



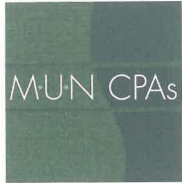
**IRONHOUSE SANITARY DISTRICT
ANNUAL FINANCIAL REPORT
WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2016**

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**IRONHOUSE SANITARY DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016**

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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 the Ironhouse Sanitary District as of and for the year ended June 30, 2016, 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. 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.

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, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules related to the District's Net Pension Liability, and the Schedule of Funding Progress on pages 3 - 7, 31 - 32, and 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2016, on our consideration of the Ironhouse Sanitary District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Ironhouse Sanitary District's internal control over financial reporting and compliance.

Sacramento, California
October 20, 2016

MANAGEMENT DISCUSSION AND ANALYSIS

The financial statements for the fiscal year 2016 are being issued in the format prescribed by the provisions of Government Accounting Standards Board Statement 34 (GASB 34), which requires the District to provide this overview of its financial statements for the fiscal year. Please read it in conjunction with the Basic Financial Statements.

The Ironhouse Sanitary District (the District) provides wastewater collection, treatment and disposal services and recycled water to individuals and businesses within the City of Oakley, Bethel Island, and from other unincorporated areas within the District's service boundary. The District's primary source of funding is from service charges, service connection fees and capacity fees from users of the services provided by the District.

The following management discussion and analysis (MD&A) will discuss the results of the District's operations. Key financial information for the current fiscal year will be compared with those of the prior year.

A. District Financial Highlights

The primary revenue resources of the District are service charges, service connection fees and capacity fees from users of the services provided by the District which totaled \$11,470,674 in fiscal 2016, compared to \$11,045,812 in fiscal 2015.

The assets of the District exceeded its liabilities at June 30, 2016 by \$69,743,442 (net position) compared to \$67,720,207 at June 30, 2015.

As of the close of the current fiscal year, the District's Proprietary Fund reported Unrestricted Undesignated Net Position of \$3,640,262 compared to \$3,397,492 for the prior fiscal year, and Unrestricted Dedicated Reserves of \$8,666,509 compared to \$6,188,281 for the prior fiscal year. Restricted Net Position at June 30, 2016 is \$6,468,038 compared to \$6,845,388 at June 30, 2015.

The District's cash, cash equivalents, and investments at June 30, 2016 were \$20,082,136 representing an increase of \$1,942,704 from the June 30, 2015 balance of \$18,139,432.

The District had Operating Revenues of \$12,089,961 for fiscal 2016 versus \$12,134,396 for fiscal 2015 and Operating Expenses of \$10,983,836 for fiscal year 2016 versus \$11,657,597 for fiscal year 2015.

There was \$1,093,082 in capital outlays for land improvements, water recycling plant, collection system, buildings, vehicles, and furniture and equipment for the fiscal year ending June 30, 2016 compared to \$851,302 in 2015.

B. Using the Annual Report

Management Discussion and Analysis

Management's Discussion and Analysis are intended to serve as an introduction to the District's basic financial statements. The financial statements and notes to the financial statements included in this report were prepared in accordance with GAAP applicable to governmental entities in the United States of America for Proprietary Fund types.

Government-Wide Financial Statements

The government wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business. They consist of Comparative Statements of Net Position and Comparative Statement of Revenues, Expenses and Changes in Net Position.

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

Comparative Statements of Revenues, Expenses and Changes in Net Position present information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., depreciation and earned but unused vacation leave). In other cases, cash received in the current year will not be reflected as revenues until the event for which the revenues are earned has occurred (e.g. capacity fees for units to be added to the system in future periods).

The government wide financial statements report on the District's activities. As previously stated, the activities are primarily supported by service charges, service connection fees and capacity fees. The District's function is to provide wastewater collection, treatment and disposal services, and recycled water to users within the District's area of operations. The financial statements can be found after this management discussion and analysis.

Notes to Financial Statements

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the general purpose financial statements. The Notes to Financial Statements can be found in this report after the basic financial statements.

