



Inland Empire Utilities Agency *

***Comprehensive
Annual Financial Report***

**Fiscal Year Ended
June 30, 2013**

***Water Smart—
Thinking in Terms of Tomorrow***

Chino, California

• * A Municipal Water District

*Recycled Water Pipes
Regional Plant No. 5*



Over the Rainbow





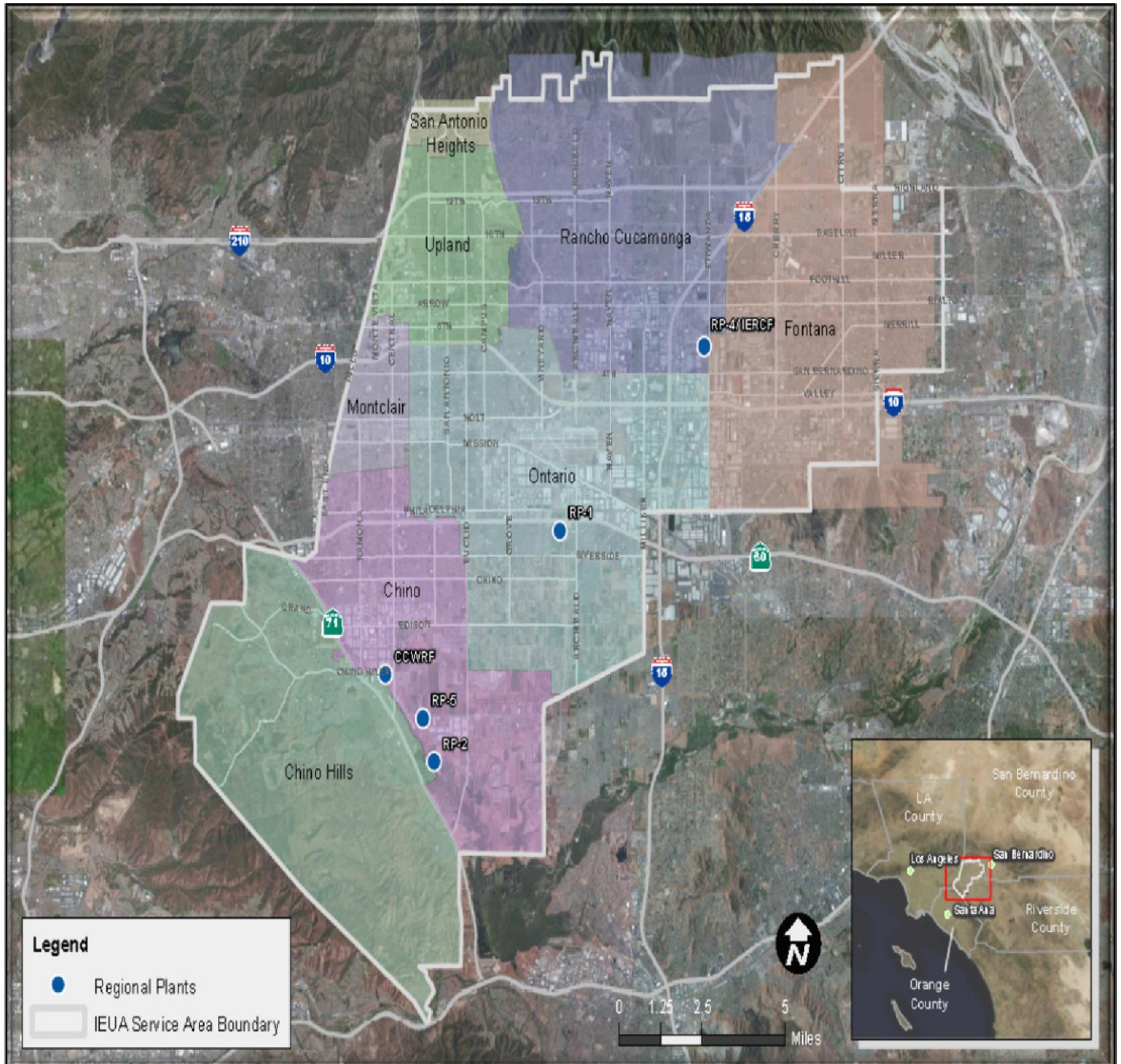
Inland Empire Utilities Agency *

***Comprehensive
Annual Financial Report***

**Fiscal Year Ended
June 30, 2013**

***Prepared By the Accounting and Fiscal Management,
and Financial Planning Departments
Javier Chagoyen-Lazaro, Manager
of Accounting and Fiscal Management***

Inland Empire Utilities Agency Service Area



*IEUA resides in the State of California,
nestled in the southwest corner of San Bernardino County,
approximately 35 miles East of Los Angeles.*

Agency Vision

***Inland Empire Utilities Agency
will strive to enhance the quality of life in the Inland Empire
by providing optimum water resources management
for the area's customers
while promoting conservation and environmental protection.***

Agency Mission

***The mission of the Agency is:
to supply imported and recycled water; collect, treat, and dispose of
wastewater; and
provide other utility-related (renewable electrical energy, compost) services
to the communities it serves.***

***The Agency strives to provide these services
in a regionally planned, managed, and cost-effective manner.***



Agency Values

***The success of the Agency depends on teamwork, mutual trust,
respect, and commitment to the highest standards of quality,
responsibility, accountability, and dedication.***

INLAND EMPIRE UTILITIES AGENCY
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For the Fiscal Year Ended June 30, 2013

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December 18, 2013

To the President of the Board of Directors, Members of the Board, Member Agencies and Citizens of the Inland Empire Utilities Agency:

State law and local ordinances require the Agency to annually publish a comprehensive report of its financial condition and activities, audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, it is with pleasure that we present The Comprehensive Annual Financial Report of the Inland Empire Utilities Agency (referred to as IEUA or the Agency) for the fiscal year ended June 30, 2013.

This report consists of management's representations concerning the finances of the Inland Empire Utilities Agency. Consequently, management assumes full responsibility for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, management of the Agency has established a comprehensive internal control framework that is designed both to protect the Agency's assets from loss, theft or misuse, and to compile sufficient reliable information for the preparation of the Agency's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the Agency's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material aspects.

The Agency's financial statements have been audited by White Nelson Diehl Evans LLP., a firm of certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Agency for the fiscal year ended June 30, 2013, are free of any material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The independent audit concluded, based upon the audit, that there was reasonable basis for rendering an unqualified ("clean") opinion that the Inland Empire Utilities Agency's financial statements for the year ended June 30, 2013 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the Financial Section of this report.

The independent audit of the financial statements of the Agency was part of a broader, federally mandated "Single Audit" designed to meet the special needs of the federal grantor agencies. The standards governing the Single Audit engagements require the independent auditor to report not only the fair presentation of the financial statements, but also the audited internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Inland Empire Utilities Agency's separately issued Single Audit Report.

GAAP requires management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Agency's MD&A can be found immediately following the report of the independent auditors.

Water Smart - Thinking in Terms of Tomorrow

Terry Catlin
President

Michael Camacho
Vice President

Steven J. Elie
Secretary/Treasurer

Gene Koopman
Director

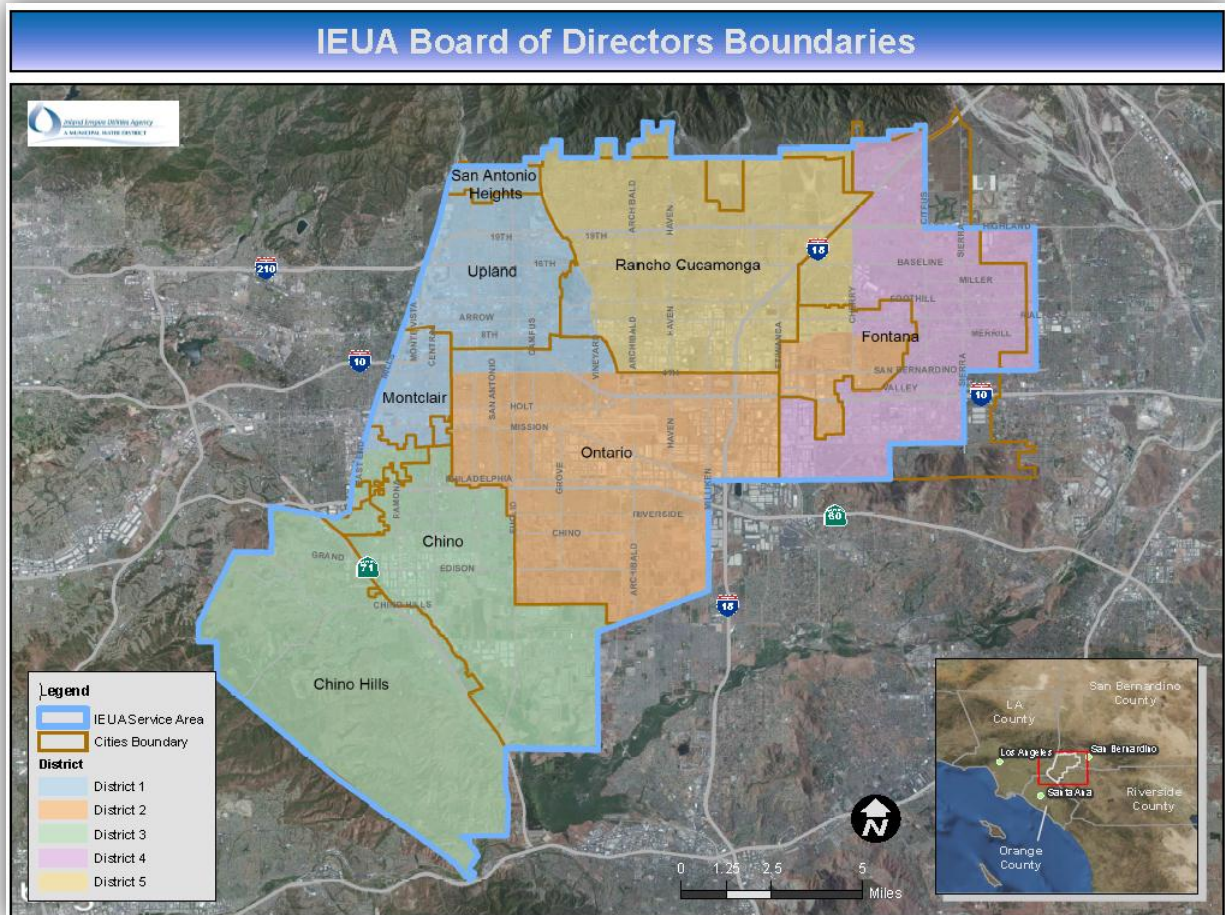
Jasmin A. Hall
Director

P. Joseph Grindstaff
General Manager

INLAND EMPIRE UTILITIES AGENCY PROFILE

Up to the Present

The Agency was established by a majority vote in a special election on June 6, 1950 to bring supplemental imported water to a semi-arid region, and to meet domestic and agricultural needs for an original population of approximately 80,000 people. Until July 1, 1998, the Agency was known as Chino Basin Municipal Water District, named after the underlying Chino groundwater basin, and was organized as a California municipal corporation and a political subdivision of the State under the Municipal Water District Act of 1911. Once formed, in 1951 the Agency's electorate voted to annex to the Metropolitan Water District of Southern California. The original service area was 91.8 square miles. Land was added to the Agency through three subsequent annexations, bringing the Agency service area to its current total of 242 square miles. This service area includes the cities of Chino, Chino Hills, Fontana, Montclair, Ontario, Rancho Cucamonga and Upland. From the west, the Agency extends from the Los Angeles County line to a point near the eastern boundary of the City of Fontana; and, from the north it extends from the base of the San Gabriel Mountains and extends south to the Riverside County line and then southwest to the Orange County line.



The mission of the Agency was originally to distribute water imported from the Colorado River. Soon thereafter, that role expanded to include the distribution of water imported to Southern California through the State Water Project. In April 1984, due to high concentrations of total dissolved solids (TDS), otherwise known as high salt concentration, the Agency significantly reduced the importation of the Colorado River water. The final delivery from the Colorado River was received in April 1994.

INLAND EMPIRE UTILITIES AGENCY PROFILE (continued):

Up to the Present (continued):

The Agency began domestic wastewater collection during the mid-1960's, and built the Southwest Chino Trunk Sewer for domestic wastewater transport. In 1973, the Agency completed lengthy negotiations on the Chino Basin Regional Sewage Service Contract with the cities of Chino, Fontana, Montclair, Ontario and Upland, and with the Cucamonga Valley Water District and the County Service Area 70Q of the County of San Bernardino (later to become the City of Chino Hills). Pursuant to that contract, the Agency agreed to purchase and operate three local wastewater treatment plants, and to plan and construct all new pipelines, regional interceptor sewers and treatment plants.

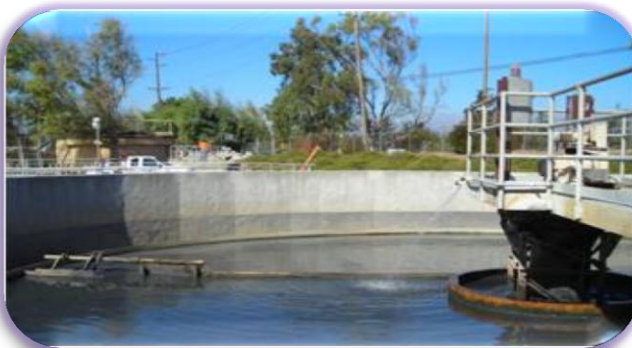
The Agency currently operates five water recycling plants.

◆ ***Regional Water Recycling Plant No. 1 (RP-1)***

RP-1 is located south of the 60 freeway at Archibald in the City of Ontario. This facility was originally commissioned in 1948 and has undergone several expansions to increase the wastewater treatment, and biosolids treatment, capacity. RP-1 treats an average flow of approximately 27 million gallons per day (mgd) of wastewater.



◆ ***Regional Water Recycling Plant No. 2 (RP-2)***



RP-2 is located in the southern service area in the City of Chino near El Prado and Pine Avenues and has been in operation since 1960. RP-2 wastewater flows have been diverted to Regional Water Recycling Plant No.5 (RP-5), and as a result RP-2 no longer processes wastewater. Instead, it treats the solids flow streams from the Carbon Canyon Water Recycling Facility, and Regional Water Recycling Plant No. 5 (RP-5) facilities.

◆ ***Carbon Canyon Water Recycling Facility (CCWRF)***

CCWRF is located near the intersection of Central Avenue and Chino Hills Parkway in the City of Chino, and has been in operation since May 1992. Liquids are treated at CCWRF, while the solids removed from the waste flow are treated at RP-2. CCWRF treats an average flow of approximately 7 mgd.



INLAND EMPIRE UTILITIES AGENCY PROFILE (continued):

Up to the Present (continued):

◆ **Regional Water Recycling Plant No. 4 (RP-4)**

RP-4 is located in the northeastern section of the service area in the City of Rancho Cucamonga, and has been in operation and producing recycled water since 1997. RP-4 is operated in conjunction with RP-1 to provide recycled water to users. In late FY 2008/09 the plant's capacity was expanded to 14 mgd, and it currently treats an average flow of approximately 10 mgd.



◆ **Regional Water Recycling Plant No. 5 (RP-5)**



RP-5 is located in the Southwestern area of the Agency's boundary in the City of Chino. This facility was originally commissioned in 2000. RP-5 treats an average flow of approximately 8 mgd. RP-5 includes several treatment processes that contribute to providing a quality recycle water pursuant to the State of California Title 22 regulations.

In addition to the treatment plants, the Agency owns and operates a number of trunk lines and interceptor sewers into which the Cities' sewers discharge their wastewater.

The Agency operates the Non-reclaimable Wastewater System (NRWS) that provides for the treatment and disposal of industrial waste, which is too high in salts for discharge into the Agency's water recycling plants. The NRWS transports non-reclaimable, salt-laden, industrial strength wastewater out of the Agency's service area, to treatment plants located in Los Angeles and Orange counties, and eventual discharge to the Pacific Ocean.

The NRWS was conceived early in the Agency's history. In 1966, voters approved a \$16 million general obligation bond issue to finance the purchase of treatment capacity and the construction of two major NRWS trunk lines. The NRWS is divided into a Northern and Southern System. The Northern System consists of three trunk lines: north, central and south trunk lines, which discharge the industrial wastewater into the County Sanitation Districts of Los Angeles County (CSDLAC) System. The wastewater generated from the Southern portion of the NRWS is diverted to Orange County Sanitation District (CSDOC).

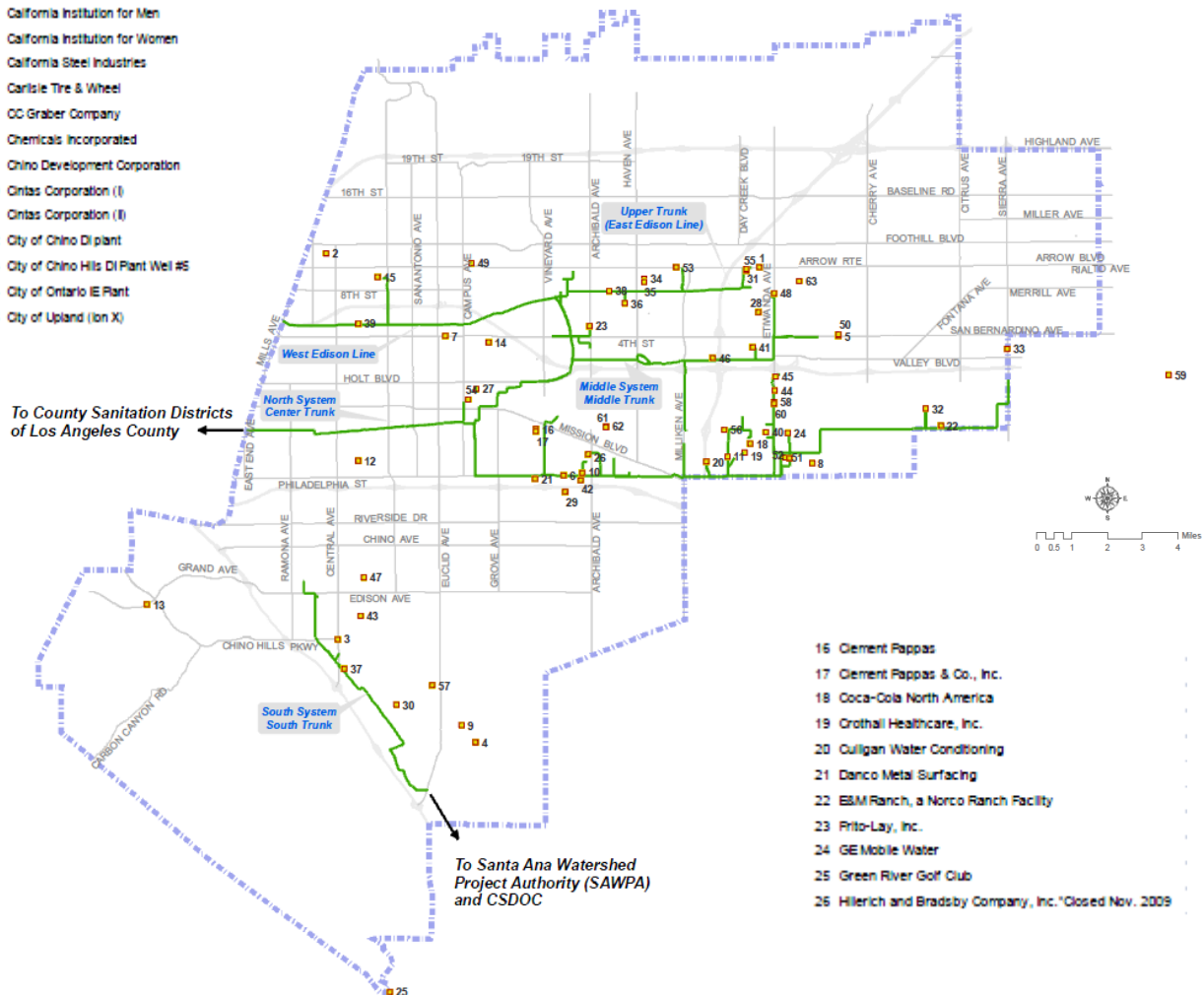
INLAND EMPIRE UTILITIES AGENCY PROFILE (continued):

Up to the Present (continued):

As of June 30, 2013, approximately 66 industries discharged the brine wastewater generated from their process. Some of the largest industries are California Steel Industries, New-Indy Ontario, Frito Lay Inc., GenOn, Ventura Foods, Mission Uniform and Linen Services, Crothall, GE Mobil Water, Clement Pappas North, Cintas Corporation (I) and Cintas Corporation (II), Nestle (Arrow head) Water, Unifirst, Sierra Aluminum (II), and Niagara Bottling I and II. These industries are directly connected to the Agency's NRWS. The NRWS also serves approximately 17 industrial customers that truck their wastewater to the Agency's dump discharge stations.

