of the 5% franchise fee is to be used only for solid waste matters and is to be held by the District in a "1% fund." This amount has been restricted in the statement of net assets and is reported as "Restricted for expenses related to franchise agreement." The City of Oakley assumed the Franchise Agreement for the area including the City limits on Feb. 1, 2010. The District retains the Agreement for the unincorporated area within the ISD boundaries.

NOTE 14: RELATED PARTY

The General Manager, O&M Superintendent, and the Administrative Services Manger 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, 2010 the district paid $320,102 in assessments to RD830. In addition, RD830 reimbursed the District in the amount of $244,335 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
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

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%

ROSEVILLE OFFICE

2901 Douglas Boulevard, Suite 290
Roseville, CA 95661
TEL 916 774-4208
FAX 916 774-4230

MANN URRUTIA NELSON CPAs & ASSOCIATES LLP

SACRAMENTO OFFICE

2515 Venture Oaks Way, Suite 135
Sacramento, CA 95833
TEL 916 929-0540
FAX 916 929-0541

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, 2010, which comprise Ironhouse Sanitary District's basic financial statements and have issued our report thereon dated September 24, 2010. 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 September 24, 2010.

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
September 24, 2010