C. Budgetary Highlights

For the fiscal year ended June 30, 2016, 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, 2016, the District's investment in Capital Assets for its Proprietary Fund was \$92,763,626 (net of accumulated depreciation). This investment in Capital Assets includes land, plant, collection system, buildings, vehicles, furniture and equipment. There was \$1,093,082 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, 2016, the outstanding balance of the loan is \$47,003,208. 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, 2016:

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, 2016**

	<u>ENTERPRISE FUND</u>		Percent Change
	<u>2016</u>	<u>2015</u>	
Assets:			
Current Assets	\$ 21,033,436	\$ 19,385,786	8.5 %
Receivables Long-Term	18,982	18,982	-
Net OPEB Asset	195,556	195,556	-
Prepaid Interest	5,208,215	5,859,242	(11.1)
Investment in Cattle Operations (Net)	948,204	856,912	10.7
Capital Assets (Net)	<u>92,763,626</u>	<u>95,360,713</u>	<u>(2.7)</u>
Total Assets	<u>120,168,019</u>	<u>121,677,191</u>	<u>(1.2)</u>
Deferred Outflow of Resources:	1,370,134	752,813	82.0
Liabilities:			
Current Liabilities	3,810,716	4,114,223	(7.4)
Long-Term Liabilities	<u>47,476,037</u>	<u>49,778,837</u>	<u>(4.6)</u>
Total Liabilities	<u>51,286,753</u>	<u>53,893,060</u>	<u>(4.8)</u>
Deferred Inflow of Resources	507,958	816,737	(37.8)
Net Position:			
Investment in Capital Assets, net of related debt	50,968,633	51,279,046	(0.6)
Unrestricted Net Position			
Undesignated	3,640,262	3,397,492	7.1
Designated Reserves	<u>8,666,509</u>	<u>6,188,281</u>	<u>40.0</u>
Total Unrestricted	12,306,771	9,595,773	28.3
Restricted Net Position	<u>6,468,038</u>	<u>6,845,388</u>	<u>(5.5)</u>
Total Net Position*	<u>\$ 69,743,442</u>	<u>\$ 67,720,207</u>	<u>3.0 %</u>

*The Beginning Net Position for fiscal year 2015 has been adjusted as a result of implementation of GASB 68. For further information see Note 7 in the notes to the financial statement.

**IRONHOUSE SANITARY DISTRICT
COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
June 30, 2016**

	<u>ENTERPRISE FUND</u>		Percent Change
	<u>2016</u>	<u>2015</u>	
Revenues:			
Service charges	\$ 9,914,974	\$ 9,384,874	5.6 %
Service connection and related fees	327,085	476,258	(31.3)
Capacity fees	1,228,615	1,184,681	3.7
Fees other	42,876	54,036	(20.7)
Miscellaneous	<u>576,411</u>	<u>1,034,548</u>	<u>(44.3)</u>
Total operating revenues	<u>12,089,961</u>	<u>12,134,396</u>	<u>(0.4)</u>
Expenses:			
Salaries, benefits and payroll taxes	3,900,016	4,357,511	(10.5)
Administrative expenses	397,950	337,145	18.0
Utilities	666,332	665,074	0.2
Operations and maintenance	1,448,378	1,309,133	10.6
Professional services	648,832	697,688	(7.0)
Insurance	127,975	134,696	(5.0)
Expansion related expenses	-	374,909	(100.0)
Depreciation	<u>3,794,353</u>	<u>3,781,441</u>	<u>0.3</u>
Total operating expenses	<u>10,983,836</u>	<u>11,657,591</u>	<u>(5.8)</u>
Operating income	<u>1,106,125</u>	<u>476,805</u>	<u>132.0</u>
Non-operating revenues:			
Taxes	244,029	239,552	1.9
Cattle revenues	1,288,036	1,618,551	(20.4)
Hay sales	25,700	76,642	(66.5)
Mineral rights	5,686	6,911	(17.7)
Investment income	124,155	36,582	239.4
Gain on sale/disposal of assets	<u>8,000</u>	<u>8,267</u>	<u>(3.2)</u>
Total non-operating revenues	<u>1,695,606</u>	<u>1,986,505</u>	<u>(14.6)</u>
Cattle operations expense	127,469	176,468	(27.8)
Interest expense	<u>651,027</u>	<u>689,323</u>	<u>(5.6)</u>
Total non-operating expenses	<u>778,496</u>	<u>865,791</u>	<u>(10.1)</u>
Non-operating income	<u>917,110</u>	<u>1,120,714</u>	<u>(18.2)</u>
Change in net position	<u>\$ 2,023,235</u>	<u>\$ 1,597,514</u>	<u>26.6 %</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 and included a 5-year rate increase to a maximum of \$680 per equivalent service unit. Due to the treatment plant construction costs being lower than anticipated and cost reduction measures implemented District wide, the District has increased its various connection and user fees at a lower rate than the estimated schedule of rate increases included in the Proposition 218 notice. Any future rate increases are expected to increase revenues, provide for investment in capital asset projects, fund other post-employment benefits, maintain competitive salaries and benefits and provide for increasing operating costs resulting from inflation.