**NON-RECLAIMABLE WASTEWATER
SYSTEM AND DISCHARGES**

- 1 Air Liquide America Corporation
- 2 American Technical Molding
- 3 California Institution for Men
- 4 California Institution for Women
- 5 California Steel Industries
- 6 Carlisle Tire & Wheel
- 7 CC Graber Company
- 8 Chemicals Incorporated
- 9 Chino Development Corporation
- 10 Cintas Corporation (I)
- 11 Cintas Corporation (II)
- 12 City of Chino Dipiant
- 13 City of Chino Hills Di Plant Well #5
- 14 City of Ontario IE Plant
- 15 City of Upland (Ion X)



- 16 Clement Pappas
- 17 Clement Pappas & Co., Inc.
- 18 Coca-Cola North America
- 19 Crothall Healthcare, Inc.
- 20 Culligan Water Conditioning
- 21 Danco Metal Surfacing
- 22 ESM Ranch, a Norco Ranch Facility
- 23 Frito-Lay, Inc.
- 24 GE Mobile Water
- 25 Green River Golf Club
- 26 Hilerich and Bradstby Company, Inc. *Closed Nov. 2009

- 27 ICL Performance Products
- 28 IERCA
- 29 IEUA Biosolids Filtrate
- 30 IEUA-RP-5 (RED) *Closed May 2009
- 31 Industrial Wire Products (dba Tree Island Wire)
- 32 James Hardie Building Products, Inc
- 33 Kaiser Foundation Hospitals
- 34 Ludfords, Inc.
- 35 Matheson Gas Products, Inc.

- 36 Metal Coaters of California, Inc.
- 37 Mission Uniform and Linen Service
- 38 Mizkan Americas, Inc.
- 39 Monte Vista Water District
- 40 Nestle Waters North America
- 41 Niagara Bottling LLC (I)
- 42 Niagara Bottling, LLC (II)
- 43 OLS Energy
- 44 Pacific Forge, Inc.

- 45 Praxair, Inc.
- 46 Rainforest Cafe
- 47 RMS Services, Inc.
- 48 RRI Energy Blw anda, Inc.
- 49 San Antonio Community Hospital
- 50 Shaw cor Pipe Protection
- 51 Sierra Aluminum Company (I)
- 52 Sierra Aluminum Company (II)
- 53 Steelscape, Inc.

- 54 Sunkist Growers, Inc.
- 55 TAMCO
- 56 Temple Inland, Inc.
- 57 The Chino Basin Desalter Authority
- 58 Unifirst Corp.
- 59 Union Pacific Railroad Company
- 60 Unitech Services Group, Inc.
- 61 Ventura Foods, LLC (I)
- 62 Ventura Foods, LLC (II)
- 63 Vista Metals Corp

INLAND EMPIRE UTILITIES AGENCY PROFILE (continued):

Up to the Present (continued):

During 1972, bond proceeds were used to purchase treatment capacity in the CSDOC Fountain Valley treatment facility for the Agency's Southern System. In 1981, the Santa Ana Watershed Project Authority (SAWPA) assigned the Agency a capacity right of 2.5 mgd in the Santa Ana Regional Interceptor (SARI) System. The Southern System is connected to facilities of the CSDOC. The salt-laden industrial strength wastewater is transported to CSDOC treatment plant via the SARI pipeline for treatment, and discharge into the Pacific Ocean. Currently, the NRWS owns a 1.08 mgd capacity right in the SARI system, and 1.08 mgd of treatment capacity in CSDOC treatment plants.

In addition to the pipeline and treatment capacity owned by the NRWS, the Regional Wastewater System also owns 1.98 mgd of SARI capacity, and 0.4 mgd of treatment capacity, used to divert wastewater flows in emergency situations and heavy rain related peak flows at our Regional water recycling plants.

The Agency's regional water and wastewater services are essentially wholesale services provided to the Agency's Contracting Agencies. In contrast, the Agency's NRWS provides retail services that are billed directly to the industrial customers of the Agency.

Additionally, in recent years the Agency completed construction and installation of the solar field at several IEUA facilities.

◆ ***RP-5 - 3.5 MW Solar Power Field***

This Solar Power Field includes solar cells installed at RP-5 as pictured here.

Just behind IEUA's headquarters is a 1-MW installation of solar panels mounted on single-axis trackers. They tilt up to 20 degrees to follow the sun's path throughout the day, generating up to 30% more energy than fixed-tilt systems.



IEUA's solar field at Rp-5 is said to be one of the largest solar power installations by a public agency.

The Solar field is designed to offset 9% of the Agency's 13MW load.

INLAND EMPIRE UTILITIES AGENCY PROFILE (continued):

Up to the Present (continued):



Chino Basin Desalter Authority, (CDA), a joint powers authority (JPA), was formed in September 2001. The purpose of the JPA was to acquire all assets and liabilities of the Chino Basin Desalter and its operations from the Santa Ana Watershed Project Authority (SAWPA).

The JPA is comprised of the cities of Chino, Chino Hills, Ontario, Norco, the Jurupa Community Services District (JCSD) and the Santa Ana River Water Company, Western Municipal Water District and Inland Empire Utilities Agency as an ex-officio member.



In February 2002, the Agency entered into a Joint Powers Agreement with the County Sanitation District No.2 of Los Angeles County (CSDLA) and formed the *Inland Empire Regional Composting Authority (IERCA)*, to divert organic solids from landfill disposal and to recycle organic products generated from within the community.

The Agency replaced the previous facility with the nation's largest indoor biosolids composting facility. Constructed by the IERCA, the facility consists of 445,275 square feet indoors.

The new facility started operation in March of 2007, and produces a wood based, nutrient rich, compost made from recycled green waste, biosolids and horse stable bedding; focusing on producing top quality compost under the guidelines outlined in the US Composting Council's Seal of Testing Assurance (STA) program.

ECONOMIC CONDITION AND OUTLOOK

The long-suffering Inland Empire economy is going to have to suffer a little longer. Unemployment won't reach single digits until 2014. Our Agency is located in the largest county in the nation in terms of total land area, equal to 20,057 square miles. The county has a population of about 2.1 million people, the per capita income is around \$30,000 and median family income is \$56,000, the unemployment rate in June 2013 was 10.3%.

- ◆ **Housing Market** - The Inland Empire (IE) economy new homes market remained weak in 2012, according to a recent report by Metrostudy, a national housing data and consulting firm that maintains the most extensive primary database on residential construction in the US housing market.

The IE has a 42 percent market share in Southern California's housing market. Housing starts and escrow closings indicate the service area has turned a corner, with total escrow closings in the 4th quarter increasing by 19 percent over the 3rd quarter. More and more people in the Inland Empire can now afford to buy a median priced home. The only problem is that the inventory of housing is dropping. Most economists and real estate experts expect the U.S. prices to rise in 2013 due to strong investor demand, low interest rates, and shortages in supply. Furthermore, IE's average home price has been essentially flat, and is likely to stay there until the mortgage issue is resolved.

- ◆ **Employment** - In the first six months of 2012 Inland Empire entered a turnaround period, as compared to the first half of 2011; the area's private sector is up 21,117 jobs. Unfortunately, the public sector's loss of 5,283 jobs is now holding the region back. The net gain of 15,833 so far is coming close to the modest 16,300 forecasted in the last Quarterly Economic Report (QER.) Overall, economic recovery has been slow and uneven, and will remain that way because of Inland Empire's traditional competitive advantages (construction and modestly priced labor) previously powered blue collar sectors were dampened by the downturn of the mortgage crisis. Professional and business services, leisure and hospitality, transportation, and health care sectors have seen significant improvement since summer 2012. Meanwhile, like the rest of California, the Inland Empire area is being adversely affected by public sector job losses.

- ◆ **Housing** - Home construction and civil engineering employment could be stronger than expected if serious action is taken to bring down the balances that underwater homeowners owe on their mortgages, allowing construction to return.

- ◆ **Inland Empire Economic Base** - In 2014 it is expected that the IE's population service sectors such as retail should begin to recover, as money is re-spent locally by people working in sectors like manufacturing, real estate, logistics, and health care. However, economic growth will be sluggish because of the lack of progress in construction and of slow revenue growth facing local governments and school systems. Another potential negative factor for the IE could be a rise in interest rates. The temporary sales tax increase has helped the State eliminate steep budget deficit.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

A positive indicator of economic recovery in the Agency's service area is the San Bernardino County Tax Assessor's estimated assessment roll increase of 1.25 percent for FY 2012/13; a slight improvement from 0.8 percent for the prior fiscal year. Another favorable economic indicator is a spur in new development throughout the Agency's service area which has resulted in the number of new EDU connections to the Agency's Regional Wastewater system significantly outpacing budgeted projections over the last two fiscal years.

While the economy in our region continues to be sluggish, the Agency fared well in total revenues collected. The continuous effort of our cost containment plan has generated good results both in O&M and capital expenditures. As in FY 2011/2012, the majority of Capital investment in FY 2012/2013 remained in both the Regional Wastewater Capital Improvement and Recycled Water programs.

Major Initiatives

Although non-essential capital spending was deferred, the Agency continued with implementation of the following major Board-approved program initiatives which were supported by business case analyses, environmental documentation, and identified, approved funding sources:

◆ *Sustainability of Water Supplies*

As a regional water distributor, sustainability of water supplies continues to be an ongoing challenge for the Agency. As member of the Metropolitan Water District of Southern California (MWD), the Agency's source for imported water supplies is the State Water Project (SWP). On March 28, 2013, the Department of Water Resources (DWR) decreased its water delivery allocation for the SWP from 40 to 35 percent of requested amounts. The reduced allocation is due to water content in California's snowpack which measured only 52% of normal. Despite November and December 2012 being unusually wet, pumping restrictions between November 1 and February 28 to protect the Delta smelt and salmon prevented DWR from pumping more than 550,000 acre-feet (AF). The Agency is a strong supporter, and will continue to have an active role in development of the Bay Delta Conservation Plan (BDCP) which is designed to protect both the Delta's ecosystem health and safeguard water supply reliability with the construction of improved conveyance facilities.

◆ *Water Use Efficiency*

The Recharge Master Plan was developed in 2001 (and updated in 2010) as part of the Chino Basin Watermaster (CBWM) Optimum Basin Management Program (OBMP) to provide a comprehensive program to increase the recharge of storm-water, recycled water, and imported water into the Chino Basin groundwater aquifer. Given the unreliability, and at times scarcity, of imported water supplies, coupled with the Water Conservation Act of 2009 (Senate Bill X7-7) requirement to increase water use efficiency and reduce per capita water consumption by 20 percent by December 2020, a major initiative for the Agency was and is its continual development of local water supplies and advancement of water conservation ethic throughout the Chino Basin region. Optimizing beneficial use of recycled water continues to be a major initiative for the Agency.

◆ *Strategic Energy Management Plan*

Developed to formalize the already ongoing efforts to increase energy use efficiency, and on-site generation of renewable energy, with the goal of providing independence from purchased energy during peak periods ("Go Gridless") by 2020.

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Initiatives for FY 2012/2013 (continued):

Some of the major projects in 2012/2013 were as follows:

◆ ***930 Zone Recycled Water Reservoir Project***



*930 Zone Reservoir
Flooring*

A 5-MG storage reservoir will be constructed in the City of Chino Hills. Since the recycled water use has continued to increase throughout the Cities of Chino Hills, and Ontario, additional storage is needed to serve these growing demands more reliably.

The primary purpose of the Southern Area Recycled Water Projects is to provide storage in the Southern Service Area and increase pump stations capacities. These improvements will enable the Southern Service Area to be more efficient, supply the demands from the Southern Area instead of pumping from the Northern Service Area, and allow more ground water replenishment in the Northern Service Area.

Increasing storage capacity will enable IEUA to manage the recycled water demands more effectively during the hot summer peak demand periods.

*930 Zone Reservoir
Installation of Roof
Panels*



This project is funded in part by the State Water Resources Control Board Southern Area State Revolving Fund Loan and Water Recycling Grant Program.

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Initiatives for FY 2012/2013 (continued):

◆ *RP-1 – Dewatering Facility Expansion*

Dewatering Project



Dewatering Centrifuge – Regional Plant No. 1 – Ontario, CA



Continued expansion of the dewatering facilities by replacing the existing filter belt presses with a more efficient and cost effective dewatering system; automatic condensate pumps for seven digester condensate collection vaults; and, miscellaneous improvements such as access to the speed switches.

*Regional Plant No. 1
Dewatering Building
Speed Switches*



MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Initiatives for FY 2012/2013 (continued):

◆ ***Recycled Water Projects***

Additionally, proposed state agency landscape irrigation legislation would require divisions of the State to use recycled water when it is available, and irrigation systems must meet Title 22 requirements.

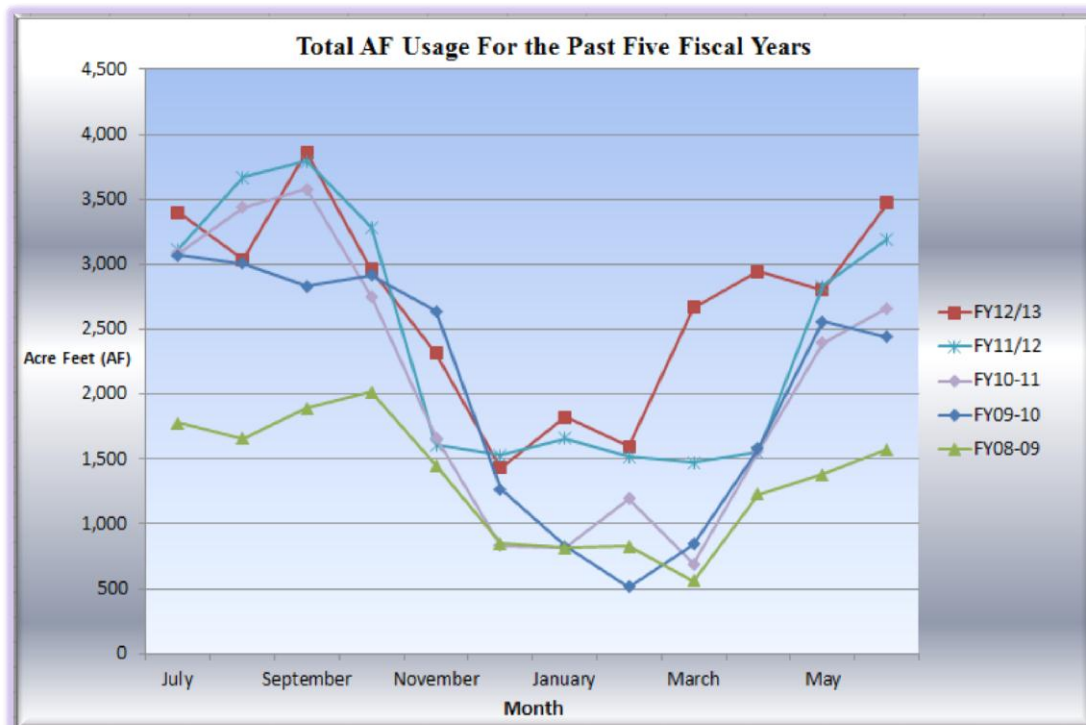
| Type | Existing | | | | Projected | | |
|--------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2014/15 |
| Direct Use | 17,299 | 16,656 | 20,605 | 21,840 | 20,000 | 20,000 | 21,000 |
| GW Recharge | 7,208 | 8,028 | 8,634 | 10,479 | 14,000 | 14,000 | 14,000 |
| Total | 24,507 | 24,684 | 29,239 | 32,319 | 34,000 | 34,000 | 35,000 |

IEUA and its member agencies are committed to the recycled water program, and have been working diligently to implement new customer connections as well as increase supplies of recharged storm water and recycled water.

As of June 30, 2013 the Agency has completed a significant portion of the Recycled Water Business Plan and increased recycled water meter connections by 66 during fiscal year 2012/13.

- Total Member Agency Connected Meters to-date – 753
- New connections made for FY 2012/13: 1,037 AFY.

Annual Recycled Water Connected Capacity Summary (AFY)



MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Initiatives for FY 2013/2014

◆ ***Temporary Turnout Installation Turner Basin No. 1***

This project is to provide immediate recycled water recharge to the Turner Basins by installing a temporary 4-inch PVC turnout north of the basin. The project will provide direct recycled water through the temporary line before the permanent turnout is completed in September, 2013.



◆ ***Turner Basin No. 1 Turnout***



This project is the long term, permanent solution to the recharge limitations at the Turner Basins. The turnout will be approximately 200 linear feet of 16 inch steel pipe and supply 10 cubic feet per second of water to the basins.

An automated control valve and flow metering will also be provided. In order to equally supply all 4 of the recharge basins at the site a bypass will also be constructed underneath the Deer Creek Channel.

The project is part of the matching share for the Turner Basin Recharge Improvement which is partially funded by the Bureau of Reclamation.

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Initiatives for FY 2013/2014 (continued):

◆ *Turner Basin Recharge Improvement Project*



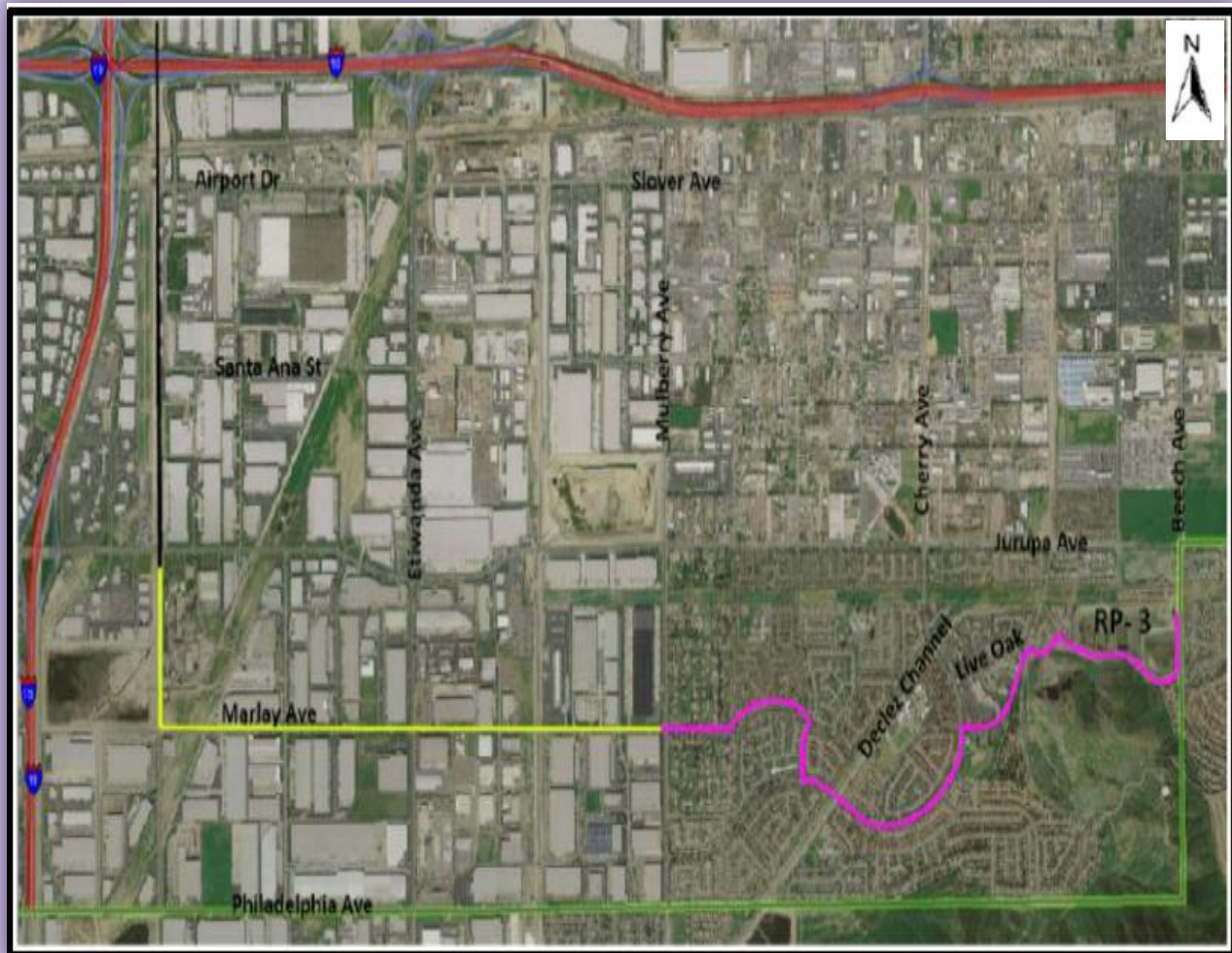
The project involves the installation of new pipe/gate within the two new recharge basins currently being excavated west of Basin 4. This project will also connect an existing flood control retention facility, Basin 5, as a new recharge basin. Construction will include running new storm water piping upstream of the Deer Creek Channel to Basin 8 which will convey flow into the new recharge basin, Basin 5. This project is partially funded by the Bureau of Reclamation with grant of \$406,712. The remaining cost of the project is shared between IEUA and CBWM.

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Initiatives for FY 2013/ 2014 (continued):

◆ *Wineville Extension Recycled Water Pipeline*

The Wineville project includes 6.0 miles of pipeline, which will primarily build the Regional Recycled Water distribution system in the southern part of the City of Fontana and the eastern part of the City of Ontario and will allow for the connection of commercial, industrial customers, parks, and schools, and also provide RP-3 and Declez Basins recycled water for groundwater recharge. The project will connect approximately 3,000 - 4,000 AFY of recycled water.



MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Accomplishments for FY 2012/2013

The highlights of major activities and accomplishments are as follows:

◆ ***Funding Developments***

The significant impact of Agency Grants and Loans on the funding of projects:

➤ ***Federal Grants:***

- The United States Department of Interior, Bureau of Reclamation (USBR) executed on behalf of the Chino Basin Desalter Authority (CDA) for the 1010 Zone Pump Station and New Product Water Pipelines in the amount of \$3,970,000.
- A grant contract with the USBR for the Regional Residential Landscape Surveys and Retrofit Program was executed in the amount of \$199,000.

➤ ***State and Local Grants:***

- The California Department of Public Health (CDPH) executed a grant contract with IEUA for the CDA Phase III expansion project in the amount of \$52,005,716. This agreement is the largest award for a water project in the state. The grant will provide the Chino I and Chino II Desalter facilities with upgraded equipment, wells, pump stations and pipelines. The first grant claim invoice was submitted to the CDPH in the amount of \$7 million for planning, design, administration, and construction costs incurred since March 2005.

◆ ***Significant Events***

Grant Staff received a positive final report from the California Department of Finance, Office of State Audits and Evaluations. The audit covered the four Department of Water Resources (DWR) grants listed below. The audit determined that IEUA's grant expenditures were in compliance with applicable laws, regulations and grant requirements. There were no findings or questioned costs. IEUA was deemed a low risk auditee.

| | |
|--|--------------|
| • Chino Basin Conjunctive Use Program – Proposition 13 Grant | \$15,500,000 |
| • Chino II Desalter Expansion - Proposition 50 Grant | \$ 2,800,000 |
| • Multi-Family Ultra Low Flush Toilet Program – Proposition 50 | \$ 577,150 |
| • Piezometric MZ3 Monitoring Wells - Proposition 50 Grant | \$ 250,000 |

Successful close out of grants and loans

- The SWRCB approved an additional \$1 million dollars of RP-1 Dewatering change order costs incurred through December 31, 2013. Normally, change orders over the initially approved schedule of values are not permissible for reimbursement. This special approval allowed IEUA to claim 100% of the \$27 million American Recovery and Reinvest Act (ARRA), zero percent (0%) interest SRF loan funding.

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Accomplishments for FY 2012/2013 (continued):

Successful close out of grants and loans (continued):

- IEUA received two Congressional Title XVI authorizations in 2009: 1) \$20 million for the Recycled Water Program and 2) \$26 million for the Lower Chino Basin Dairy Area Desalination, Reclamation and Reuse Program. These federal authorizations will pay for 25% of eligible projects costs and will expire in March 30, 2019.

With the Successful close-out of the USBR Northwest Recycled Water Projects grant, as of March 2013, IEUA has successfully completed the \$20 million Recycled Water Title XVI grant in terms of project construction, compliance, and financial audit. As a result of the grant financial close-out audit, the USBR released the \$886,560 remaining grant balance. IEUA grant staff has effectively utilized 100% of the \$20 million authorized.

- IEUA successfully completed the following three SWRCB ARRA grants and is waiting for the final site visit/audit report:
 - Integrated Plan and Clean up - \$1,423,300
 - Magnolia Channel - \$ 773,045
 - Greater Prado Clean up - \$ 213,827

◆ Major Applications

IEUA submitted a revised SRF loan and grant application to the SWRCB for the Central/Wineville Area Recycled Water Distribution Project. The revised application increased the total estimated project cost from \$25 million to \$30.5 million. The scope of the Central/Wineville Area Recycled Water Project SRF loan and grant application includes the Recycled Water Pipeline Segment A and B, and the SCADA System Upgrades project. IEUA anticipates a funding commitment letter to be received from the SWRCB in December 2013.

IEUA submitted three pre-applications for the SAWPA One Water One Watershed (OWOW) Round 2 Proposition 84 Grant Program. The SAWPA Commission unanimously ratified IEUA's 3 Pre-Applications. The following three IEUA projects are included in the OWOW Round 2 Integrated Regional Water Management (IRWM) Plan for a total of \$2,250,000 in grant funding:

| SAWPA Ranking | OWOW# | PROJECT NAME | Grant \$ Requested | Total Cost |
|----------------------|--------------|--|---------------------------|---------------------|
| 1 | 2071 | Wineville Recycled Water and Groundwater Recharge System Upgrade | \$ 1,000,000 | \$ 22,000,000 |
| 1 | 2105 | San Sevaine Ground Water Recharge Basin | \$ 750,000 | \$ 2,500,000 |
| 2 | 2168 | Regional Residential Landscape Retrofit | \$ 500,000 | \$ 1,000,000 |
| | | TOTAL | \$ 2,250,000 | \$ 2,250,000 |

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Accomplishments for FY 2012/2013 (continued):

**Inland Empire Utilities Agency
 Grant/Loan Summary
 As of June 30, 2013**

| Funding Agency | Project Name | Award Amount | Cumulative Invoiced (Through 6/30/12) | Invoiced FY12/13 (07/01/12 - 6/30/13) | Award Balance |
|--|---|-----------------------|---------------------------------------|---------------------------------------|----------------------|
| FEDERAL GRANTS | | | | | |
| United States Bureau of Reclamation (USBR) | Recycled Water Planning | \$ 980,000 | \$ 980,000 | \$ - | \$ - |
| | Regional Recycled Water Distribution | 950,000 | 950,000 | - | - |
| | Regional Recycled Water Program | 4,940,000 | 4,940,000 | - | - |
| | North East Area Recycled Water | 5,938,454 | 5,938,454 | - | (0) |
| | North West Area Recycled Water | 7,871,499 | 6,512,846 | 1,358,653 | (0) |
| | California Water Wise Landscape | 30,000 | 30,000 | - | - |
| | Turner Basin Improvement Project | 406,712 | 52,323 | 294,351 | 60,039 |
| | Regional Residential Landscape Surveys and Retrofit Program | 199,000 | - | 86,048 | 112,952 |
| FEMA/Cal-EMA | FEMA Winter Storm 2010 Disaster | 585,831 | 583,960 | 1,871 | 0 |
| Active Federal Grants | | \$ 21,901,496 | \$ 19,987,583 | \$ 1,740,923 | \$ 172,991 |
| STATE GRANTS | | | | | |
| Department of Water Resources (DWR) | Chino Basin Conjunctive Use | \$ 15,500,000 | \$ 15,500,000 | \$ - | \$ 0 |
| | Multi-Family ULF Toilet Program | 1,650,133 | 1,482,641 | 131,425 | 36,067 |
| | Landscape Water Audit Program | 194,476 | 194,418 | - | 58 |
| | 2008 Urban Drought Program | 1,000,000 | 1,000,000 | - | - |
| Department of Parks & Recreation (DPR) | Water Discovery Field Trip & Bus | 207,900 | 24,490 | 34,843 | 148,567 |
| | Earth Day program | 38,500 | 26,753 | 8,831 | 2,916 |
| Metropolitan Water District (MWD) | Water Softener Salinity Reduction | 95,000 | 95,000 | - | - |
| WaterReuse Foundation | Research for Potable Reuse and Aquifer Storage Projects | 479,995 | 477,912 | - | 2,083 |
| State Water Resources Control Board (SWRCB) | Chino Creek Master Plan | 601,362 | 601,136 | - | 226 |
| | Chino Creek Cleanup (ARRA) | 1,471,491 | 1,398,764 | 24,552 | 48,175 |
| | North East Area Recycled Water | 4,241,635 | 4,241,631 | - | 4 |
| | Greater Prado Basin Clean-up | 76,756 | 76,756 | - | 0 |
| | Greater Prado Clean-up (ARRA) | 298,244 | 212,780 | 1,047 | 84,417 |
| | Magnolia Channel Project | 181,275 | 181,275 | - | (0) |
| | Magnolia Channel Restart (ARRA) | 773,045 | 773,045 | - | 0 |
| | Southern Area Recycled Water | 4,000,000 | 252,264 | 761,792 | 2,985,944 |
| Active State & Local Grant | | \$ 30,809,812 | \$ 26,538,865 | \$ 962,490 | \$ 3,308,457 |
| Total Active Federal, State & Local Grant | | \$ 52,711,308 | \$ 46,526,448 | \$ 2,703,413 | \$ 3,481,447 |
| SRF LOANS | | | | | |
| SWRCB (SRF Loans) | North East Area Recycled Water | \$ 16,630,166 | \$ 15,061,170 | \$ - | \$ 1,568,996 |
| | RW Wells and Lysimeters | 1,285,987 | 998,331 | - | 287,656 |
| | RP-1 Dewatering Facility | 27,434,811 | 25,534,163 | 1,900,648 | - |
| | Southern Area Recycled Water | 20,608,638 | 1,555,072 | 4,779,819 | 14,273,747 |
| Sub-total Active SRF Loans | | \$ 65,959,602 | \$ 43,148,736 | \$ 6,680,467 | \$ 16,130,399 |
| CDA GRANTS | | | | | |
| United States Bureau of Reclamation (USBR) | CDA Wellfield (Wells 1, 2, 3) | \$ 1,526,095 | \$ 387,479 | 145,829 | \$ 992,788 |
| Department of Water Resources (DWR) | CDA II Desalter Expansion | 2,800,000 | 2,800,000 | - | - |
| United States Bureau of Reclamation (USBR) | 1010 Zone Pump Station and New Product Water Pipelines | 3,950,000 | - | 463,749 | 3,486,251 |
| California Department Of Public Health | CDA Phase III Expansion Projects | 52,005,716 | - | 8,029,624 | 43,976,092 |
| Sub-total Active CDA Grants | | \$ 60,281,811 | \$ 3,187,479 | \$ 8,639,202 | \$ 48,455,130 |
| GRAND TOTAL ACTIVE GRANTS & LOANS | | \$ 178,952,721 | \$ 92,862,662 | \$ 18,023,082 | \$ 68,066,977 |
| Active Grants & Loans | | \$ 178,952,721 | \$ 92,862,662 | \$ 18,023,082 | \$ 68,066,977 |
| Closed grants and SRF loans | | \$ 172,130,033 | | | |
| Total Active and Closed Grants & Loans since 2002 | | \$ 351,082,754 | | | |

*Includes FY 2012/2013 Accrued Grant Receipts and Loan Proceeds

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Accomplishments for FY 2012/2013 (continued):

◆ ***Funding Developments***

SWRCB Southern SRF Loan



*Excavation for
Chlorine Contact
Basin Overflow
Structure for the
Carbon Canyon
Water Recycling
Facility Pump Station
Expansion*



*Project Signage
Erected Along the
Eucalyptus Avenue
Right-Of-Way*



MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Accomplishments for FY 2012/2013 (continued):

◆ Funding Developments (continued):

SWRCB Southern SRF Loan



USBR Turner Basin Improvement Project Grant



MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Accomplishments for FY 2012/2013 (continued):

◆ Funding Developments (continued):

SWRCB RP-1 Dewatering Expansion Project



*RP-1 Dewatering
Expansion Project Alfa
Laval's G2-120 Centrifuge
Scroll*



*RP-1 Dewatering
Building*



MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Accomplishments for FY 2012/2013 (continued):

◆ Funding Developments (continued):

USBR Northwest Recycled Water Grant Program



1630 West Recycled Water Pipeline, Segment C Finished Paving and Site Restoration Piping Crossing the Flood Control Channel



Placement of Aggregate Base in New Access Road Around the Tank



MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Accomplishments for FY 2012/2013 (continued):

◆ Funding Developments (continued):

CDA Phase 3 Expansion Projects



California Department of Public Health Proposition 50 Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002

Construction of Concentrate Reduction Facility



USBR Chino Creek Wells 19 through 21 Projects

Welding Centralizers



Bucket Augur Breaking Ground

Funding for these projects has been provided in full or in part through agreements with the California State Water Resources Control Board, the California Department of Water Resources and United States Bureau of Reclamation. The contents of this document do not necessarily reflect the views and policies of the State Water Resources Control Board or the U.S. Government, nor does mention of trade names or commercial products constitute endorsement or recommendation for use. (Gov. Code §7550, 40 CFR § 31.20)

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Accomplishments for FY 2012/2013 (continued):

◆ ***RP-1 - Fuel Cell Project***

During FY 2012/2013 IEUA dedicated a 2.8 megawatt fuel cell power plant to its renewable energy portfolio – the largest fuel cell operating on digester gas in the United States.

The fuel cell power plant, owned and operated by Anaergia Services – a division of Anaergia Inc. came on-line at the Inland Empire Utilities Agency's (IEUA) Water Recycling Plant No. 1 located in Ontario California. Installation of the fuel cell plant assists IEUA with implementing its renewable energy program and removes a significant risk factor regarding compliance with any future changes to clean air regulations.

Digester gas has historically been used at IEUA's treatment plant to provide a fuel for cogeneration engines that provided energy to other processes within the facility. However, since regulatory requirements regarding power generation emissions continue to become more stringent, IEUA entered into a private-public partnership with Anaergia to efficiently convert the waste biogas into ultra-clean electricity.



Anaergia designed, built, financed, owns and operates the 2.8 MW (Megawatt) renewable energy facility under a 20 year Power Purchase Agreement (PPA) with IEUA.

The RP-1 Water Recycling Facility, which can treat up to 44 million gallons a day of wastewater, purchases base load power from Anaergia to offset approximately 60% of the grid power previously used by the facility to treat wastewater. This provides a reliable power source at predefined and competitively priced rates that generate long term cost savings.

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Accomplishments for FY 2012/2013 (continued):

◆ RP-1 - Fuel Cell Project (continued):

At the dedication of the new plant, the IEUA Board President stated “IEUA is proud to expand its already successful renewable energy program with the addition of this biogas powered fuel cell system. The fuel cell allows IEUA to move closer to its strategic energy plan goal to go “Gridless by 2020” with almost no capital outlay by the Agency. The Agency’s plan is to minimize IEUA’s dependency on energy purchased from the grid, and to be able to operate completely off the grid during peak energy usage periods.”



Steve Watzeck, CEO of Anaergia Inc. stated “The RP-1 Fuel Cell Project with IEUA is a world class example of how energy self-sufficiency can be obtained by generating renewable and cost effective electricity onsite under a power purchase agreement. This project has a lasting and positive impact on the area by reducing greenhouse gas emissions in California’s South Coast Air Quality Management District and providing long term electricity cost savings to the Agency. Anaergia is pleased to be a part of IEUA’s renewable energy portfolio and contribute to their goal of energy self-sufficiency by 2020.”

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Accomplishments for FY 2012/2013 (continued):

◆ IERCA COMPOSTER OF THE YEAR - 2012

The Inland Empire Regional Composting Authority (IERCA) is a joint project between the Inland Empire Utilities Agency and the Los Angeles County Sanitation Districts (CSDLAC). Established in 2002, the IERCA operates the Inland Empire Regional Composting Facility (IERCF) located in Rancho Cucamonga.

In alignment with International Compost Awareness Week, on Tuesday, May 7, 2013, the Inland Empire Regional Composting Authority was presented with the award for 2012 Composter of the Year.

“The Inland Empire Regional Composting Authority’s Board of Directors is extremely pleased to be recognized for its contributions to the composting industry.

The IERCF is environmentally friendly and cost effective. Congratulations to everyone involved for their dedication and support of this successful project,” stated Jon Blickenstaff, IERCA Board Chairman.



Director Gene Koopman and Board Chairman Jon Blickenstaff from the IERCA were there to receive the award from Lorrie L. Loder, President of the U.S. Composting Council.



The IERCF is the nation’s largest indoor composting facility. The IERCF utilizes one of the world’s largest biofilters and is fully compliant with South Coast Air Quality Management Districts’ stringent air standards. The facility’s urban location also saves thousands of miles of truck traffic and keeps the organics local for beneficial reuse. The compost creates healthy soils while creating beautiful landscapes and saving water.

During International Compost Awareness week, IEUA celebrated on May 8th by giving away free bags of compost to local residents.

FUTURE YEARS

The Agency, its member agencies and key stakeholders continue to be impacted by several major factors which include: sustaining water reliability through the development of local water supplies in order to minimize the need for additional imported water; complying with ever-changing and more rigid regulatory requirements; mitigating the impact of an anemic economic recovery and its continuing negative impact to key revenue sources; and effectively leveraging human, capital, and fiscal resources to enhance efficiencies, succession planning, and contain costs.

As a regional water distributor, the Agency is responsible for regional urban water supply planning for the western portion of San Bernardino County. Since year 2000, IEUA has been working on an integrated water management strategy with the Chino Basin Watermaster (CBWM), Santa Ana Watershed Project Authority (SAWPA), Santa Ana River Watermaster, Metropolitan Water District of Southern California (MWD), Santa Ana Regional Water Quality Control Board (SARWQCB), and the area's cities and retail water agencies. The goal is to develop local water supplies in order to minimize the need for additional imported water, as well as improve water quality within both the Agency's service area and the Santa Ana River Watershed. During the three-year drought California experienced in 2007 through 2009 and other emergencies when imported water is less reliable, "drought-proofing" the region is especially vital.

Completion of the Agency's Regional Recycled Water Distribution System is part of the Recycled Water Business Plan and it is consistent with Agency's integrated management strategy which includes the Optimum Basin Management Program (OBMP), SAWPA's "One Water One Watershed" (OWOW) program, and the Recharge Master Plan. The purpose of the Recycled Water Business plan is to accelerate the implementation of the \$200 million Capital Improvement Program designed to deliver approximately 50,000 acre-feet per year (AF) by FY 2021/22. The OBMP is intended to ensure the region's ability to meet its current and future water needs; OWOW program is a systems approach to water quality management that complements existing centralized infrastructure with decentralized facilities; and the Recharge Master Plan is designed to ensure a strategic and cost effective approach in the development of local water supplies.

The use of recycled water provides a cost effective, dependable and environmentally friendly water supply that can be used for a number of different operations. IEUA continues to encourage recycled water for use in landscaping, irrigation, business processes, and other state permitted uses. The Agency anticipates that by FY 2021/22 the recycled water program will provide 50,000 Acre-Feet per Year (AFY), in support of the Governor's goal to reduce water consumption by 20 percent by the year 2020.

Delivery of recycled water has been steadily increasing since FY 2001/02 from 4,442 AF to over 32,000 AF in FY 2012/13. An estimated sale of 34,000 AF is anticipated in FY 2013/14 as part of the WC fund.

FUTURE YEARS (continued):

Water conservation is another key component of the Agency's integrated water management strategy. IEUA, through its member agencies, currently services approximately 850,000 residents in the Chino Basin region. Over the next 25 years, population is expected to double. IEUA and its member agencies recognize the need to develop and promote programs that protect existing water resources for the region's sustainability and future growth. Conservation and the efficient use of water is the most cost-effective source of water supply reliability and are essential to meeting our region's demand, today and in the future. As the regional wholesale supplier of imported water, IEUA has assumed a lead role in coordinating the region's conservation activities to reduce water demand. Continuation of several key programs such as the water nozzle voucher, ultra-low flush toilet trade-in, Garden in Every School, and numerous other outreach and educational programs are included in the Agency's FY 2012/13 Water Resource Fund initiatives.

Changes in environmental regulations and new legislation can significantly impact the Agency's operations and costs. Therefore, close collaboration of dedicated staff and trade organizations is essential to proactively track and effect proposed changes in order to mitigate the impact to the Agency.

The South Coast Air Quality Management District's revision of Rule 1110.2 is an example of a regulatory change that significantly changed the direction of the Agency's renewable energy generation portfolio by reducing the IEUA's ability to produce its own electricity. Approximately 2.8 megawatts (MW) of electricity previously produced by internal combustion engines will now be generated by fuel cells installed at the Agency's Regional Water Recycling Plant (RP-1). The fuel cell project avoids costly retrofitting of ICEs to meet 1110.2 requirements. Implementation of the fuel cell project through the public-private partnership model using a PPA also avoids large capital outlay by the Agency.

Additionally, the adoption of California Assembly Bill (AB) 32 the California Global Warming Solutions Act in 2006 by the state legislature set an aggressive goal to reduce greenhouse emissions over the next 40 years. Starting in 2012, this bill requires implementation of programs to achieve a 20% reduction in greenhouse gas emissions by the year 2020, and more stringent regulations limiting the use of natural gas in energy generation. A critical component of the Agency's commitment to cost containment continues to be mitigating imported energy costs over time by maximizing use of self-generated and renewable energy power. Consistent with the 2008 Energy Management Strategy, the Agency's "Go Gridless by 2020" initiative was formally adopted by the IEUA Board in February 2012, and focuses on energy independence from the Southern California Edison (SCE) grid during the peak energy use/pricing periods by the year 2020 or sooner. Although the impact to the Agency is estimated to be the minimums at this time, staff is monitoring the rules and regulations closely to ensure the Agency is prepared for any changes.

In 2011 the Governor approved two bills which will have a positive impact on distributed generation in California. The revised net metering tariffs will allow Net Energy Metering (NEM) to all renewables up to 1MW and the Renewable Energy Self Generation Bill Credit Transfer Program (RESBCT) will allow a local government to generate electricity at one account and transfer any available excess bill credits (dollars) to another account owned by the same local government, up to a maximum of 5MW.

FUTURE YEARS (continued):

These changes will provide the Agency the ability to optimize utilization of its renewable energy resources which have expanded to include; 3.5MW of solar power, 1.0MW of wind power, and 2.8MW of fuel cell power. All of these renewable energy technologies were installed as part of a power purchase agreement (PPA) with no capital outlay or ongoing maintenance costs to the Agency. IEUA has also executed a public/private partnership to generate bio-gas from food waste, which in turn will generate approximately 1.5MW of electricity in the first phase of the project. The project not only produces renewable energy, but it also diverts solid waste from landfill disposal.

In the long term, these new energy initiatives will result in energy cost savings to the Agency by mitigating the volatility in energy market. The related long term contracts for the purchase of the generated energy will help mitigate anticipated future rate increases imposed by Southern California Edison for grid energy purchases. The pre-set rates will reduce the Agency's energy costs going forward.

An ongoing challenge is to improve our efficiencies and effectiveness to sustain affordable cost of service rates. The IEUA Board, sensitive to the ongoing economic conditions and the challenges faced by its member agencies and their residents, and hopeful of economic improvement. However, setting a historic precedent, on February 1, 2012 the IEUA Board approved multi-year rate increases for fiscal years (FYs) 2012/13 through 2014/15, with those rate increases effective July 1, 2012. The rate increases are effective for two of the Agency's core programs; the Regional Wastewater and the Recycled Water programs. These rate increases are essential in mitigating declining revenues due to the drop in property assessment values, high number of foreclosures, and slowdown of new development as a result of the economic downturn. The multi-year rate increases are consistent with the Agency's Cost Containment Plan, formally implemented in FY 2008/09.

Moreover, adoption of multi-year rates support the IEUA's Board objective to reverse the downward trend of the Agency's total DCR and begin to replenish fund reserves that have been depleted to fund the ongoing shortfall in both operating and critical capital investment costs. A key objective of the IEUA Board is to improve the DCR to 1.50x and 1.70x by end of FYs 2013/14 and 2014/15, respectively.

Another key objective is to ultimately achieve full cost of service rates that support operating and capital replacement costs for each of the Agency's programs. Achieving these key financial goals is essential to improving the Agency's fiscal health, sustaining its AA credit rating, and better positioning the Board and management to respond to future economic and demographic changes.

Even after the adopted rate increases, the Agency's wastewater and recycled water rates continue to be amongst the lowest in Southern California. In conformity with the 2013 Long Range Plan of Finance (LRPF), the Agency has been, and will continue to be proactive in reducing costs and improving overall efficiencies and effectiveness in its business practices.

FUTURE YEARS (continued):

The key cost containment measures targeted for FY 2013/2014 are:

- ◆ **Employment** – maintain an average vacancy factor of up to 5 percent, equivalent to 15 full time employees, and continue to hold a soft “hiring freeze” only filling critically necessary positions as determined by the General Manager.
- ◆ **Professional Services** – continue to maximize utilization of in-house resources in lieu of outside contractors and consultants when it is economically feasible.
- ◆ **Biosolids Recycling** – decrease biosolids processing costs by increasing solids contents from 18 percent to 24 percent per wet ton of biosolids due to projected efficiencies of the new centrifuge technology at the Regional Water Recycling Plant (RP-1) Dewatering Facility.
- ◆ **Chemicals** – sustain chemical costs by continuing the use of enhanced application methods to optimize usage, application of key performance measures to monitor costs, and aggressive negotiation of market contract pricing.
- ◆ **Utilities** – optimize utilization of solar, wind, fuel cell, and bio-gas energy generation technologies to further diversify the Agency’s renewable energy portfolio consistent with *Peak Power Independence by 2020* Initiative adopted by the Board in April 2012.

Vision

The IEUA’s vision statement unequivocally states the Agency’s intent to be a major contributor to enhancing the quality of life for the residents it serves within the Inland Empire. Water is one of our most valuable resources.

The Agency is in a position to provide optimum water resources management for the area’s customers while promoting conservation and environmental protection. The Agency strives to ensure that the quality of this resource is protected and is available in sufficient quantities to meet area needs.



The mission of the Agency is to supply imported and recycled water, collect, treat, and dispose of wastewater and provide other utility-related (renewable electrical energy, compost) services to the communities it serves.

The Agency strives to provide these services in a regionally planned, managed, and cost-effective manner.

The Agency has identified and committed to broad policy goals designed to move the Agency forward in executing its mission and attaining its vision.

FUTURE YEARS (continued):

Vision (continued):

Those broad policy goals can be categorized into nine major thematic areas:

1. Conservation & Water Quality
2. Technological Innovation
3. Rate Stabilization and Cost Effectiveness
4. Operational and Maintenance Efficiency
5. Strategic Planning and Capital Implementation
6. Waste Management and Resources Utilization
7. Interagency Relationships and Community Partnerships
8. Fiscal Accountability and Regulatory Compliance
9. Staff Training, Development, and Well Being

Each year, organizational divisions and departments develop specific goals and objectives in support of the Agency's overall goals. These goals and objectives serve as a roadmap for achieving the Agency's policy goals, mission, and ultimately its vision. The end result of this entire process is to achieve a performance driven, results based work program. This will ensure that efforts and resources are being effectively directed toward accomplishment of the mission and vision.

In support of the policy goals are the following significant objectives the Agency will undertake in the future years.

- ◆ Operate in an ethical, transparent, accountable, and collaborative manner;
- ◆ Encourage stakeholder collaboration to promote a regional approach to addressing vital issues and concerns affecting the Chino Basin and its residents.
- ◆ Continue cost containment efforts while ensuring that defined levels of service are not compromised.
- ◆ Reduce energy costs by maximizing the generation and use of renewable energy sources that include solar, wind, fuel cells, and bio-gas as part of the Agency's *Peak Power Independence by 2020* Initiative.
- ◆ Control chemical costs through application of Key Performance Indicators (KPIs) that monitor consumption and aggressively compete and negotiate chemical procurement contracts.

FUTURE YEARS (continued):

Vision (continued):

- ◆ Continue to develop and protect local water supplies in an effort to “drought-proof” the Chino Basin region and promote water reliability by:
 - Expanding use of recycled water in irrigation, landscaping and industrial uses in lieu of more costly imported water;
 - Maintain groundwater recharge basins in order to optimize the recharge of storm water, recycled water and replenishment imported water supplies;
 - Protect the quality of local water supplies by reducing salt and other emerging contaminants; and
 - Promote water conservation and water use efficiency through education and outreach programs that inform the public of the importance of protecting water (one of our most valuable resources).
- ◆ Undertake a balanced and measured approach to capital investment within the constraints of available funding, focusing on enhancing operating efficiencies that produce cost savings while sustaining delivery of high quality services.
- ◆ Leverage grants and low interest debt to augment investment in capital needs and regional water sustainability and reliability.
- ◆ Further enhance the Agency-wide SAP Enterprise Resource Planning (ERP) system and implement innovative technologies to continue to drive efficiency improvements and streamline business processes.
- ◆ Optimize asset management strategy through:
 - Continued condition assessments of aging facilities and pipeline infrastructure;
 - Planned capital replacements, improvements, and expansion; and
 - Transition from Preventive to condition based monitoring to optimize asset life cycles and more effectively utilize resources

FINANCIAL INFORMATION

Internal Controls

The management of the Agency is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Agency are protected from loss, theft or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles.

FINANCIAL INFORMATION (continued):

Internal Controls (continued):

The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Controls

The Agency maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annually appropriated budget approved by the Agency's Board of Directors. The level of budgetary control (i.e., the level at which expenditures cannot legally exceed the appropriated amount) is the category level (i.e., Capital and Operating) within the Agency. The Agency maintains an encumbrance accounting system as an additional method of maintaining budgetary control. Encumbered amounts lapse at the end of the fiscal year. However, outstanding encumbrances are generally re-appropriated as part of the following fiscal year's budget following Board approval.

OTHER INFORMATION

Independent Audit

State statutes require an annual audit by independent certified public accountants. The Agency's Board of Directors appointed the firm of White Nelson Diehl Evans and Company, LLP to perform the annual audit. As part of the audit, reviews were made to determine the adequacy of the internal control, and to ensure compliance with applicable laws and regulations related to all financial activities conducted by the Agency. Generally accepted auditing standards were used by the auditors in conducting the engagement. The auditor's report on the basic financial statements, supplementary and statistical schedules is included in the financial section of this report.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Inland Empire Utilities Agency for its comprehensive annual financial report for the fiscal year ended June 30, 2012. This was the fourteenth consecutive year the Agency has received this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

*December 18, 2013
To the President and Members of
The Board of Inland Empire Utilities Agency*

Acknowledgements

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the Agency's Fiscal Management Department. We also would like to express our appreciation to the other Agency departments for their cooperation, assistance and support.

We further acknowledge the thorough and professional manner in which our auditors, White Nelson Diehl Evans and Company, LLP conducted the audit.

Additionally, we would like to acknowledge the Board of Directors for their continued support of the Agency's goal of sound accountable financial management, and for maintaining the highest standards of professionalism in the management of the Agency's finances. We truly appreciate their unfailing interest and support.

Respectfully submitted,



P. Joseph Grindstaff
General Manager



Christina Valencia
Chief Financial Officer



Government Finance Officers Association

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

Presented to

**Inland Empire Utilities Agency
A Municipal Water District
California**

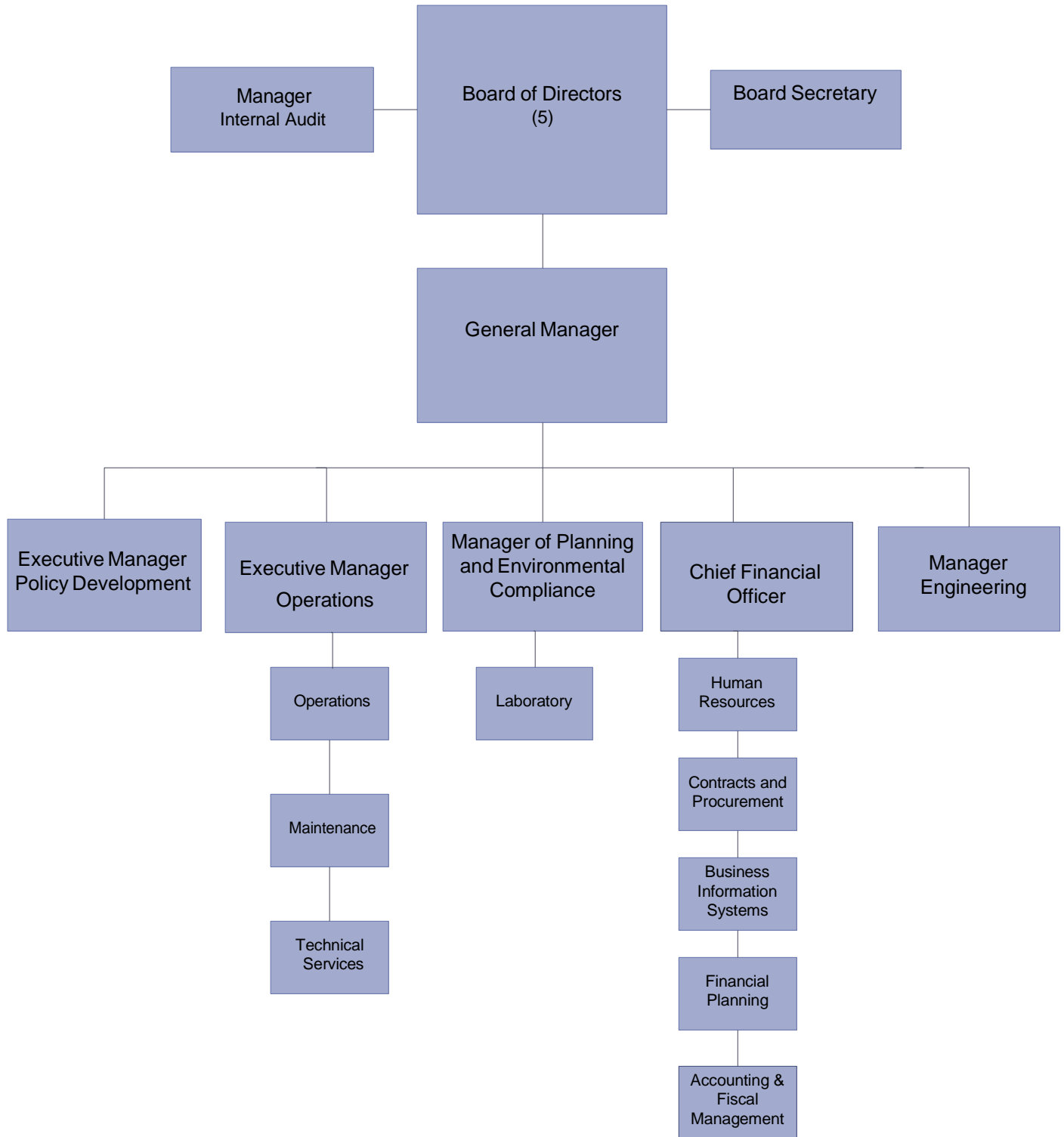
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

INLAND EMPIRE UTILITIES AGENCY

FY 2012/2013 ORGANIZATIONAL CHART



INLAND EMPIRE UTILITIES AGENCY

Principal Officials

June 30, 2013

BOARD OF DIRECTORS

| | |
|---------------------------|----------------------------|
| Terry Catlin | <i>President</i> |
| Michael E. Camacho | <i>Vice President</i> |
| Steven Elie | <i>Secretary/Treasurer</i> |
| Gene Koopman | <i>Director</i> |

EXECUTIVE STAFF

| | |
|-----------------------------|---|
| P. Joseph Grindstaff | <i>General Manager</i> |
| Christina Valencia | <i>Chief Financial Officer</i> |
| Martha Davis | <i>Executive Manager - Policy Development</i> |

MANAGEMENT STAFF

| | |
|-------------------------------|--|
| Cameron Langner | <i>Manager - Contracts and Procurement</i> |
| Christopher Berch | <i>Manager - Planning & Environmental Compliance</i> |
| Javier Chagoyen-Lazaro | <i>Manager - Fiscal Management</i> |
| Tina Y. Cheng | <i>Budget Officer</i> |
| Parivash Dezhnam | <i>Manager - Pre-Treatment and Source Control</i> |
| Jonathan Glazier | <i>Manager - Enterprise System Services</i> |
| Warren Green | <i>Manager - Human Resources, Safety, and Support Services</i> |
| Nelletje Groenveld | <i>Manager - Laboratories</i> |
| Jason Gu | <i>Grants Officer</i> |
| Ernest Yeboah | <i>Manager - Maintenance</i> |
| Paddy Mwembu | <i>Manager - Financial Planning</i> |
| Craig J. Parker | <i>Manager - Engineering</i> |
| Teresa Velarde | <i>Manager - Internal Audit</i> |
| April Woodruff | <i>Board Secretary</i> |

STRIVE TO ACHIEVE RECOGNITION (STAR) PROGRAM



The Agency Mission statement was specifically written to provide guidelines for the success of the Agency, its officials, and employees. The Board of Directors and employees of the Agency are responsible for fulfilling the mission and values by expecting and demonstrating:

*Loyalty, professionalism and ethical behavior.
Open and courteous communication with each other and with the communities served.
Prudent and cost-effective resource planning, management, and utilization.
Safety and integrity of the Agency's employees, services, facilities, and the environment.
Innovation in meeting the present and future needs of the Agency.*

The STAR Program was conceived based upon the concept of giving public recognition to employees who consistently perform their job duties diligently and superbly. Since its inception, the STAR Program has been considered an "employee" program. Candidates must be non-management employees. Based on leadership, creativity, performance, teamwork, and other individual outstanding characteristics, candidates are nominated by their peers. Additionally, candidates are voted on by a Selection Committee of their peers, with management exempt from the voting. The STAR program has continued to gain acceptance, and the annual award for the Employee for the Year has become a much-anticipated event.

For the purposes of the STAR Program, the Agency is divided into three areas: 1) Finance/Administration Division, 2) Engineering/Planning Division, and 3) Operations Division. Each of these three areas has three representatives who serve on the Selection Committee (a total of nine committee members). The STAR program was started as a quarterly program. In Fiscal Year 1999/2000 the program was modified to a semi-annual award, to enjoy greater program participation. Accordingly, the prize award was also increased to afford more employee appeal. Following are the semi-annual STAR Award recipients for the FY 2012/2013:

First Half FY 2012/2013

Finance/Administration

Rose Nguyen – Business Systems Analyst

Engineering/Planning

Michelle O'Brien – CIP Coordinator

Operations

Matthew Melendrez – Jr. Operations Assistant

Second Half FY 2012/2013

Finance/Administration

Paty De La Cruz - Receptionist

Engineering/Planning

Stacey Scott – Management Analyst Primavera

Operations

Bonnie Hunter – Administrative Secretary

Employee of the Year

For the FY 2012/13, Bonnie Hunter, was chosen by the Selection Committee as the Employee of the Year.



IEUA STAR AWARD RECIPIENT
Employee of the Year 2012/2013



Bonnie Hunter
Administrative Assistant

Bonnie is RP-1's main SAP, ESS (new and old time cards), AIM, and Microsoft Office guru. She is routinely asked to help staff process chemical deliveries/orders, input and obtain warehouse orders, input purchase requests, and fill out time cards correctly. Aside from all the technical support on agency software, Bonnie has an open door policy, providing a comfortable environment for the Operations and Laboratory staff to seek support with their miscellaneous assignments throughout the day. Bonnie always provides a smile and is able to give insight, direction and reasoning about the purpose of the activities that may have been frustrating staff prior to the clear explanation. The one-on-one friendly teamwork increases the overall morale at RP-1. With Bonnie's input staff often feels they have a better understanding of their assignments and get the assignments done correctly the first time.

Not only has Bonnie been an incredible asset to RP-1, but she has stepped up and provided tremendous support to the southern facilities as well. As support staff have rotated and been out on leave, Bonnie has not hesitated in providing her expertise to ensure that the southern facilities operate just as smoothly as RP-1 and RP-4.

Bonnie is a true asset to everybody she supports and is recognized as a STAR employee.

IEUA Laboratory



TOP: Receiving Groundwater Recharge lysimeter samples, verifying the Chain of Custody matches sample bottles

BOTTOM: RP-1 Operator delivering the first samples of the day from RP-1 Tertiary process (TP-1).



Getting ready to set the schedule for the Ammonia test on the Segmented Flow Analyzer.

Reviewing Nitrate and Nitrite results from the Ion Chromatography analysis



Samples prepared for colormetric analysis of Cyanide.



INDEPENDENT AUDITORS' REPORT

Board of Directors
Inland Empire Utilities Agency
Chino, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Inland Empire Utilities Agency (the Agency) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Agency'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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. 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 auditors' 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 auditors consider internal control relevant to the Agency'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 Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Inland Empire Utilities Agency as of June 30, 2013 and the 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, as well as the accounting systems prescribed by the State Controller's Office and State regulations governing Special Districts.

Emphasis of Matter

As discussed in Note (1)d, the Agency incorporated deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure of net position due to the adoption of Governmental Accounting Standards Board's Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". The adoption of this standard also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Our opinion is not modified with respect to this matter.

As discussed in Note (1)d, the Agency has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal year 2012-2013 due to the early adoption of Governmental Accounting Standards Board's Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". The adoption of this standard required retrospective application resulting in \$1,451,864, \$178,519 and \$131,626 reductions of previously reported net position in the Regional Wastewater Fund, the Recycled Water Fund and nonmajor fund, respectively. Our opinion is not modified with respect to this matter.

Other Matters:

Partial Summarized Comparative Information

We have previously audited the Inland Empire Utilities Agency's 2012 financial statements, and our report dated November 26, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the partial summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of funding progress for the CalPERS pension plan and other post-employment benefit plan, as identified in the accompanying table of contents, 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 the 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 on them.

Other Matters (Continued):

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The introductory section, supplementary information and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information, as listed in the table of contents, is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2013 on our consideration of the Agency'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 Agency's internal control over financial reporting and compliance.

White Nelson Dick Evans LLP

Irvine, California
December 11, 2013

Regional Plant No.3 Cell Inlet



MANAGEMENT'S DISCUSSION AND ANALYSIS

The intent of the management's discussion and analysis is to provide highlights of the financial activities of the Inland Empire Utilities Agency for the fiscal year ended June 30, 2013. Readers are encouraged to read this section in conjunction with the transmittal letter and the accompanying basic financial statements.

Agency's Fund Financial Statement

Within the financial reports, funds are classified as part of either a Major fund group, if the fund meets both of the following conditions: 1) Exceeds 10% of fund category and 2) Exceeds 5% of the total of Assets, Liabilities, Revenues, and Expense; or Non-major fund group. Because of the nature of the Agency's business, all funds are classified as "Proprietary" funds, using full accrual method of accounting, which recognizes transactions when they occur, regardless of when cash is exchanged.

The Agency's Operations – an Overview

As a municipal water district, Inland Empire Utilities Agency engages in primarily enterprise operations in various separate and distinct activities. These activities are comprised of: 1) wholesaling of potable water, and regional management of water resources; 2) production and sale of recycled water and construction of the recycled water distribution system; 3) treatment of domestic wastewater and the acquisition and construction of conveyance and plant facilities; 4) organics management, digestion and marketing; 5) operation of a brine line non-reclaimable wastewater system, and 6)) generation of renewable energy through biogas, solar, wind and fuel cell.