In addition, although the local economy is experiencing low to moderate growth, new development has not recovered to the rate prior to the 2008 severe downturn in the economy. As a result, new connections have not materialized at the rate expected when the Proposition 218 process was completed in 2007. As a result, there are fewer connections than had been estimated; therefore, annual service charge revenue is less than previously anticipated. With that said, through sound fiscal and operational management, the District has been able to meet its annual debt service obligation of \$2,937,701 with the California State Water Resource Control Board while maintaining rates below the Proposition 218 maximum rate of \$680 per equivalent service measure.

G. Requests for information

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the District's Financial Officer at Ironhouse Sanitary District, 450 Walnut Meadows Drive, Oakley, CA, 94561.

**IRONHOUSE SANITARY DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016**

CURRENT ASSETS	
Cash and investments (Note 2)	\$ 13,614,098
Cash and investments - restricted (Note 2)	6,468,038
Accounts receivable	351,593
Related party receivable (Note 11)	99,545
Interest receivable	25,649
Supply inventory	351,034
Prepaid expenses	<u>123,479</u>
Total Current Assets	<u>21,033,436</u>
NON-CURRENT ASSETS	
Net OPEB Asset (Note 9)	195,556
Prepaid interest (Note 5)	5,208,215
Accounts receivable	18,982
Investment in cattle (net of accumulated depreciation) (Note 3)	948,204
Capital assets (net of accumulation depreciation) (Note 4)	<u>92,763,626</u>
Total Non-Current Assets	<u>99,134,583</u>
TOTAL ASSETS	<u>120,168,019</u>
DEFERRED OUTFLOW OF RESOURCES	
Changes in the net pension liability (Note 7)	<u>1,370,134</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$ 121,538,153</u>
CURRENT LIABILITIES	
Accounts payable	\$ 623,106
Payroll related liabilities	112,985
Customer deposits payable	120,476
Compensated absences (current portion) (Note 5)	222,583
State revolving fund loan (current portion) (Note 5)	2,937,701
Unearned revenues (Note 6)	<u>16,448</u>
Total Current Liabilities	<u>4,033,299</u>
LONG TERM LIABILITIES	
Net pension liability (Note 7)	3,142,358
Compensated absences (less current portion) (Note 5)	45,589
State revolving fund loan (less current portion) (Note 5)	<u>44,065,507</u>
Total Long-Term Liabilities	<u>47,253,454</u>
TOTAL LIABILITIES	<u>51,286,753</u>
DEFERRED INFLOW OF RESOURCES	
Changes in the net pension liability (Note 7)	<u>507,958</u>
NET POSITION	
Net investment in capital assets (Note 12)	50,968,633
Unrestricted:	
Undesignated	3,640,262
Designated reserves	<u>8,666,509</u>
Total Unrestricted (Note 12)	12,306,771
Restricted (Note 12)	<u>6,468,038</u>
TOTAL NET POSITION	<u>69,743,442</u>
TOTAL LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 121,538,153</u>