Total revenues, including grants and subsidies, of \$134,287,194 for Fiscal Year (FY) 2012/13 reported an increase of \$27,063,754 compared to \$107,223,440 recorded for FY 2011/12. The net increase was primarily due to: 1) \$5,685,886 increase in service charges, mainly due to increase in monthly meter rate; 2) \$1,942,137 in recycled water sales, mainly due to increase in recycled water rates and water deliveries; 3) \$6,928,261 in wastewater capital connection fees, mainly due to the construction of medical & hotel facilities in the service area; and 4) \$15,392,429 increase in property tax revenue. These increases were partially offset by a decrease of \$144,412 in interest income as investment yields continued to drop, \$1,051,793 in other non-operating revenues, and \$1,688,754 in capital grants.

Total expenses of \$110,345,008 for FY 2012/13 were \$908,290 higher than the \$109,436,718 reported in FY 2011/12, including an overall decrease in operating expenses of \$524,548. The decrease in operating expenses was due to: 1) a cumulative net decrease of \$2,146,784 in wastewater collection, treatment and disposal costs reported at a combined total of \$32,176,432; 2) an increase of \$143,677 in operation and maintenance expenses reported at 3,868,448; 3) \$1,760,660 in depreciation and amortization reported at \$31,933,552 and 4) a decrease in administration and general expenses of \$282,101 reported at \$24,473,192.

FINANCIAL HIGHLIGHTS

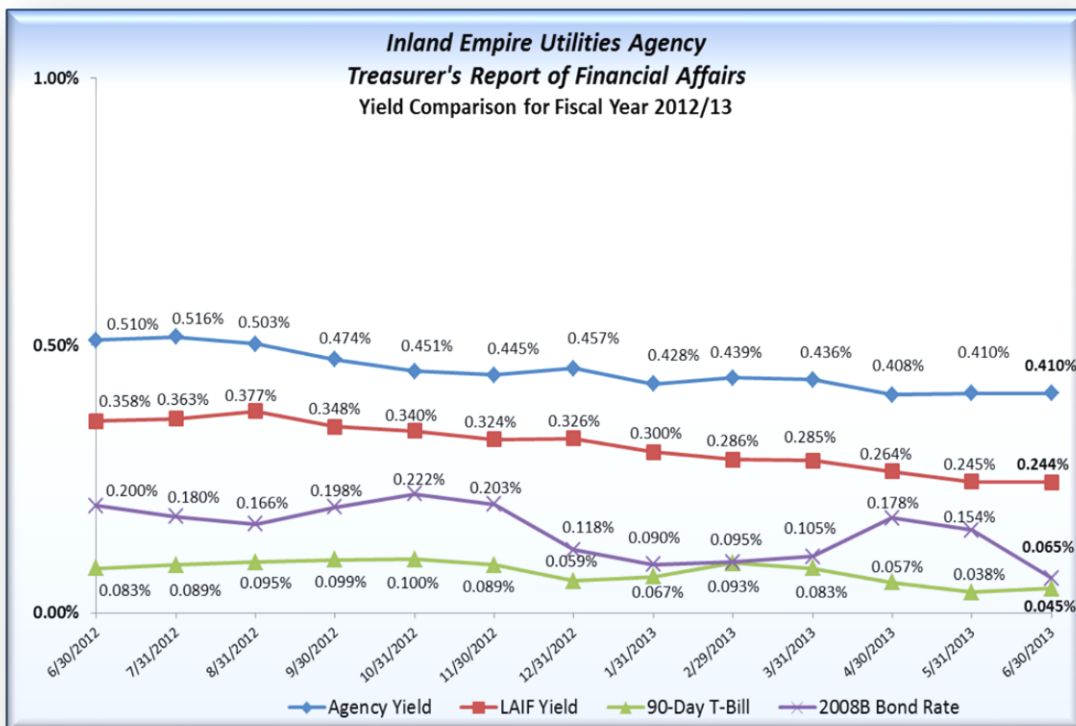
Cash and Investment Management

The Agency has a comprehensive cash and investment program subject to California State Code and bond covenants. These regulations are incorporated into the Agency's Investment Policy and Master Resolution which identify the authorized investment types and any restrictions. Consistent with the State of California Government Code, the Agency annually adopts an investment policy that is intended to remain sufficiently liquid to meet all operating requirements reasonably anticipated, safeguard the principal investment and minimize credit and market risks, while maintaining a competitive yield on the overall portfolio. The Agency's cash management system is also designed to forecast revenues and expenditures in order to identify and invest idle funds to the fullest extent possible. During the fiscal year ended June 30, 2013, idle funds were invested in accordance with this policy. These investments primarily consisted of United States Government Securities/Instrumentalities, state issued municipal bonds, medium term notes and deposits in a pooled investment fund administered by the State of California.

Investment Portfolio Performance

Despite signs of slow economic recovery and signs of inflation, interest yield continues to edge downward in FY 2012/13. The Agency's overall portfolio continues to decline from 0.510% in July 2012 to 0.410% by June 30, 2013.

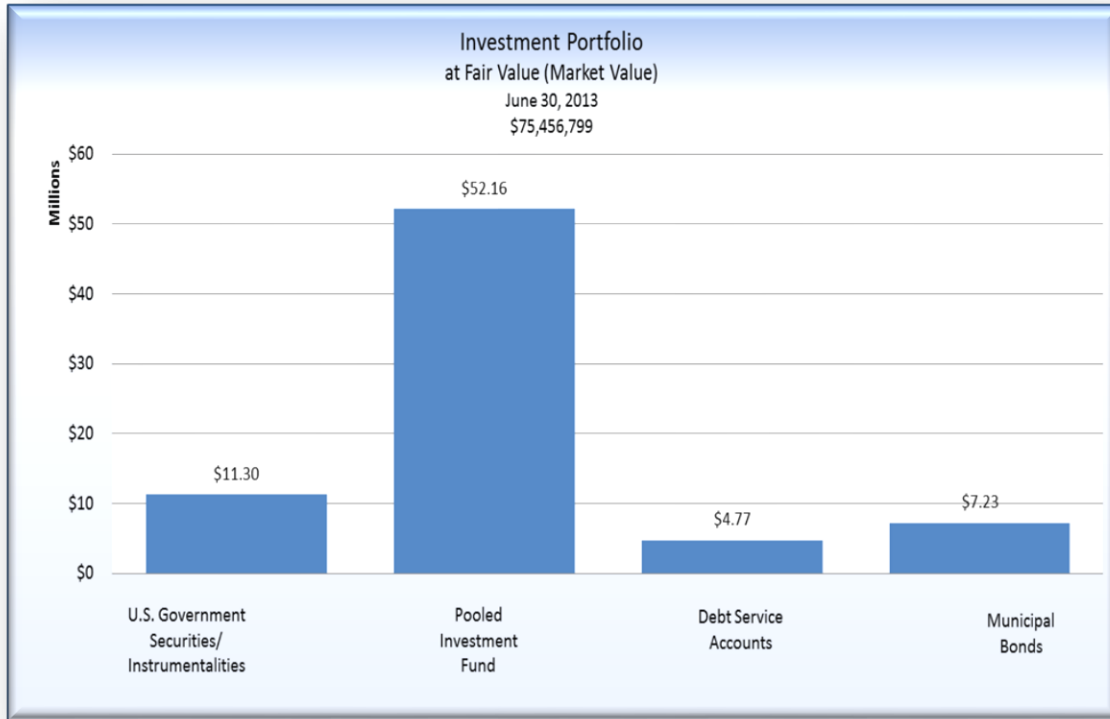
Total interest income for FY 2012/13 of \$818,784 dropped 15% as compared as to \$963,196 in FY 2011/12.



FINANCIAL HIGHLIGHTS (continued):

Cash and Investment Management (continued):

The Agency has followed a conservative approach in conducting its investment activities and in accordance with the established Investment Policy and Master Resolution. Agency staff successfully managed the investment portfolio to attain the Agency’s investment objectives, which are in the order of priority: liquidity, safety, and yield.



The Agency’s portfolio fund balance for the fiscal years ended June 30, 2013 and June 30, 2012 were \$75,456,799 and \$80,802,978 respectively.

Chino Basin Desalter Operations

Under the provisions of the Operation and Maintenance Agreement between the Agency and the Chino Basin Desalter Authority (CDA); the Agency deployed the appropriate personnel to manage the production, treatment and distribution of the water produced by the Chino I desalination facility (Chino I Desalter).

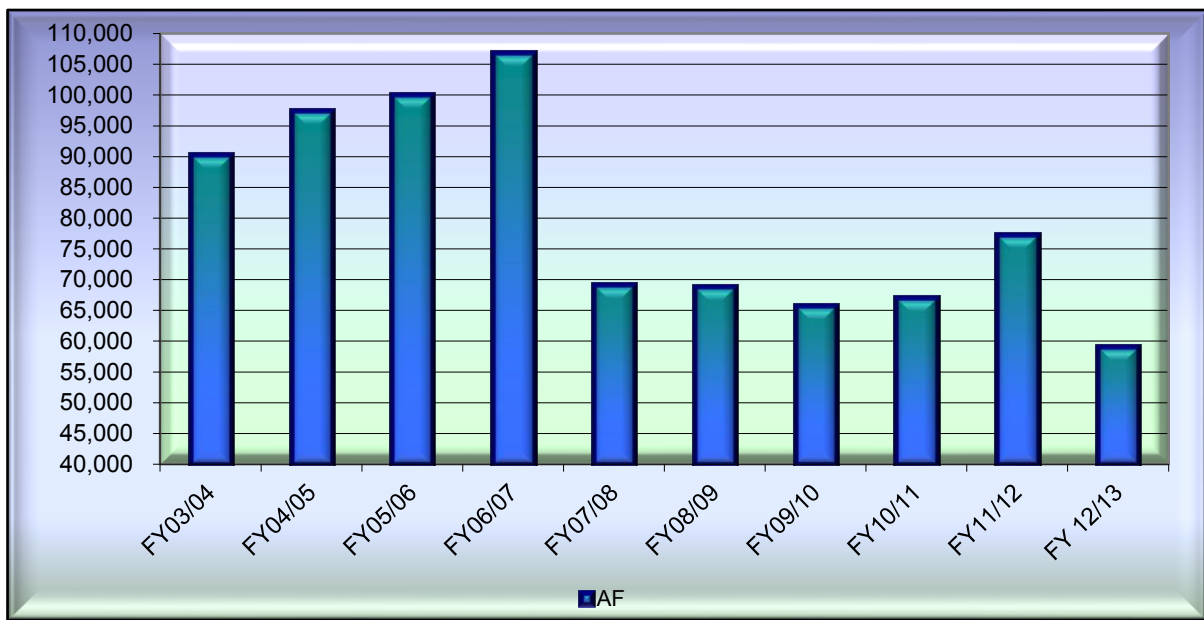
All operations and maintenance expenses related to the Chino I Desalter operations, including labor incurred by the Agency, are recorded in the Agency’s Administrative Service Fund. These expenses are billed to the CDA monthly. In FY 2012/13, the total amount billed and reimbursed was \$1,387,408 and reported as non-operating revenue.

FINANCIAL HIGHLIGHTS (continued):

Imported Water Deliveries

Imported water deliveries for FY 2012/13 were 59,051 acre feet (AF) compared to a total budget of 60,000 AF. A surcharge of \$12 per AF was levied by the Agency for all imported water deliveries. Below is a comparative of imported water deliveries for the past ten fiscal years; the primary drivers in the decline of imported water deliveries beginning in FY 2007/08 is a result of water conservation measures and state legislative and regulatory requirements designed to sustain and meet future water supply needs, and a high number of vacancies and foreclosures resulting from the economic downturn. The increase in FY 2011/12 is the purchase of 25,775.80 AF of surplus (*replenishment long term*) water made available by Metropolitan Water District of Southern California (MWD.)

Comparative Acre Feet (AF) Deliveries
(Includes Conjunctive Program Use AF)
For the Past Ten Fiscal Years



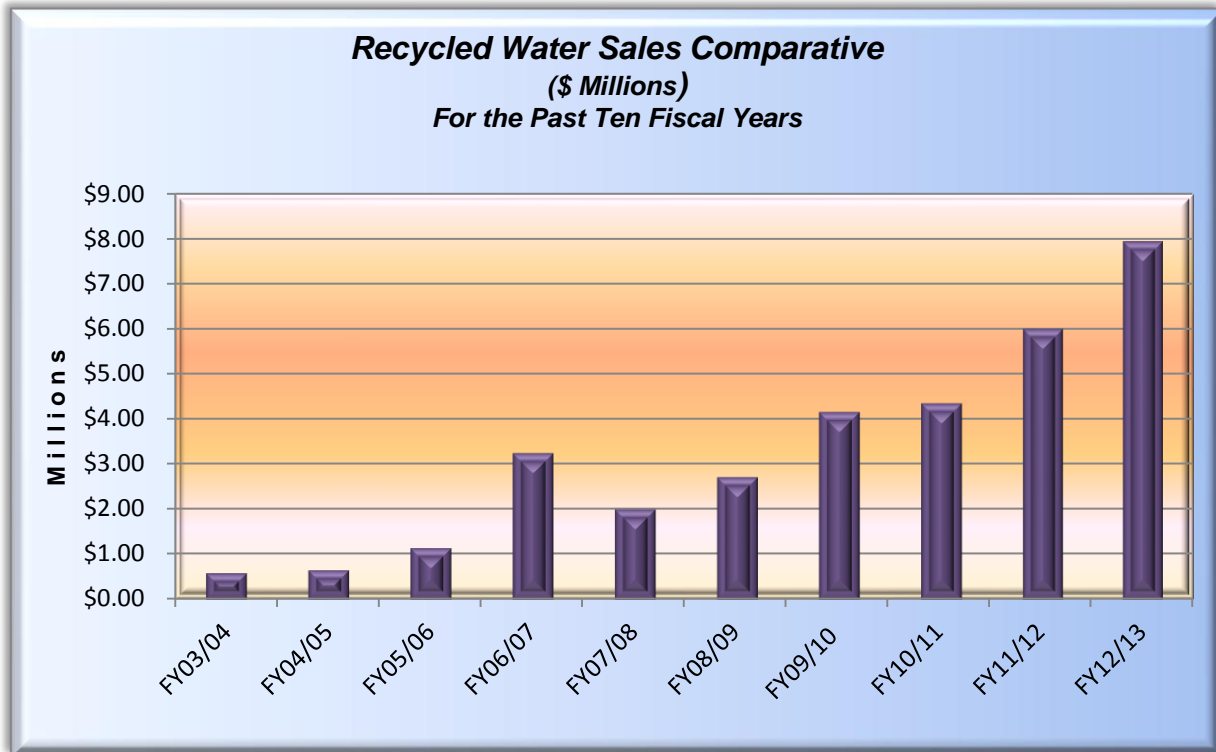
The total operating revenue in FY 2012/13 was \$4,262,366 compared to \$4,258,189 the prior fiscal year. The increase was primarily due to an increase in the monthly meter rate (effective July 2012) of 7%, from \$1.455 cents to \$1.555 cents per unit, or from \$3.3 million to \$3.5 million. This revenue is used to meet the Readiness to Serve (RTS) obligation from MWD, water use efficiency programs, and to help support the Agency's pro-rata share of groundwater recharge program operational costs for recharged recycled water deliveries. Additionally, revenue from the \$12 per AF administrative surcharge decreased 24% as a result of lower imported water deliveries.

The total operating expenses increased from \$4,100,487 in FY 2011/12 to \$4,437,473 in FY2012/13. Total net position balance at June 30, 2013, increased \$31,148, to \$3,105,522. The net increase was primarily due to a decrease in program related professional services, offset by higher RTS "pass through" fees from MWD, and decreased operating support to the Recycled Water Fund.

FINANCIAL HIGHLIGHTS (continued):

Recycled Water Sales

Total recycled water sales increased by \$1,942,137 to \$7,951,605 in FY 2012/13, compared to \$6,009,468 in FY 2011/12.



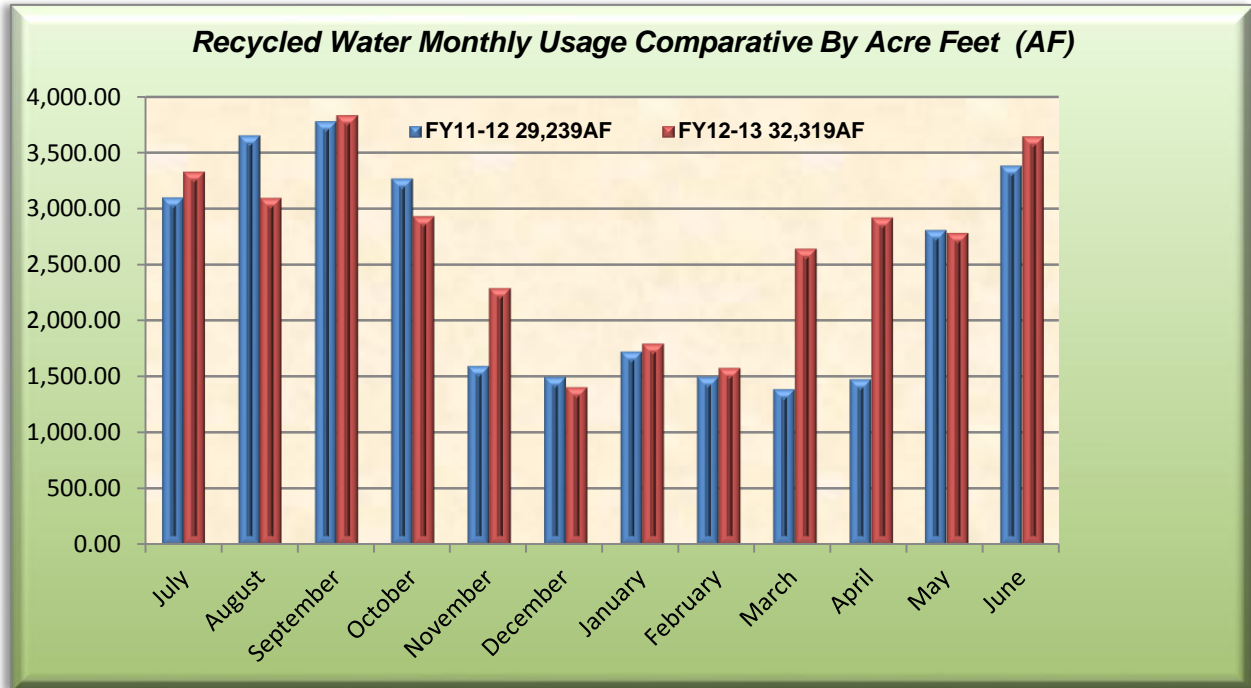
The 32% increase in revenues was primarily driven by a 11% increase in sales and by 35% increase in recycled water rates for direct deliveries from \$115 to \$155 per AF (acre foot). Additionally, there was a 34% increase in the groundwater recharge rate from \$145 to \$195 per AF. Included in total operating revenues was \$2,079,000 for the MWD rebate of \$139 per AF for recycled water sales above 3,500 AF and up to 18,340 AF. The MWD rebate was the same as in FY 2011/12. Grants receipts totaled \$2,493,652 in support of the Regional Recycled Water Expansion capital constructions programs. Total operating expenses increased by \$2,362,350, or 26%, to \$11,331,136, including \$4,998,742 of depreciation expense.

Total net position at June 30, 2013 was \$69,646,020, an increase of \$1,146,216 primarily due to the increase in sales, reduction in interest on long term debt, and other non-operating expenses.

FINANCIAL HIGHLIGHTS (continued):

Recycled Water Sales (continued):

A total of 32,319 AF were registered for direct and recharged recycled water deliveries, compared to 29,239 AF for last fiscal year. The increase in sales is attributed to the new customer connections, additional use by existing customers as a result of dry weather, and the increased basin capacity for infiltration.



Regional Wastewater Program Activities

The Regional Wastewater program, comprised of the Regional Wastewater Capital Improvement (RC) and Regional Wastewater Operations and Maintenance (RO) funds, reported combined total revenue of \$101,481,299 in FY 2012/13, an increase of \$24,712,404, or 32% over the last fiscal year.

The Agency's FY 2012/13 service charges were \$39,711,858, 12% higher, compared to FY 2011/12 total of \$35,602,244. The increase is primarily due to Equivalent Service Unit (EDU) rate increase from \$11.14 to \$12.39 per EDU and a slight improvement in the local economy which resulted in an increase in the number of EDU volumetric units of 1%.

FINANCIAL HIGHLIGHTS (continued):

Regional Wastewater Program Activities (continued):

Revenues by Category – Regional Wastewater Program
For the Fiscal Year Ended June 30, 2013
(With Comparative Totals for the Fiscal Year Ended June 30, 2012)

| Revenue Category | 2012/13 | | 2011/12 | | Increase/<Decrease> from 2011/12 | |
|------------------------------|-----------------------|---------------|----------------------|---------------|-------------------------------------|--------------|
| | AMOUNT | % OF TOTAL | AMOUNT | % OF TOTAL | AMOUNT | % OF CHANGE |
| Service Charges | \$ 39,711,858.00 | 39.0% | \$ 35,602,244.00 | 46.0% | \$ 4,109,614.00 | 12.0% |
| Property Tax Revenue | 41,934,887.00 | 41.0% | 28,397,482.00 | 37.0% | 13,537,405.00 | 48.0% |
| Wastewater Connection Fees | 14,614,387.00 | 14.0% | 7,686,126.00 | 10.0% | 6,928,261.00 | 90.0% |
| Other Non-operating Revenues | 4,692,094.00 | 5.0% | 4,478,139.00 | 6.0% | 213,955.00 | 5.0% |
| Interest Income | 528,073.00 | 1.0% | 604,904.00 | 1.0% | (76,831.00) | (13.0)% |
| Total Revenues | 101,481,299.00 | 100.0% | 76,768,895.00 | 100.0% | 24,712,404.00 | 32.0% |

Property tax receipts allocated to the Regional Wastewater Program increased from \$28,397,482 in FY 2011/12 to \$41,934,887 in FY 2012/13, reporting a 48% increase. The receipts include \$21.9 million of general ad-valorem property tax, \$19.0 million of RDA taxes, and \$1.1 million from the City of Fontana for Extra-Territorial tax receipts. Included in the \$19.0 million of RDA tax receipts was pass-through collections and one-time payment for the Agency's share of the unobligated funds returned by the Successor Agencies for re-distribution to eligible taxing agencies. The "one-time" receipts are the result of the dissolution of redevelopment agencies which took effect on February 1, 2012.

New EDU Connection fees reported by the contracting agencies in FY 2012/13 were 2,997 units compared to 1,614 units reported in FY 2011/12, an increase of approximately 1,383 units at \$4,909 per unit, accounted for the increase of \$6.9 million in revenues. New connections have been mainly from residential units, retail stores, restaurants, and industrial facilities developments. Cucamonga Valley Water District, City of Montclair, and City of Chino reported a combined number of new connections of approximately 2,312 EDU units, or 78% of the Agency-wide total.

Other Non-Operating Revenues were \$4,692,094 in FY 2012/13 compared to \$4,478,139 in FY2011/12. The slight increase is primarily due to cost reimbursement received from Inland Regional Composting Authority (IERCA) for Labor, Burden and Overhead. The burden rate increased from 71% to 75% in FY2012/13 and the overhead rates increased by 3.5%.

Interest income slightly decreased from \$604,904 in FY 2011/12 to \$528,073 in FY 2012/13 due to historically low interest rates.

FINANCIAL HIGHLIGHTS (continued):

Regional Wastewater Program Activities (continued):

Expenses by Category – Regional Wastewater Program
For the Fiscal Year Ended June 30, 2013
(With Comparative Totals for the Fiscal Year Ended June 30, 2012)

| Expense Category | 2012/13 | | 2011/12 | | Increase/<Decrease> from 2011/12 | |
|-----------------------------|-------------------|--------------|-------------------|---------------|-------------------------------------|---------------|
| | AMOUNT | % OF TOTAL | AMOUNT | % OF TOTAL | AMOUNT | % OF CHANGE |
| Wastewater Collection | \$ 781,264 | 2.0% | \$ 2,013,577 | 3.0% | \$ (1,232,313) | (61.0)% |
| Wastewater Treatment | 18,907,779 | 24.0% | 17,377,464 | 22.0% | 1,530,315 | 9.0% |
| Wastewater Disposal | 8,612,642 | 11.0% | 11,316,321 | 14.0% | (2,703,679) | (24.0)% |
| Administration & General | 14,290,612 | 18.0% | 15,365,378 | 19.0% | (1,074,766) | (7.0)% |
| Depreciation & Amortization | 22,130,511 | 28.0% | 21,638,428 | 28.0% | 492,083 | 2.0% |
| Interest on long-term debt | 7,220,372 | 9.0% | 6,251,496 | 8.0% | 968,876 | 15.0% |
| Other nonoperating Exp | 5,998,780 | 7.0% | 6,298,933 | 6.0% | (300,153) | (5.0)% |
| Total Expenses | 77,941,960 | 99.0% | 80,261,597 | 100.0% | (2,319,637) | (3.0)% |

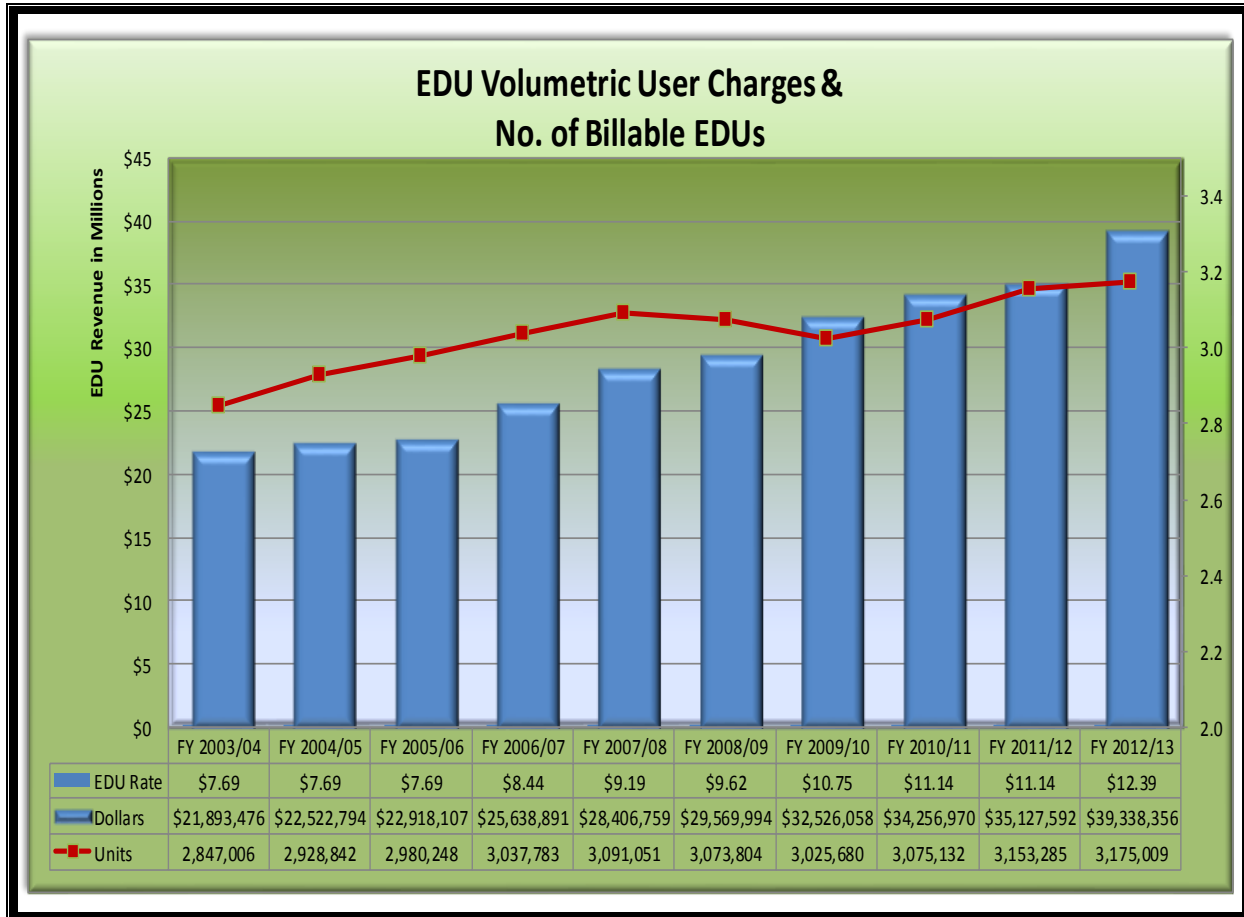
Total expenses for FY 2012/13 were \$77.9 million a decrease of \$2,319,637 compared to FY 2011/12 actual of \$80.3 million. Total wastewater collection, treatment and disposal costs decreased by \$2,405,677 from \$30,707,362 in FY 2011/12 to \$28,301,685 in FY 2012/13. The favorable variance was primarily the result of lower utilities, chemicals and operating fees expenses, and capitalization of Biosolids expenses related to the RP-1 Dewatering project.

Total non-operating expenses of \$6.0 million represent a 5% decrease compared to FY 2011/12 actual of \$6.3 million. The decrease in this category is primarily due to the reclassification of project costs from capital to operation and maintenance (O&M) expenses in the amount of approximately \$2.7 million in Regional Wastewater Program. The reclassification was identified as part of the fiscal year-end process of closing completed projects. A final evaluation was performed by Fiscal Management to determine whether the actual project costs were capital or O&M in nature. This is particularly important for repair and refurbishment related projects in excess of the \$5,000 established capitalization threshold, and determined to either enhance the functionality or extend the original useful life of the assets, costs can be capitalized. Costs not meeting these criteria are classified as O&M expenses.

FINANCIAL HIGHLIGHTS (continued):

Regional Wastewater Program Activities (continued):

**Comparative EDU Volumetric Revenues
For Past Ten Fiscal Years**



Non-reclaimable Wastewater (NRW) Treatment

The NRW System provides pipelines and pump stations to export the high-salinity industrial wastewater generated within the Agency’s service area for treatment and eventual discharge to the Pacific Ocean. The NRW collection system is physically separated from the Regional Wastewater System to ensure further compliance with the Regional Board and State regulation related to environmental criteria. By diverting high nitrogen brine to the NRW system and away from Regional Wastewater, the quality of the recycled water is improved for local use and also helps ensure that the Agency complies with final effluent permit requirements. The NRW system is operated by the Agency and is comprised of two sectors namely the North and South systems. The North system conveys wastewater to sewer lines owned and operated by the County Sanitation Districts of Los Angeles County (CSDLA). Flows in the South system are conveyed through pipelines owned by the Santa Ana Watershed Project Authority (SAWPA) to the County Sanitation Districts of Orange County (CSDOC) facility.

FINANCIAL HIGHLIGHTS (continued):

Non-reclaimable Wastewater (NRW) Treatment (continued):

Pass through rates are adopted annually for volumetric, capacity, and excessive strength charges to allow the Agency to recover rates billed by CSDLA (North) and SAWPA (South). As a result, North and South Systems have different rate structures. Additionally, the Agency imposes a 50% operating surcharge to recover administrative costs. A monthly capital improvement program (CIP) charge is also levied to recover debt service and capital costs associated with the NRWS program.

Total service charges in FY 2012/13, for North and South systems increased \$1,572,095 to \$8,179,090 compared to \$6,606,995 reported in FY 2011/12. The increase in revenues is primarily driven by: 1) Increase in sales from new customers, Repet, Environ, and Genon 2) Increase in monthly capacity fees for the North System customers from \$123 to \$319 per capacity unit, and for South System the capacity fees increased from \$244 to \$277. Total operating expenses in FY 2012/13 increased \$847,520 to \$7,377,247 compared to \$6,529,727 in FY 2011/12; this increase of 13% in operating expenses was due to an increase in depreciation expenses which was the result of completion and capitalization of projects. At June 30, 2013, total net position was \$52,303,229 for an increase of \$641,357 over the FY 2011/12.

A total of 66 users were connected to the NRW System (North and South) during FY 2012/13, with a total flow of 1,447 million gallons.

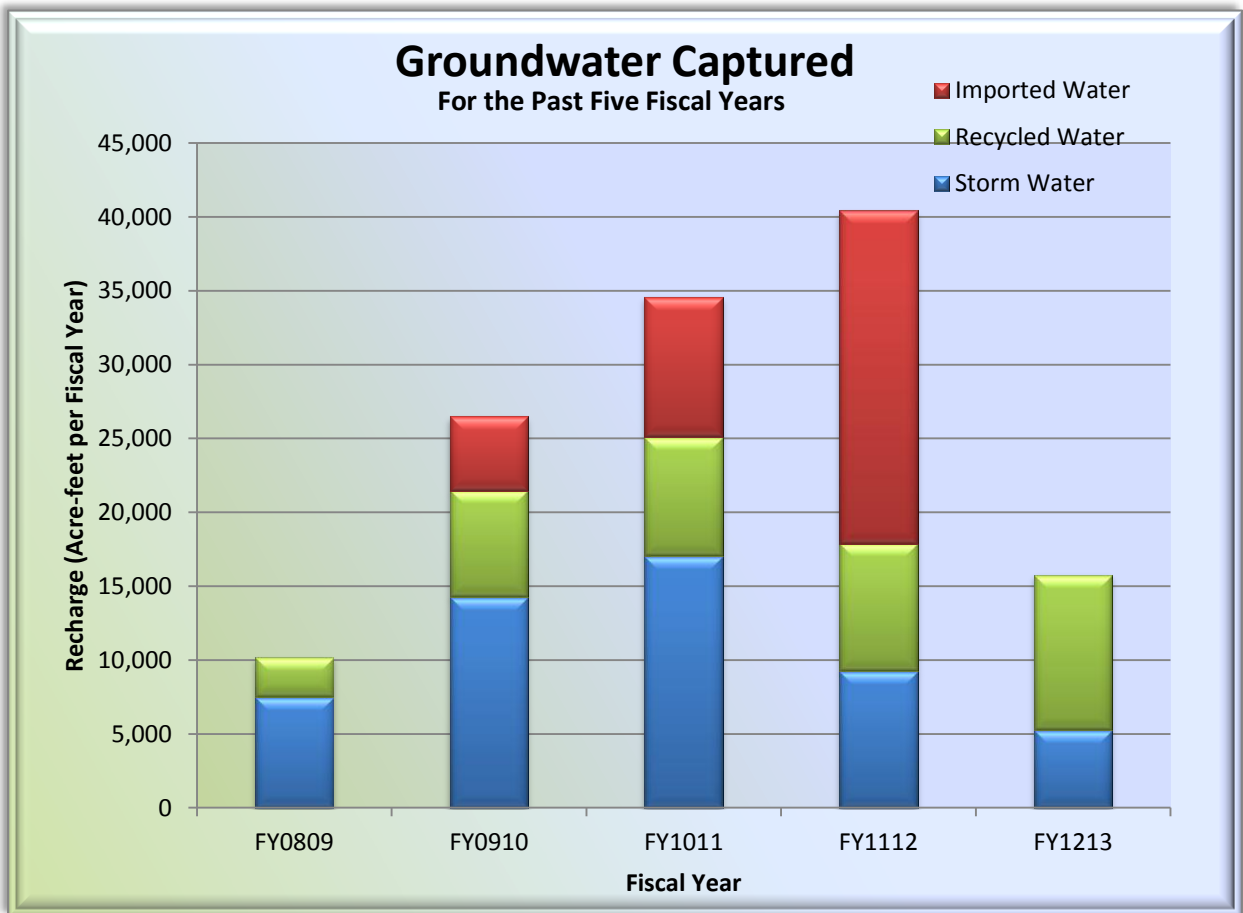
Recharge Water Fund

The Recharge Water Fund records the activities related to the operation and maintenance of the nineteen groundwater recharge basins and pertinent facilities. Through the joint efforts of the Chino Basin Watermaster (CBWM), the Chino Basin Water Conservation District (CBWCD), and the San Bernardino County Flood Control District (SBCFCD), the Agency performs all of the operation and financial functions related to the program. Costs include general basin maintenance and restoration, groundwater administration, compliance reporting, environmental documentation and contracted services that are fully funded by CBWM, with the Agency funding its pro-rata share of costs based on recharged deliveries of recycled water.

FINANCIAL HIGHLIGHTS (continued):

Recharge Water Fund (continued):

Total operating expenses recorded in FY 2012/13 were \$2,339,554 compared to \$2,309,834 in FY 2011/12, resulting in an increase of \$29,720. The increase was due to higher depreciation expense resulting from the completion and capitalization of various capital projects. At June 30, 2013 total net position was \$33,268,525, a decrease of \$881,034 over the prior fiscal year.



FINANCIAL HIGHLIGHTS (continued):

Revenues

Combined revenues and other funding sources for the fiscal year totaled \$134,287,194, an increase of \$27,063,754, compared to the prior fiscal year. The following table presents a comparison of revenues and other funding sources by category for fiscal years 2012/13 and 2011/12.

Combined Revenues and Other Funding Sources by Category - All Funds

For the Fiscal Year Ended June 30, 2013

(With Comparative Totals for the Fiscal Year Ended June 30, 2012)

| Revenue & Other Funding Sources | 2012/13 | | 2011/12 | | Increase/<Decrease> from 2011/12 | |
|---|----------------------|---------------|----------------------|---------------|-------------------------------------|----------------|
| | AMOUNT | % OF TOTAL | AMOUNT | % OF TOTAL | AMOUNT | % OF CHANGE |
| Service Charges | \$52,153,314 | 39.0% | \$46,467,428 | 43.0% | \$5,685,886 | 12.0% |
| Recycled Water Sales | 7,951,605 | 6.0% | 6,009,468 | 6.0% | 1,942,137 | 32.0% |
| Interest Income | 818,784 | 1.0% | 963,196 | 1.0% | (144,412) | (15.0)% |
| Property Tax Revenue | 48,086,946 | 36.0% | 32,694,517 | 30.0% | 15,392,429 | 47.0% |
| Wastewater Connection Fees | 14,614,387 | 11.0% | 7,686,126 | 7.0% | 6,928,261 | 90.0% |
| Other Non-operating Revenues | 7,510,242 | 6.0% | 8,562,035 | 8.0% | (1,051,793) | (12.0)% |
| Capital Grants | 3,151,916 | 1.0% | 4,840,670 | 5.0% | (1,688,754) | (35.0)% |
| Total Revenues & Contributions | \$134,287,194 | 100.0% | \$107,223,440 | 100.0% | \$27,063,754 | 25.0% |

Service Charges

Increase is primarily due to 1% increase in the number of EDU's sold, and higher rate of \$13.34 per EDU from \$12.14.

Recycled Water Sales

Increase is primarily due to a \$40/AF increase in rates, from \$115 to \$155.

Property Tax Receipts

Increase is primarily due to one-time distribution of unobligated funds from successor agencies.

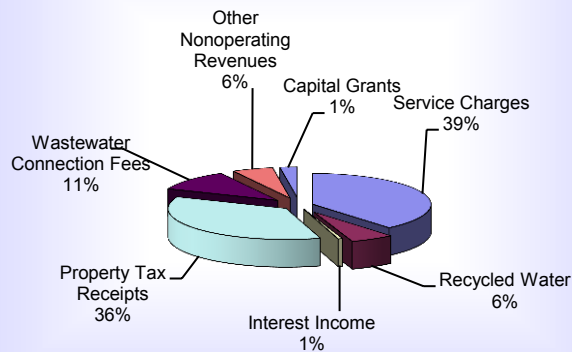
Wastewater Connection Fees

Increase is primarily due to a higher number of connections of 87% and a rate increase by \$143 per connection.

Capital Grants

Decrease is due to lower construction cost, and engineering and construction delays.

**Combined Revenue & Other Funding Sources
by Category - All Funds
Fiscal Year 2012/13
\$134,287,194**



FINANCIAL HIGHLIGHTS (continued):

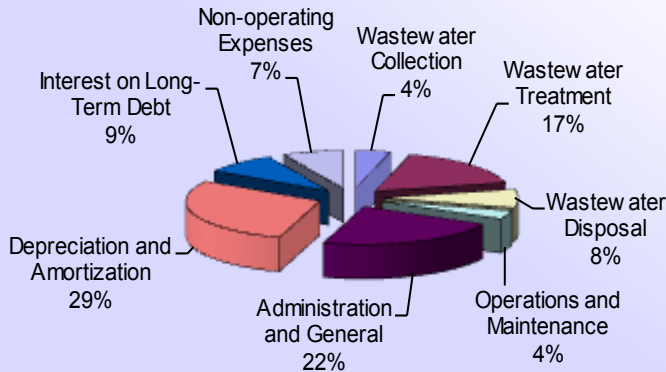
Expenses

Combined expenses for the fiscal year totaled \$110,345,008, an increase of \$908,290, over the prior fiscal year. The following table presents a comparison of expenses by category for fiscal years 2012/13 and 2011/12.

Combined Expenses by Category - All Funds
For the Fiscal Year Ended June 30, 2013
(With Comparative Totals for the Fiscal Year Ended June 30, 2012)

| Expense Category | 2012/13 | | 2011/12 | | Increase/<Decrease> from 2011/12 | |
|-------------------------------|----------------------|---------------|----------------------|---------------|----------------------------------|-------------|
| | AMOUNT | % OF TOTAL | AMOUNT | % OF TOTAL | AMOUNT | % OF CHANGE |
| Wastewater Collection | \$4,656,011 | 4.0% | \$5,629,431 | 5.1% | \$(973,420) | (17.3)% |
| Wastewater Treatment | 18,907,779 | 17.0% | 17,377,464 | 15.9% | 1,530,315 | 9.0% |
| Wastewater Disposal | 8,612,642 | 8.0% | 11,316,321 | 10.4% | (2,703,679) | (23.9)% |
| Operations and Maintenance | 3,868,448 | 4.0% | 3,724,771 | 3.4% | 143,677 | 3.9% |
| Administration and General | 24,473,192 | 22.0% | 24,755,293 | 22.6% | (282,101) | (1.1)% |
| Depreciation and Amortization | 31,933,552 | 29.0% | 30,172,892 | 27.6% | 1,760,660 | 5.8% |
| Interest on Long-Term Debt | 9,805,292 | 9.0% | 7,446,536 | 6.8% | 2,358,756 | 31.7% |
| Non-operating Expenses | 8,088,092 | 7.0% | 9,014,010 | 8.2% | (925,918) | (10.3)% |
| Total Expenses | \$110,345,008 | 100.0% | \$109,436,718 | 100.0% | \$908,290 | 0.8% |

Combined Expenses by Category - All Funds
Fiscal Year 2012/13
\$110,345,008



Wastewater Collection

Decrease is due to cost efficiencies, and lower billing from Santa Ana Watershed for truck discharge and strength charges.