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

**IRONHOUSE SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED
JUNE 30, 2016**

OPERATING REVENUES

Service charges	\$ 9,914,974
Service connection and related fees	327,085
Capacity fees (Note 6)	1,228,615
Fees other	42,876
Miscellaneous	<u>576,411</u>
Total Operating Revenues	<u>12,089,961</u>

OPERATING EXPENSES

Salaries, benefits and payroll taxes	3,900,016
Administration expenses	397,950
Utilities	666,332
Operations and maintenance	1,448,378
Professional services	648,832
Insurance	127,975
Depreciation	<u>3,794,353</u>
Total Operating Expenses	<u>10,983,836</u>
Operating income	<u>1,106,125</u>

NON-OPERATING REVENUES (EXPENSES)

Taxes	244,029
Cattle revenues	1,288,036
Hay sales	25,700
Mineral rights	5,686
Interest income	76,172
Net unrealized gains	47,983
Interest expense	(651,027)
Gain on sale of assets	8,000
Cattle operation expenses	<u>(127,469)</u>
Nonoperating revenues	<u>917,110</u>

INCREASE IN NET POSITION 2,023,235

NET POSITION, BEGINNING OF YEAR 67,720,207

NET POSITION, END OF YEAR \$ 69,743,442

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

**IRONHOUSE SANITARY DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
JUNE 30, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 12,318,447
Cash paid to employees and for benefits and payroll taxes	(3,941,260)
Cash paid to suppliers and vendors	<u>(3,255,376)</u>
Net cash flows provided by operating activities	<u>5,121,811</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Hay sales	25,700
Proceeds from mineral rights	5,686
Taxes received	<u>244,029</u>
Net cash flows provided by noncapital financing activities	<u>275,415</u>

CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(1,088,997)
Sale of cattle	1,052,027
Acquisition of cattle	(79,600)
Cattle operations expenses	(547,154)
Principal payments on state revolving fund loan	(2,937,701)
Proceeds from the sale of assets	<u>8,000</u>
Net cash flows used in capital and related financing activities	<u>(3,593,425)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	<u>(1,568,921)</u>
Net cash used in investing activities	<u>(1,568,921)</u>

NET INCREASE IN CASH 234,880

CASH AND CASH EQUIVALENTS - JULY 1, 2015 2,157,328

CASH AND CASH EQUIVALENTS - JUNE 30, 2016 \$ 2,392,208

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, 2016**

OPERATING INCOME	\$ 1,106,125
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	3,794,353
Decrease in accounts receivable	247,313
Decrease in prepaid expenses	13,071
Decrease in supply inventory	49,419
Decrease in accounts payable	(28,399)
Increase in accrued liabilities	1,034
Decrease in compensated absences	(42,278)
Decrease in deposits payable	(16,591)
Decrease in unearned revenue	<u>(2,236)</u>
Total adjustments	<u>4,015,686</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 5,121,811</u>

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

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Ironhouse Sanitary District (The District) provides sewage collection, treatment and disposal services, and recycled water to the City of Oakley and the unincorporated area of Bethel Island, California. There are five members on the District's Board of Directors. These members are elected to four year terms.

Ironhouse Sanitary District, formally known as the Oakley Sanitary District, was formed on August 27, 1945 under the provisions of sections 6400-6907.5 of the California Health and Safety Code. On February 1, 1992 the District annexed the territory of the former Contra Costa County Sanitation District Number 15 and received title to all of the assets of the Contra Costa County Sanitation District Number 15 and the Oakley-Bethel Island Wastewater Management District. The District also assumed all liabilities of the two entities.

Basis of Presentation

The basic financial statements of the Ironhouse Sanitary District (District) have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Basis of Accounting

The Ironhouse Sanitary District follows the enterprise method of accounting practices and reporting methods approved for waste disposal districts. An Enterprise type fund is a proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses excluding depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred.

Operating revenues are those revenues that are generated from the primary operations of the District. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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.

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2016**

NOTE 1: 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 Accounting Standards Codification 905-10 *Accounting by Agricultural Producers and Agricultural Cooperatives*, the cost of purchasing and raising these cattle is capitalized. Mature cattle are depreciated over their useful lives which is considered to be 8 years. Immature cattle are capitalized and are charged to cattle operations expense when sold.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Subsequent Events

Subsequent events have been evaluated through October 20, 2016, which is the date the financial statements were issued.