Wastewater Disposal

Decrease is primarily due to capitalization of Biosolids transportation and treatment cost, related to the delayed startup of RP-1 Dewatering Project.

Non-operating Expenses

The decrease is a result of the prior year adjustment for the reclassification of completed projects costs from capital to O&M.

Interest on Long-Term Debt

Increase due to full amortization of debt financing costs per GASB 65.

FINANCIAL HIGHLIGHTS (continued):

Changes in Financial Conditions of the Agency

Combined Net Position-All Funds
For the Fiscal Year Ended June 30, 2013
(With Comparative Totals for the Fiscal Year Ended June 30, 2012)

| | FY 2012/13 | FY 2011/12 | Increase/<Decrease> from FY 2011/12 | |
|---------------------------------------|--------------------|--------------------|--|-------------|
| Assets | | | | |
| Current assets | 150,868,912 | 118,133,355 | 32,735,557 | 27.7% |
| Restricted assets | 34,904,771 | 27,941,512 | 6,963,259 | 24.9% |
| Capital assets | 663,253,960 | 672,035,426 | (8,781,466) | (1.3)% |
| Other assets | 72,068,121 | 74,407,139 | (2,339,018) | (3.1)% |
| Total Assets | 921,095,764 | 892,517,432 | 28,578,332 | 3.2% |
| Deferred Outflows of Resources | | | | |
| Deferred loss on refunding | 2,350,350 | 2,606,216 | (255,866) | (9.8)% |
| | 2,350,350 | 2,606,216 | (255,866) | (9.8)% |
| Liabilities | | | | |
| Current liabilities | 47,491,185 | 36,479,302 | 11,011,883 | 30.2% |
| Non-current liabilities | 340,184,298 | 346,815,901 | (6,631,603) | (1.9)% |
| Total liabilities | 387,675,483 | 383,295,203 | 4,380,280 | 1.1% |
| Net Position | | | | |
| Net investment in | | | | |
| capital assets | 354,123,521 | 362,673,086 | (8,549,565) | (2.4)% |
| Restricted | 50,036,296 | 42,798,485 | 7,237,811 | 16.9% |
| Unrestricted | 131,610,814 | 106,356,874 | 25,253,940 | 23.7% |
| TOTAL NET POSITION | 535,770,631 | 511,828,445 | 23,942,186 | 4.7% |

The following denotes explanations on some of the changes between fiscal years, as compared in the above table.

- ◆ The increase in Current Assets of \$32.7 million is primarily due to increases in cash and investments of \$24.1 million and accounts receivable of \$13.5 million.
- ◆ The decrease in Capital Assets of \$8.8 million is primarily due increase in the accumulated depreciation of \$24.4 million, which is partially offset by increase in capital assets \$13 million due to completion of various capital projects.
- ◆ The increase in current liabilities of \$11 million was a result of an increase in accounts payable of \$7.2 million and an increase of \$5.1 million in accrued liabilities.

FINANCIAL HIGHLIGHTS (continued):

Changes in Financial Conditions of the Agency (continued):

Combined Schedule of Revenues, Expenses and Changes in Net Position - All Funds
For the Fiscal Year Ended June 30, 2013
(With Comparative Totals for the Fiscal Year Ended June 30, 2012)

| Item Category | FY 2012/13 | | FY 2011/12 | | Increase/<Decrease> from FY 2011/12 | |
|-------------------------------------|----------------------|---------------|----------------------|--------------|--|-------------|
| | Amount | % of Total | Amount | % of Total | Amount | % of Change |
| Total Revenue | \$131,135,278 | 24.5% | \$102,382,770 | 20.0% | \$28,752,508 | 28.1% |
| Total Expenses | 110,345,008 | 20.6% | 109,436,718 | 21.4% | 908,290 | 0.8% |
| Excess (deficiency) before contrib. | 20,790,270 | 3.9% | (7,053,948) | (1.4)% | 27,844,218 | 394.7% |
| Capital Grants | 3,151,916 | 0.5% | 4,840,670 | 0.8% | (1,688,754) | (34.9)% |
| Change in Net Position | 23,942,186 | 4.5% | (2,213,278) | (0.4)% | 26,155,464 | 1181.8% |
| Prior Period Adjustment | | | (4,413,691) | (0.9)% | 4,413,691 | 100.0% |
| Beginning Net Position | 511,828,445 | 95.5% | 518,455,414 | 101.2% | (6,626,969) | (1.3)% |
| Ending Net Position | \$535,770,631 | 100.0% | \$511,828,445 | 99.9% | \$23,942,186 | 4.7% |

Capital Assets

Net of accumulated depreciation and amortization, the Agency had total net capital assets of \$663,253,960 in FY 2012/13, compared to \$672,035,426 in FY 2011/12. The \$8.8 million decrease is primarily due increase in the accumulated depreciation of \$24.4 million, which is partially offset by increase in new capital projects of \$15.6 million.

Capital Asset Summary - All Funds
For the Fiscal Year Ended June 30, 2013
(With Comparative Totals for the Fiscal Year Ended June 30, 2012)

| Asset Category | 2012/13 | 2011/12 | Increase/<Decrease> from FY 2011/12 | % of Change |
|--|----------------------|----------------------|--|---------------|
| Land | \$14,067,874 | \$13,979,349 | \$88,525 | 0.6% |
| Land Improvements | 20,397,734 | 18,999,681 | 1,398,053 | 7.4% |
| Structures and Improvements | 651,132,318 | 618,671,212 | 32,461,106 | 5.2% |
| Equipment | 154,927,923 | 135,812,862 | 19,115,061 | 14.1% |
| Water Rights | 54,090,807 | 52,908,074 | 1,182,733 | 2.2% |
| Computer Software | 10,021,801 | 7,889,850 | 2,131,951 | 27.0% |
| Jobs in Progress | 73,976,321 | 114,720,236 | (40,743,915) | (35.5)% |
| Sub-total | 978,614,778 | 962,981,264 | 15,633,514 | 1.6% |
| LESS: Accumulated Depreciation & Amortization | (315,360,818) | (290,945,838) | (24,414,980) | 8.4% |
| Net Capital Assets | \$663,253,960 | \$672,035,426 | (\$8,781,466) | (1.3)% |

(Refer to Note 7 of the Notes to the Basic Financial Statements for additional information)

FINANCIAL HIGHLIGHTS (continued):

Debt Management

At June 30, 2013, the Agency had four bond debt issues outstanding. Excluding interest they are:

| Bond Issue | Principal | Premium (Discount) | Outstanding on 06/30/2013 |
|---------------------|----------------------|---------------------------|----------------------------------|
| 2005A Revenue Bonds | \$ 17,645,000 | \$ 412,112 | \$ 18,057,112 |
| 2008A Revenue Bonds | \$125,000,000 | \$4,209,877 | \$129,209,877 |
| 2008B Variable Rate | \$ 47,575,000 | \$ 0 | \$ 47,575,000 |
| 2010A | \$ 38,460,000 | \$2,715,305 | \$ 41,175,305 |
| TOTAL | \$228,680,000 | \$7,337,294 | \$236,017,294 |

(Refer to Note 12 of the Notes to the Basic Financial Statements for detailed information).

Included in Notes and Loans Payable at June 30, 2013, are:

- 1) A note from the Santa Ana Watershed Project Authority (SAWPA) pertaining to the purchases of pipeline capacity, with an outstanding balance of \$1,125,493;
- 2) Various State Revolving Financing loans from the State Water Resources Control Board (SWRCB), with an outstanding balance of \$78,764,115; and,
- 3) A loan from the City of Fontana for the Agency's cost share of the San Bernardino Regional Lift Station and Force Main capital project with an outstanding balance of \$7,451,846.

In June 2013, the Agency's credit rating for long-term debt was reaffirmed by two major credit rating agencies:

Moody's: Aa2

Standard and Poor's: AA-

Contacting the Agency's Financial Management

This financial report is designed to provide Inland Empire Utilities Agency's elected officials, citizens, customers, investors, creditors and regulatory agencies with a general overview of the Agency's finances and to demonstrate the Agency's accountability of the revenues it receives. If you have any question about this report or need additional financial information, please contact the Agency's Fiscal Management Department at jchagoyen@ieua.org.

INLAND EMPIRE UTILITIES AGENCY
BASIC FINANCIAL STATEMENTS
OVERVIEW

Financial Statements

The following Basic Financial Statements, along with the supplementary Notes to the Basic Financial Statements, convey a summary of the Agency’s financial position as of June 30, 2013, and the results of operations and the cash flows of its proprietary fund types for the fiscal year then ended.

All individual Enterprise Funds are classified as either Major fund groups or Non-major fund groups. An Administrative Service Fund is used to monitor the General and Administrative expenses of the Agency. Comparative prior year data is provided for a broader picture of the Agency’s financial condition.

The Basic Financial Statements consist of:

- 1) Statement of Net Position – the statement denotes the increase/(decrease) of net assets of the Agency.
- 2) Statement of Revenues, Expenses and Changes in Fund Net Position – the statement shows all revenue and expense sources recorded for the period, and their effects on the net assets of the Agency.
- 3) Statement of Cash Flows – the statement reflects the Agency’s financial activities and their effect on cash. It also denotes the cash position of the Agency at the end of the fiscal period.
- 4) Notes to the Basic Financial Statements.



Magnolia Channel Project

INLAND EMPIRE UTILITIES AGENCY**Statement of Net Position****June 30, 2013**

(With Comparative Totals for June 30, 2012)

| ASSETS | Enterprise Funds | |
|---|------------------------|--------------------|
| | Regional Wastewater | Recycled Water |
| Current assets | | |
| Cash and investments (note 3) | \$63,076,711 | \$ 12,639,160 |
| Accounts receivable | 6,771,660 | 8,309,254 |
| Interest receivable | 211,060 | 14,336 |
| Taxes receivable | 305,073 | 17,717 |
| Other receivables | 36,503 | 392,706 |
| Inventory | 0 | 0 |
| Prepaid items | 1,200 | 13,500 |
| Total current assets | <u>70,402,207</u> | <u>21,386,673</u> |
| Noncurrent assets | | |
| Restricted assets (note 3) | | |
| Deposits held by governmental agencies | 28,246,979 | 0 |
| Assets held for 401(a) plan (note 4) | 0 | 0 |
| Assets held with trustee/fiscal agent | 4,411,159 | 44,752 |
| Total restricted assets | <u>32,658,138</u> | <u>44,752</u> |
| Capital assets (note 7) | | |
| Land | 14,047,045 | 0 |
| Jobs in progress | 49,442,445 | 21,317,280 |
| Capital assets, net of accumulated depreciation | 337,273,748 | 129,767,771 |
| Intangible assets, net of accumulated amortization | 5,655,635 | 252,362 |
| Total capital assets | <u>406,418,873</u> | <u>151,337,413</u> |
| Other assets | | |
| Long-term investments (note 11) | 46,492,458 | 0 |
| Long-term receivables (note 10) | 2,794,715 | 1,475,637 |
| Advances to other funds (note 14) | 3,000,000 | 0 |
| Prepaid bond insurance | 459,185 | 151,830 |
| Prepaid Interest -SRF loans | 1,203,080 | 1,425,710 |
| Total other assets | <u>53,949,438</u> | <u>3,053,177</u> |
| Total noncurrent assets | <u>493,026,449</u> | <u>154,435,342</u> |
| Total assets | <u>563,428,656</u> | <u>175,822,015</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred loss on refunding | 2,350,350 | 0 |
| Total deferred outflows of resources | <u>2,350,350</u> | <u>0</u> |

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

| Non-Major | Totals | |
|--------------------|--------------------|--------------------|
| | 2013 | 2012 |
| \$35,931,663 | \$111,647,534 | \$87,572,581 |
| 20,836,259 | 35,917,173 | 22,440,355 |
| 474,425 | 699,821 | 701,317 |
| 28,566 | 351,356 | 2,720,694 |
| 84,634 | 513,843 | 3,086,333 |
| 1,533,035 | 1,533,035 | 1,498,644 |
| 191,451 | 206,151 | 113,431 |
| <u>59,080,033</u> | <u>150,868,913</u> | <u>118,133,355</u> |
| 0 | 28,246,979 | 16,632,592 |
| 1,336,147 | 1,336,147 | 1,452,719 |
| 865,734 | 5,321,645 | 9,856,201 |
| <u>2,201,881</u> | <u>34,904,771</u> | <u>27,941,512</u> |
| 20,829 | 14,067,874 | 13,979,349 |
| 3,216,596 | 73,976,321 | 114,720,236 |
| 69,379,812 | 536,421,331 | 505,380,559 |
| <u>32,880,437</u> | <u>38,788,434</u> | <u>37,955,282</u> |
| <u>105,497,674</u> | <u>663,253,960</u> | <u>672,035,426</u> |
| 0 | 46,492,458 | 46,452,575 |
| 28,503 | 4,298,855 | 6,507,416 |
| 15,000,000 | 18,000,000 | 18,000,000 |
| 37,002 | 648,017 | 648,017 |
| 0 | 2,628,790 | 2,799,131 |
| <u>15,065,505</u> | <u>72,068,120</u> | <u>74,407,139</u> |
| <u>122,765,060</u> | <u>770,226,851</u> | <u>774,384,077</u> |
| <u>181,845,093</u> | <u>921,095,764</u> | <u>892,517,432</u> |
| 0 | 2,350,350 | 2,606,216 |
| <u>0</u> | <u>2,350,350</u> | <u>2,606,216</u> |

(continued)

INLAND EMPIRE UTILITIES AGENCY
Statement of Net Position (Continued from previous page)
June 30, 2013

(With Comparative Totals for June 30, 2012)

| | Enterprise Fund Types | |
|---|------------------------|---------------------|
| | Regional Wastewater | Recycled Water |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$4,209,638 | \$4,253,300 |
| Accrued liabilities | 159,569 | 12,739 |
| Compensated absences (note 1) | 0 | 0 |
| Retentions payable | 148,382 | 70,430 |
| Notes payable, due within one year (note 12) | 1,876,127 | 2,738,129 |
| Long-term debt, due within one year (note 12) | 6,285,254 | 0 |
| Interest payable | 1,598,544 | 981,090 |
| Retention deposits and escrows | 502,547 | 44,752 |
| Total current liabilities | <u>14,780,061</u> | <u>8,100,440</u> |
| Noncurrent liabilities | | |
| Compensated absences (note 1) | 0 | 0 |
| Long-term debt, due in more than one year (note 12) | 175,952,243 | 30,273,875 |
| Notes payable, due in more than one year (note 12) | 32,209,111 | 49,748,862 |
| Liability for 401(a) plan (note 4) | 0 | 0 |
| Advances from other funds (note 14) | 0 | 18,000,000 |
| Other noncurrent liabilities | 0 | 52,818 |
| Net OPEB liability (note 1d.) | 0 | 0 |
| Total noncurrent liabilities | <u>208,161,354</u> | <u>98,075,555</u> |
| Total liabilities | <u>222,941,415</u> | <u>106,175,995</u> |
| NET POSITION | | |
| Net Investment in capital assets | <u>203,465,708</u> | <u>68,576,546</u> |
| Restricted for: | | |
| Capital construction | 28,246,979 | 0 |
| SRF Loan debt service | 1,387,280 | 3,490,575 |
| Bond operating contingency requirement | 14,900,362 | 0 |
| Total restricted | <u>44,534,621</u> | <u>3,490,575</u> |
| Unrestricted | <u>94,837,262</u> | <u>(2,421,101)</u> |
| Total net position | <u>\$342,837,591</u> | <u>\$69,646,020</u> |

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

| Non-Major | Totals | |
|----------------------|----------------------|----------------------|
| | 2013 | 2012 |
| \$10,831,465 | \$19,294,403 | \$12,083,193 |
| 11,294,417 | 11,466,725 | 6,372,445 |
| 1,697,226 | 1,697,226 | 2,237,898 |
| 2,500 | 221,312 | 758,526 |
| 133,106 | 4,747,362 | 4,593,546 |
| 584,746 | 6,870,000 | 6,650,000 |
| 60,230 | 2,639,864 | 2,600,785 |
| 6,994 | 554,293 | 1,182,909 |
| <u>24,610,684</u> | <u>47,491,185</u> | <u>36,479,302</u> |
| 2,220,224 | 2,220,224 | 1,838,412 |
| 22,921,176 | 229,147,294 | 236,560,270 |
| 636,118 | 82,594,091 | 82,520,113 |
| 1,336,147 | 1,336,147 | 1,452,719 |
| 0 | 18,000,000 | 18,000,000 |
| 0 | 52,818 | 589,256 |
| 6,833,724 | 6,833,724 | 5,855,131 |
| <u>33,947,389</u> | <u>340,184,298</u> | <u>346,815,901</u> |
| <u>58,558,073</u> | <u>387,675,483</u> | <u>383,295,203</u> |
| <u>82,081,267</u> | <u>354,123,521</u> | <u>362,673,086</u> |
| 0 | 28,246,979 | 20,539,224 |
| 0 | 4,877,855 | 4,697,630 |
| 2,011,100 | 16,911,462 | 17,561,631 |
| <u>2,011,100</u> | <u>50,036,296</u> | <u>42,798,485</u> |
| <u>39,194,653</u> | <u>131,610,814</u> | <u>106,356,874</u> |
| <u>\$123,287,020</u> | <u>\$535,770,631</u> | <u>\$511,828,445</u> |

INLAND EMPIRE UTILITIES AGENCY
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2013
(With Comparative Totals for June 30, 2012)

| | Enterprise Fund Types | |
|--|------------------------|---------------------|
| | Regional Wastewater | Recycled Water |
| OPERATING REVENUES | | |
| Service charges | \$ 39,711,858 | \$0 |
| Recycled water sales | 0 | 7,951,605 |
| Total operating revenues | <u>39,711,858</u> | <u>7,951,605</u> |
| OPERATING EXPENSES | | |
| Wastewater collection | 781,264 | 0 |
| Wastewater treatment | 18,907,779 | 0 |
| Wastewater disposal | 8,612,642 | 0 |
| Operations and maintenance | 0 | 3,195,541 |
| Administration and general | 14,290,612 | 3,136,853 |
| Depreciation and amortization | <u>22,130,511</u> | <u>4,998,742</u> |
| Total operating expenses | <u>64,722,808</u> | <u>11,331,136</u> |
| Operating income (loss) | <u>(25,010,950)</u> | <u>(3,379,531)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 528,073 | 98,102 |
| Property tax revenue | 41,934,887 | 2,355,088 |
| Wastewater capital connection fees | 14,614,387 | 0 |
| Other nonoperating revenues | 4,692,094 | 64,177 |
| Interest on long-term debt | (7,220,372) | (2,150,763) |
| Other nonoperating expenses | <u>(5,998,780)</u> | <u>(666,671)</u> |
| Total nonoperating revenues (expenses) | <u>48,550,289</u> | <u>(300,067)</u> |
| Income (loss) before capital contributions and transfers | 23,539,339 | (3,679,598) |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | |
| Transfers in (note 15) | 0 | 3,244,622 |
| Transfers out (note 15) | (5,429,136) | (616,769) |
| Capital grants | <u>66,809</u> | <u>2,493,652</u> |
| Change in net position | <u>18,177,012</u> | <u>1,441,907</u> |
| Total net position - beginning | | |
| Prior period adjustment (note 18) | | |
| Total net position as restated | <u>\$324,660,579</u> | <u>\$68,204,113</u> |
| Total net position - ending | <u>342,837,591</u> | <u>69,646,020</u> |

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

| Non-Major | Totals | |
|----------------------|----------------------|----------------------|
| | 2013 | 2012 |
| \$ 12,441,456 | \$ 52,153,314 | \$ 46,467,428 |
| 0 | 7,951,605 | 6,009,468 |
| <u>12,441,456</u> | <u>60,104,919</u> | <u>52,476,896</u> |
| 3,874,747 | 4,656,011 | 5,629,431 |
| 0 | 18,907,779 | 17,377,464 |
| 0 | 8,612,642 | 11,316,321 |
| 672,907 | 3,868,448 | 3,724,771 |
| 7,045,727 | 24,473,192 | 24,755,293 |
| <u>4,804,299</u> | <u>31,933,552</u> | <u>30,172,892</u> |
| <u>16,397,680</u> | <u>92,451,624</u> | <u>92,976,172</u> |
| <u>(3,956,224)</u> | <u>(32,346,705)</u> | <u>(40,499,276)</u> |
| 192,609 | 818,784 | 963,196 |
| 3,796,971 | 48,086,946 | 32,694,517 |
| 0 | 14,614,387 | 7,686,126 |
| 2,753,971 | 7,510,242 | 8,562,035 |
| (434,157) | (9,805,292) | (7,446,536) |
| <u>(1,422,641)</u> | <u>(8,088,092)</u> | <u>(9,014,010)</u> |
| <u>4,886,753</u> | <u>53,136,975</u> | <u>33,445,328</u> |
| 930,529 | 20,790,270 | (7,053,948) |
| 3,209,651 | 6,454,273 | 3,105,240 |
| (408,368) | (6,454,273) | (3,105,240) |
| <u>591,455</u> | <u>3,151,916</u> | <u>4,840,670</u> |
| <u>4,323,267</u> | <u>23,942,186</u> | <u>(2,213,278)</u> |
| | | 518,455,414 |
| | | (4,413,691) |
| <u>\$118,963,753</u> | <u>\$511,828,445</u> | <u>\$514,041,723</u> |
| <u>123,287,020</u> | <u>535,770,631</u> | <u>511,828,445</u> |