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Implementation of Government Accounting Standards Board Statements

Government Accounting Standards Board Statement No. 72

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Application of this statement was effective for the District's fiscal year ending June 30, 2016.

Government Accounting Standards Board Statement No. 76

In June 2015, GASB issued Statement No. 76, *the Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Application of this statement was effective for the District's fiscal year ending June 30, 2016.

Government Accounting Standards Board Statement No. 82

In March 2016, GASB issued Statement No. 82, *Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73*. The primary objective of this statement is to address issues regarding the (1) presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this statement are effective for reporting periods beginning after June 15, 2016; however the District has elected to implement the statement in the current year. See Note 7.

Future Government Accounting Standards Board Statements

These statements are not effective until July 1, 2016 or later and may be applicable to the District. However, the District has not determined the effects, if any, on the financial statements.

Government Accounting Standards Board Statement No. 75

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB), and replaces Statements No. 45 and 57. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to OPEB. The District has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this statement is effective for the District's fiscal year ending June 30, 2018.

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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JUNE 30, 2016**

NOTE 2: CASH AND INVESTMENTS

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

	June 30, 2016
Cash and investments	\$ 13,614,098
Restricted cash and investments	6,468,038
Total	\$ 20,082,136

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, 2016 are as follows:

	June 30, 2016
Cash on hand	\$ 334
Deposits with financial institutions	2,391,874
Total cash	2,392,208
Local Agency Investment Fund	1,134,376
CalTrust Investment Fund	10,518,507
Fixed Income Securities	6,023,351
Money Market	13,694
Total investments	17,689,928
Total cash and investments	\$ 20,082,136

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2016**

NOTE 2: CASH AND INVESTMENTS (continued)

Authorized Investments of the District

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive) that addresses interest rate risk, credit risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligation	5 years	None	None
Banker's Acceptances	180 days	10%	5%
Commercial Paper	270 days	25%	5%
Certificates of Deposit	5 years	30%	10%
Bank Deposits	N/A	None	None
Medium-Term Corporate Notes	5 years	30%	None
Money Market Mutual Funds	N/A	20%	10%
CD Placement Services	5 years	30%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Funds (CalTRUST)	N/A	None	None
U.S. Agency Obligations	5 years	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk in the market rate changes that could adversely affect the fair values of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for District operations.

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2016:

	Remaining Maturity		
	12 months or less	1-5 years	Fair Value
Fixed income securities	\$ -	\$ 6,023,351	\$ 6,023,351
Money market mutual funds	-	13,694	13,694
Local Agency Investment Fund	1,134,376	-	1,134,376
CalTRUST Investment Fund	<u>10,518,507</u>	<u>-</u>	<u>10,518,507</u>
	<u>\$ 11,652,883</u>	<u>\$ 6,037,045</u>	<u>\$ 17,689,928</u>

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2016**

NOTE 2: CASH AND INVESTMENTS (continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the investment policy, or debt agreements, and the actual rating as of the fiscal year for each investment type.

	Total	Rating as of Fiscal Year End		
		S&P	Moody's	N/A
Local Agency Investment Fund	\$ 1,134,376			Not rated
CalTRUST Investment Fund	10,518,507			Not rated
Fixed income securities	6,023,351	AAAm		
Money market mutual funds	<u>13,694</u>	AAAm		
	<u>\$ 17,689,928</u>			

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2016 there were no investments in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represent 5% or more of the total District investments.

Investment Valuation

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District does not have any investments that are measured using Level 3 inputs.

The following tables set forth by level, within the fair value hierarchy, the District's assets at fair value as of June 30, 2016.

	Level 1	Level 2	Level 3	Total
Fixed income securities	\$ -	\$ 6,023,351	\$ -	\$ 6,023,351
Money Market Mutual Funds	<u>13,694</u>	<u>-</u>	<u>-</u>	<u>13,694</u>
Total assets at fair value	<u>\$ 13,694</u>	<u>\$ 6,023,351</u>	<u>\$ -</u>	<u>\$ 6,037,045</u>

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investments in this pool is classified as a cash equivalent in the accompanying financial statements.

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2016**

NOTE 3: INVESTMENT IN CATTLE

The following is a summary of the changes in investment in cattle for the year ended June 30, 2016:

Investment in cattle at July 1, 2015	\$ 1,043,461
Activities of cattle operations, for the fiscal year ended June 30, 2016:	
Purchases of cattle	79,600
Additional capital expenditures	419,685
Cost basis for cattle sold	<u>(396,542)</u>
Investment in cattle at June 30, 2016	<u>1,146,204</u>
Accumulated depreciation on investment in cattle at June 30, 2016	<u>(198,000)</u>
Net investment in cattle at June 30, 2016	\$ <u><u>948,204</u></u>

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2016**

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 is as follows:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>June 30, 2016</u>
Capital assets not being depreciated					
Land and improvements	\$ 8,467,524	\$ -	\$ -	\$ -	\$ 8,467,524
Work in progress	<u>506,919</u>	<u>4,085</u>	<u>-</u>	<u>(198,065)</u>	<u>312,939</u>
Total capital assets not depreciated	<u>8,974,443</u>	<u>4,085</u>	<u>-</u>	<u>(198,065)</u>	<u>8,780,463</u>
Capital assets being depreciated					
Plant and improvements	52,850,657	11,250	-	-	52,861,907
Collection system and pipelines	54,870,594	415,997	-	198,065	55,484,656
Vehicles	1,696,152	205,940	(17,510)	-	1,884,582
Equipment	<u>21,633,291</u>	<u>455,810</u>	<u>-</u>	<u>-</u>	<u>22,089,101</u>
Total capital assets being depreciated	<u>131,050,694</u>	<u>1,088,997</u>	<u>(17,510)</u>	<u>198,065</u>	<u>132,320,246</u>
Less: accumulated depreciation					
Plant and improvements	(7,091,215)	(1,334,054)	-	-	(8,425,269)
Collection system and pipelines	(28,667,406)	(1,227,950)	-	-	(29,895,356)
Vehicles	(1,424,531)	(56,468)	17,510	-	(1,463,489)
Equipment	<u>(7,481,272)</u>	<u>(1,071,697)</u>	<u>-</u>	<u>-</u>	<u>(8,552,969)</u>
Total accumulated depreciation	<u>(44,664,424)</u>	<u>(3,690,169)</u>	<u>17,510</u>	<u>-</u>	<u>(48,337,083)</u>
Capital Assets, net	<u>\$ 95,360,713</u>	<u>\$ (2,597,087)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 92,763,626</u>

Depreciation expense for the year ended June 30, 2016 totaled \$3,794,353, and includes \$104,184 in depreciation expense on investment in cattle.

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2016**

NOTE 5: LONG-TERM LIABILITIES

A summary of long-term liability activity for the year ended June 30, 2016 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
State Revolving Fund Loan	\$ 49,940,909	\$ -	\$ (2,937,701)	\$ 47,003,208	\$ 2,937,701
Compensated Absences	310,450	262,246	(304,524)	268,172	222,583
Net Pension Liability (Note 7)	<u>2,722,495</u>	<u>1,029,137</u>	<u>(609,274)</u>	<u>3,142,358</u>	<u>-</u>
Total	<u>\$ 52,973,854</u>	<u>\$ 1,291,383</u>	<u>\$ (3,851,499)</u>	<u>\$ 50,413,738</u>	<u>\$ 3,160,284</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%. \$651,027 of the prepaid balance was amortized in the current year, resulting in a remaining balance of \$5,208,215 as of June 30, 2016.

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>
2017	2,937,701	2,937,701	612,731
2018	2,937,701	2,937,701	574,436
2019	2,937,701	2,937,701	536,140
2020	2,937,701	2,937,701	497,844
2021	2,937,701	2,937,701	459,548
2022 - 2026	14,688,505	14,688,505	1,723,306
2027 - 2031	14,688,505	14,688,505	765,914
2032	<u>2,937,693</u>	<u>2,937,693</u>	<u>38,296</u>
Total	<u>\$ 47,003,208</u>	<u>\$ 47,003,208</u>	<u>\$ 5,208,215</u>

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2016**

NOTE 6: CAPACITY FEES AND UNEARNED REVENUES

Capacity fees and trunkline capacity fees are charged to each individual and business as they are hooked up to the sewer lines in either the City of Oakley or the unincorporated area of Bethel Island.

The capacity fees and trunkline capacity fees are to be used exclusively for future capacity expansion of the plant or infrastructure. They are not intended to be used for the normal operating expenses of the District. As of June 30, 2016, \$3,530,337 had been earned and designated for future expansion. During the year ended June 30, 2016, \$1,228,615 of capacity and trunkline capacity fees were earned.

As of June 30, 2016, the District has accrued \$16,448 in unearned revenue as a result of cash received but not earned. This balance will be recognized in future periods once the District has met its obligations.

NOTE 7: DEFINED BENEFIT PENSION PLAN

A. General Information about the Pension Plan

Plan Description – All qualified permanent and probationary employees are eligible to participate in the District's Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan), administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all others). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety and miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the safety or miscellaneous pools. The District sponsors two rate plans (both miscellaneous). Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50-55	52-67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	8%	6.5%
Required employer contribution rates	23.01%	6.70%

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

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The District's contributions to the Plan for the year ended June 30, 2016 were \$557,658.

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

As of June 30, 2016, the District reported net pension liability of \$3,142,358 for its proportionate shares of the net pension liability of the Plan.

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2014	.10991%
Proportion - June 30, 2015	.04578%
Change - Increase (Decrease)	(.06413%)

For the year ended June 30, 2016, the District recognized pension expense of \$506,237. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Pension contributions subsequent to measurement date	\$ 545,636	\$ -
Net differences between projected and actual earnings on plan investments	35,762	-
Changes in assumptions	-	(338,343)
Change in employer's proportion and differences between the employer's contributions and employer's proportionate share of contributions.	524,662	-
Net differences between projected and actual earnings on plan investments	<u>264,074</u>	<u>(169,615)</u>
Total	<u>\$ 1,370,134</u>	<u>\$ (507,958)</u>

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2016**

NOTE 7: DEFINED BENEFIT PENSION PLAN (continued)

\$545,636 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended <u>June 30</u>		
2016	\$	56,400
2017	\$	49,914
2018	\$	(6,586)
2019	\$	216,812

C. Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by entry age and service
Investment Rate of Return	7.65% net of pension plan investment expenses, includes inflation
Mortality	Derived Using CalPERS Membership Data for All Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

D. Discount Rate – The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

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

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employees' Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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JUNE 30, 2016**

NOTE 7: DEFINED BENEFIT PENSION PLAN (continued)

time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	.99%	2.43%
Inflation Sensitive	6.0%	.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	(.55%)	(1.05%)

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

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

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

	<u>Miscellaneous</u>
1% Decrease Net Pension Liability	6.65% \$5,061,026
Current Discount Rate Net Pension Liability	7.65% \$3,142,358
1% Increase Net Pension Liability	8.65% \$1,558,274

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

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2016**

NOTE 8: DEFERRED COMPENSATION PLAN

During the fiscal year ended June 30, 1997 the District approved and established the Ironhouse Sanitary District Deferred Compensation Plan ("the deferred compensation plan") for its employees created in accordance with Internal Revenue Code 457. The deferred compensation plan, administered by Mass Mutual Financial Group and available to all permanent employees and Directors, permits them to defer a portion of their current salary until future years. The deferred compensation, which is held in trust by Mass Mutual, is not available to participants until termination, retirement, death or unforeseeable emergency. During the past year, the employees contributed \$60,215.

NOTE 9: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Description of Plan

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

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

Funding Policy and Annual Pension Cost

The District's policy is to fully fund the annual required contribution, which is determined by an actuary. For the year ended June 30, 2016 the District made the annual required contribution (ARC) of \$255,105. The required contribution for fiscal year 2015/2016 was determined as part of the July 1, 2015 actuarial valuation. The significant actuarial assumptions used in the valuation of the plan are as follows:

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

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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JUNE 30, 2016**

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

Annual OPEB Cost and Net OPEB Obligation

For the year ended June 30, 2016, the District's annual cost for the healthcare plan was \$255,105. The District's annual OPEB cost contributed to the plan and the net OPEB obligation (asset) for the year ended June 30, 2016 were as follows:

Annual required contribution	\$ <u>255,105</u>
Annual OPEB cost	<u>255,105</u>
Net employer contribution	<u>255,105</u>
Net OPEB obligation (asset) - beginning of year	<u>195,556</u>
Net OPEB obligation (asset) - end of year	<u><u>\$ 195,556</u></u>

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
6/30/14	197,457	197,457	100%	195,556
6/30/15	197,457	197,457	100%	195,556
6/30/16	255,105	255,105	100%	195,556

Funded Status and Funding Progress

As of June 30, 2016, the plan was 72 percent funded. The actuarial accrued liability for benefits was \$3,128,185, and the market value of assets was \$2,070,580, resulting in an unfunded liability of \$946,184. Estimated covered payroll (annual payroll of active employees covered by the plan) was \$2,371,000, and the ratio of the unfunded liability to the covered payroll was 50 percent.

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

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

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2016**

NOTE 10: JOINT VENTURE - CALIFORNIA SANITATION RISK MANAGEMENT DISTRICT (CSRMA)

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (a) an ongoing financial interest or (b) an on-going financial responsibility.

The District participates in a joint venture under a joint powers agreement (JPA) with the California Sanitation Risk Management District (CSRMA). CSRMA was formed to provide common risk management and loss prevention programs related to public liability, auto liability, public official's errors and omissions, property loss and workers' compensation risk for member governmental agencies. CSRMA is not a component unit of the District for financial reporting purposes but the District does retain an on-going financial responsibility in CSRMA. During the year ended June 30, 2016, the District made \$190,501 in insurance premium payments to CSRMA.

Condensed audited financial information for the year ended June 30, 2015 (the most recent available) was as follows:

Total assets	\$ 27,418,098
Total liabilities	<u>16,714,638</u>
Total net position	<u>\$ 10,703,460</u>
Total revenues	\$ 10,895,632
Total expenses	<u>11,157,866</u>
Decrease in net position	<u>\$ (262,234)</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 11: RELATED PARTY TRANSACTIONS

The General Manager and Reclamation Superintendent of the District are also the President and Secretary of Reclamation District No. 830 (RD830). RD830 was established to maintain the integrity of the levee system on Jersey Island which is wholly owned by the District. During the year ended June 30, 2016 the District paid \$332,565 in assessments to RD830. RD830 paid the District \$58,775 for management services. In addition, RD830 reimbursed the District in the amount of \$179,997 for levee repairs performed by Ironhouse employees and for the use of its equipment. As of June 30, 2016, \$99,545 was due from RD830. Management believes these transactions were consummated on terms equivalent to those that prevail in arms length transactions.

**IRONHOUSE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2016**

NOTE 12: NET POSITION

As of June 30, 2016, net position of the District consisted of the following:

Net investment in capital assets	\$ 50,968,633
Unrestricted:	
Undesignated	3,640,262
Designated reserve for capital expenditures	7,900,974
Designated reserve for rate stabilization	732,000
Designated reserve for Jersey Island use fees	<u>33,535</u>
Total Unrestricted	<u>12,306,771</u>
Restricted	
Debt service	2,937,701
Expansion	283,647
Trunkline capacity	<u>3,246,690</u>
Total Restricted	<u>6,468,038</u>
Total Net Position	<u>\$ 69,743,442</u>

Required Supplementary Information

**IRONHOUSE SANITARY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2016
LAST 10 YEARS***

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

Notes to Schedule:

Changes in assumptions- The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

**IRONHOUSE SANITARY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CONTRIBUTIONS TO THE COST SHARING DEFINED BENEFIT PENSION PLAN
AS OF JUNE 30, 2016
LAST 10 YEARS***

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

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

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

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