INLAND EMPIRE UTILITIES AGENCY
Statement of Cash Flows
For the Fiscal Year ended June 30, 2013
(With Comparative Totals for June 30, 2012)

| | Enterprise Funds | |
|--|------------------------|--------------------|
| | Regional Wastewater | Recycled Water |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$42,988,762 | \$3,901,239 |
| Cash received from interfund services provided | | |
| Cash payments to suppliers for goods and services | (16,835,892) | 24,160 |
| Cash payments to employees for services | (8,138,710) | (1,126,074) |
| Cash payments for interfund services used | (17,343,694) | (2,642,638) |
| Net cash provided by (used for) operating activities | <u>670,466</u> | <u>156,687</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Transfers in | | 3,244,622 |
| Transfers out | (5,429,136) | (616,769) |
| Contract reimbursement from others | 4,692,093 | 64,177 |
| Tax revenues | 43,995,002 | 2,474,003 |
| Issuance of long-term receivable | | (194,853) |
| Collection of long-term receivable | 2,375,753 | 0 |
| Cash paid to others | (5,452,490) | (704,285) |
| Net cash provided by (used for) noncapital financing activities | <u>40,181,222</u> | <u>4,266,895</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets | (9,951,685) | (8,801,298) |
| Proceeds from State Revolving Funds | 191,176 | 598,696 |
| Connection fees on deposit held by members | 14,614,387 | |
| Capital grants received | 66,809 | 2,493,652 |
| Principal paid on capital debt | (7,019,283) | (38,182) |
| Interest paid on capital debt | (6,926,835) | (1,939,870) |
| Payments on State Revolving Funds | | |
| Bond administration fees | (546,290) | |
| Net cash provided by (used for) capital and related financing activities | <u>(9,571,721)</u> | <u>(7,687,002)</u> |

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

| Non-Major | Totals | |
|--------------------|---------------------|---------------------|
| | 2013 | 2012 |
| \$2,330,703 | \$49,220,704 | \$54,728,866 |
| 22,634,150 | 22,634,150 | 21,979,072 |
| (4,555,682) | (21,367,414) | (39,894,769) |
| (19,356,082) | (28,620,866) | (28,439,269) |
| (1,664,934) | (21,651,266) | (21,130,620) |
| <u>(611,845)</u> | <u>215,308</u> | <u>(12,756,720)</u> |
| 3,209,651 | 6,454,273 | 3,105,240 |
| (408,368) | (6,454,273) | (3,105,240) |
| 2,772,725 | 7,528,995 | 8,523,382 |
| 3,987,271 | 50,456,276 | 35,459,130 |
| 0 | (194,853) | 0 |
| 27,662 | 2,403,415 | 2,391,067 |
| (1,285,931) | (7,442,706) | (8,864,694) |
| <u>8,303,010</u> | <u>52,751,127</u> | <u>37,508,885</u> |
| (4,648,732) | (23,401,715) | (32,184,396) |
| 0 | 789,872 | 4,243,355 |
| 0 | 14,614,387 | 7,686,126 |
| 591,456 | 3,151,917 | 4,840,670 |
| (697,586) | (7,755,051) | (6,110,329) |
| (581,574) | (9,448,279) | (7,212,047) |
| 0 | 0 | (217,106) |
| <u>9,178</u> | <u>(537,112)</u> | <u>(12,226)</u> |
| <u>(5,327,258)</u> | <u>(22,585,981)</u> | <u>(28,965,953)</u> |

(Continued)

INLAND EMPIRE UTILITIES AGENCY
Statement of Cash Flows (Continued from previous page)
For the Fiscal Year ended June 30, 2013
(With Comparative Totals for June 30, 2012)

| | Enterprise Funds | |
|--|------------------------|---------------------|
| | Regional Wastewater | Recycled Water |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest on investments | \$538,496 | \$109,217 |
| Purchase of investments | <u>0</u> | <u>0</u> |
| Net cash provided by (used for) investing activities | <u>538,496</u> | <u>109,217</u> |
| Net increase (decrease) in cash and cash equivalents | <u>31,818,463</u> | <u>(3,154,203)</u> |
| Cash and cash equivalents - beginning | <u>63,916,386</u> | <u>15,838,115</u> |
| Cash and cash equivalents - ending | <u>\$95,734,849</u> | <u>\$12,683,912</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | | |
| Operating income (loss) | (\$25,010,950) | (\$3,379,531) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities | | |
| Depreciation and amortization | 22,130,512 | 4,998,742 |
| Changes in assets and liabilities | | |
| (Increase) decrease in | | |
| Accounts receivable | 797,202 | (4,006,285) |
| Other receivables | | |
| Short-term receivable | 2,479,701 | (44,080) |
| Inventory | | |
| Prepaid items | | |
| Deferred costs | | |
| Increase (decrease) in | | |
| Accounts payable | 910,092 | 3,753,823 |
| Accrued liabilities | (83,280) | (11,136) |
| Other liabilities | | (536,438) |
| Change in contractor deposits | (552,811) | (618,408) |
| Compensated absences | <u>0</u> | <u>0</u> |
| Net cash provided by (used for) operating activities | <u>\$670,466</u> | <u>\$156,687</u> |

| <u>Non-Major</u> | <u>Totals</u> | |
|---------------------|----------------------|-----------------------|
| | <u>2013</u> | <u>2012</u> |
| \$172,566 | \$820,279 | \$909,271 |
| <u>(45,949)</u> | <u>(45,949)</u> | <u>(22,036)</u> |
| 126,617 | 774,330 | 887,235 |
| <u>2,490,524</u> | <u>31,154,784</u> | <u>(3,326,916)</u> |
| 34,306,873 | 114,061,374 | 117,388,290 |
| <u>\$36,797,397</u> | <u>\$145,216,158</u> | <u>\$114,061,374</u> |
| | | |
| (\$3,956,224) | (\$32,346,705) | (\$40,499,276) |
| | | |
| 4,804,301 | 31,933,555 | 30,172,892 |
| | | |
| (10,247,630) | (13,456,713) | 5,018,055 |
| 20,138 | 20,138 | (21,497) |
| 116,739 | 2,552,360 | (2,744,588) |
| (34,391) | (34,391) | 61,233 |
| (92,720) | (92,720) | 282,539 |
| 0 | 0 | 758 |
| | | |
| 2,769,515 | 7,433,430 | (6,340,605) |
| 5,188,695 | 5,094,279 | 852,747 |
| 978,592 | 442,154 | 956,009 |
| 0 | (1,171,219) | (1,023,624) |
| <u>(158,860)</u> | <u>(158,860)</u> | <u>528,637</u> |
| | | |
| <u>(\$611,845)</u> | <u>\$215,308</u> | <u>(\$12,756,720)</u> |
| | | (Continued) |

INLAND EMPIRE UTILITIES AGENCY
Statement of Cash Flows - (Continued from previous page)
For the Fiscal Year Ended June 30, 2013
 (With Comparative Totals for June 30, 2012)

| | Enterprise Funds | |
|--|------------------|--------------|
| | Regional | Recycled |
| | Wastewater | Water |
| RECONCILIATION OF CASH & CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS: | | |
| Cash and short-term investments | \$63,076,711 | \$12,639,160 |
| Restricted assets | 32,658,138 | 44,752 |
| Cash & cash equivalents at end of year | \$95,734,849 | \$12,683,912 |

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

| <u>Non-Major</u> | <u>Totals</u> | |
|---------------------|----------------------|----------------------|
| | <u>2013</u> | <u>2012</u> |
| \$35,931,663 | \$111,647,534 | \$87,572,581 |
| 865,734 | 33,568,624 | 26,488,793 |
| <u>\$36,797,397</u> | <u>\$145,216,158</u> | <u>\$114,061,374</u> |

*Regional Plant No.3 Channel
and Cell 2 Fill*



INLAND EMPIRE UTILITIES AGENCY
Index of Notes to the Basic Financial Statements

June 30, 2013

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NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Organization and Summary of Significant Accounting Policies:

a. Description of the Reporting Entity

The Inland Empire Utilities Agency (hereafter referred to as the Agency), was authorized and established by the voters in an election held on June 6, 1950. As defined by accounting principles generally accepted (GAAP) in the United States of America and the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the Agency as the primary government. The Agency has no legally separate component units that require blended or discrete presentation.

Subject to the limitation imposed by the Constitution of California, and pursuant to its charter, all powers of the Agency are vested in a five-member Board of Directors. Each Director serves a four-year term and is elected by and represents the voters of a specific geographic area within the Agency's boundaries, identified as a Division. As of June 30, 2013, the Agency's staff is led by the Board-appointed General Manager, Executive Manager of Policy Development, Executive Manager of Operations, and the Chief Financial Officer. The Agency's staff consisted of 295 authorized positions, of which 267 were filled as of June 30, 2013. The Board also appointed legal counsel and independent auditors to serve as consultants to Agency staff.

The accounting policies of the Agency conform to accounting principles generally accepted in the United States of America as they relate to governmental units (Special Districts). The Agency applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

b. Fund Financial Statements

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflow of resources, liabilities, deferred inflow of resources, net position, revenues and expenses, as appropriate. The Agency's resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The Agency accounts for its activities in Enterprise Funds. These funds are included in the financial statements and have been grouped into fund types described as "Proprietary Fund Types."

For financial reporting purposes, the Agency has the following major funds: Regional Wastewater, and Recycled Water. These major funds are comprised of certain sub-funds within the Agency's accounting system. The composition of the major funds by sub-fund is indicated in the accompanying supplementary information schedules. (Refer to "Supplementary Schedules" section, and the "Individual Funds" section.) The composition of the non-major funds by sub-fund is indicated in the accompanying supplementary information schedules. (Refer to the "Individual Funds" section.)

(1) Organization and Summary of Significant Accounting Policies (continued):

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing goods and services related to the fund's ongoing operations. The principal operating revenue of the Agency's enterprise funds include service charges for the treatment of domestic wastewater flows based on Equivalent Dwelling Units (EDU's) connected to the Contracting Agencies local collection systems, user charges for the export of high-salinity and industrial wastewater generated within the Agency's service area and eventual discharge to the Pacific Ocean recorded in the Non-Reclaimable Wastewater (NRW) Fund, and the sale of recycled water. The principal operating expenses include the costs associated with the primary and secondary treatment of domestic wastewater delivered to the regional sewage system, treatment and export costs of industrial waste delivered to the NRW North and South systems, biosolids recycling and direct and recharged deliveries of recycled water. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

All Proprietary Funds are accounted for on a cost of services or "economic resources maintenance" measurement focus. This means that all assets, deferred outflows of resources and all liabilities (whether current or non-current) associated with their activity are included on their statement of net position. Their reported fund equity (net total position) is segregated into net investment in capital assets, restricted net position, and unrestricted net position. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total position.

Enterprise Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the governing body is that the costs (expenses, including depreciation and amortization) of providing goods or services to the general public on a continuing basis, be financed or recovered primarily through user charges.

The Regional Wastewater Capital Fund

The Regional Wastewater Improvement Capital (RC) Fund records the transactions for the acquisition, construction, and expansion of the Agency's municipal wastewater treatment plants, large sewer interceptors, and appurtenant facilities.

Regional Wastewater Operations and Maintenance Fund

The Regional Wastewater Operations and Maintenance (RO) Fund accounts for the revenues and operating expenses associated with the primary, secondary, and tertiary treatment of domestic wastewater delivered by the contracting agencies to the Agency's interceptors and recycling water regional facilities. These costs are associated with the domestic wastewater delivered to the regional sewage system, which serves the residential, commercial, and industrial entities within the Agency's 242 square-mile service area. The tertiary process includes chlorination, and dechlorination, to remove excess chlorine residuals thus protecting the habitats in the receiving waters, as required by the Agency's National Pollution Discharge Elimination System (NPDES) permits.

(1) Organization and Summary of Significant Accounting Policies (continued):

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(continued):

Recycled Water Fund

The Recycled Water (WC) Fund records the revenues and expenses associated with the operations and maintenance of the facilities used to distribute recycled water supplied from the Agency's recycling water plants. Additionally, the Recycled Water Fund records all of the costs associated with the construction of recycled water capital projects. In response to the potential shortage and reduction of imported water supplies, the Agency adopted the Recycled Water Business Plan (RWBP) in December 2007. A key goal of the RWBP is to increase the demand for recycled water to 50,000 acre foot per year (AFY) with the expansion of the Regional Recycled Water Distribution System by fiscal year 2021/22. Recycled water provides a cost effective and more reliable local water supply and is a key source to the Agency's goal of drought proofing its service area by 2030.

Basis of Accounting

Basis of accounting refers to the timing when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. The Agency prepares its financial statements on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. When both restricted and unrestricted resources are available for use, it is Agency's policy to use restricted resources first, then unrestricted resources as needed.

Recognition of Revenues and Expenses

Effective June 30, 2004, the Agency began recognizing certain imported water sales and purchases as pass-through transactions. Instead of recording the water deliveries to contracting agencies as gross revenue and corresponding imported water purchases from Metropolitan Water District of Southern California (MWD) as expenses, the Agency records only the transaction surcharge as operating revenue in the Water Resources (WW) Fund. For these transactions, the Agency is merely a conduit or accommodator for the transactions between the MWD, and the contracting agencies. The Agency, other than its role as a member of the MWD, has no control over the pricing of the imported water delivered to the contracting agencies by MWD.

Also effective June 30, 2004, the Agency began recording the Regional Wastewater Capital Connection Fees collected and held by contracting agencies, on behalf of the Agency, as revenue when the funds are received by each contracting agency. Previously, the Agency recorded the revenue when the fees were called or requested from the contracting agencies. Fees held by the contracting agencies on behalf of the Agency are recorded as non-operating revenue and restricted assets.

(1) Organization and Summary of Significant Accounting Policies (continued):

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(continued):

Operating and Non-operating Revenues and Expenses

Operating revenues relate to the direct revenues generated as a result of services performed or sale of commodities. Examples include sewage treatment and disposal service charges, sales of recycled water, and surcharges on the deliveries of imported domestic water. Non-operating revenues do not directly relate to the Agency's core operations, such as: 1) property tax receipts; 2) interest income; 3) regional capital connection fees; and 4) reimbursement for contract services provided to Chino Basin Desalter Authority (CDA) and Inland Empire Regional Composting Authority (IERCA).

The Agency classifies the expense types based upon the goods and/or services directly related to the operations of the Agency in providing the core services and/or goods to public customers. Typical operating expenses include sewage treatment, biosolids disposal costs, and the cost of delivering recycled water. In contrast, non-operating expenses are not directly related to the Agency's core operations, such as costs related to administrative and operational support provided to CDA and IERCA, interest expense and the cost of financial services.

Budgetary Policy and Control

The Agency's Board approves each year's budget submitted by the Chief Financial Officer prior to the beginning of the new fiscal year. All amendments to the budget, or transfers of operating budget appropriations to or from reserve accounts, require Board approval. The Agency is not required to present budget comparisons; therefore budgetary data is not presented in the accompanying basic financial statements.

The Agency maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the Board. All appropriations lapse at year-end.

d. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

New Accounting Pronouncements

In fiscal year 2012-2013, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". This statement incorporated deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, "*Elements of Financial Statements*" into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new Statement of Net Position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

In fiscal year 2012-2013, the Agency implemented GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". This statement established accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities.

(1) Organization and Summary of Significant Accounting Policies (continued):

d. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued):

New Accounting Pronouncements (continued):

Due to the early implementation of this statement, deferred bond costs, which should be recognized as an expense in the period incurred, were eliminated. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this standard was to decrease the net position at July 1, 2012 by \$1,762,009, which is the amount of bond issue costs at July 1, 2012.

Cash and Investments

Investments in short-term highly liquid debt instruments that have a remaining maturity at the time of purchase of one year or less, and nonparticipating interest earning investment contracts, are reported at amortized cost. All other investments are reported at fair value.

For the purpose of the Statement of Cash Flows at June 30, 2013, and in accordance with the Governmental Accounting Standards Board Statement Number 9, the Agency's cash and cash equivalents are considered to be petty cash, demand deposits and savings accounts that are readily available on demand. All short-term cash surpluses are maintained in a cash and investment pool, and allocated to each fund based on month-end cash and investment balances. For financial presentation purposes, cash is shown within cash, short-term investments, and restricted assets. Additionally, guidelines provided by GASB Statement No. 40 regarding risk disclosures on deposits and investments have been followed.

Interest Income Allocation Method

Interest income earned on pooled cash and investments is allocated quarterly to the funds, based on month-end cash and investment balances. Interest income from cash and investments in the deferred compensation plan and restricted accounts is credited directly to the related fund.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (current portion of Interfund loans) or "advances to/from other funds" (the non-current portion of Interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Property taxes payable to the San Bernardino County Tax Assessor (The County) are annually attached as an enforceable lien on property as of January 1. Taxes are levied annually on July 1; and, are payable to the County in two installments on December 10 and April 10. The County bills and collects the property taxes and subsequently remits the amount due to the Agency in installments during the year. Annually in July, the County prepares a property tax year-end reconciliation and remits any unpaid taxes to the Agency generally within sixty days of the fiscal year end. Those taxes are accrued by the Agency and reflected as taxes receivable in the applicable Funds at fiscal year-end.

(1) Organization and Summary of Significant Accounting Policies (continued):

d. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued):

Receivables and Payables (continued):

The Agency does not collect property taxes in advance; therefore no deferred revenue is shown on the financial statements.

The County is permitted by State Law, (Article XIII A of the California Constitution, Proposition 13,) to levy taxes at 1% of full market value (at the time of purchase) and can increase the property's value no more than 2% per year. In accordance with an agreement with the County, the Agency receives \$0.0625 per hundred dollars levied.

All receivables are shown net of an allowance for uncollectibles. The Agency extends credit to customers in the normal course of operations. Management has evaluated the accounts and did not identify any to be uncollectible as of June 30, 2013. When an account is determined to be uncollectible, it is written off as a bad debt expense following Board approval.

Inventories and Prepaids

The Agency uses the consumption method of accounting for inventories and is valued at the weighted average cost of items on hand. Inventories of operating supplies are maintained and accounted for in the Administrative Services (GG) Fund.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid in the fund financial statements.

Restricted Assets

Restricted assets represent deposits held in short-term investments with Trustee/Fiscal Agents.

Assets held with Trustee/Fiscal Agents include: (a) unspent bond proceeds available for capital construction payments; (b) proceeds from bonds which are restricted to making payments for debt service; (c) deposits held by contracting agencies for Regional Wastewater Capital Connection Fees collected on behalf of the Agency to fund regional capital construction expenditures, and (d) construction contract retentions which involve escrow agreements, and deposits held in lieu of retentions, both of which require funds to be separately set aside for retention.

(1) *Organization and Summary of Significant Accounting Policies (continued):*

d. *Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued):*

Capital Assets

Property, plant and equipment are capitalized at cost. The cost of a capital investment includes purchase, rehabilitation or construction costs, Agency labor for engineering, construction management and administrative activities, capitalized interest, as well as ancillary expenses necessary to make productive use of the assets. Current capitalization thresholds are reflected in the following table:

| Type of Expenditure | Total Cost | Estimated Life | Increases Estimated Life | Enhances Performance |
|-----------------------------------|-------------------|-----------------------|---------------------------------|-----------------------------|
| Office Equipment | ≥ \$ 5,000 | > 1 Year | N/A | N/A |
| Computer Equipment | ≥ \$ 1,000 | > 1 Year | N/A | N/A |
| Other Equipment | ≥ \$ 5,000 | > 1 Year | N/A | N/A |
| Maintenance & Repair Expenditures | ≥ \$ 5,000 | ≥ 3 Years | ----- | Yes |
| Single Year Capital Projects | ≥ \$ 5,000 | ≥ 3 Years | N/A | N/A |
| Multi-Year Capital Projects | ≥ \$15,000 | ≥ 1 Year | N/A | N/A |

The Agency capitalizes interest on tax exempt debt issued to finance construction projects. The amount of interest capitalized is calculated after offsetting interest expense incurred from the date of borrowing until completion of the project with interest earned on invested proceeds over the same period.

During the year ended June 30, 2013, no interest was capitalized on jobs in process related to the 2008A Revenue Bonds proceeds, since proceeds were completely expended.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset useful lives are not capitalized. Improvements are capitalized and depreciated, as applicable, over the remaining useful life of the related capital assets. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation of capital assets has been provided on a straight-line basis. One-half year depreciation is recorded in the year of acquisition and disposal.

| | | |
|-----------------------------|------------------------------------|--------------|
| Estimated useful lives are: | Furniture, machinery and equipment | 3 - 15 years |
| | Improvements | 15 years |
| | Interceptors, buildings and plants | 5 - 50 years |
| | Intangible Capacity Rights | 50 years |
| | Computer Software | 3 years |

(1) *Organization and Summary of Significant Accounting Policies (continued):*

d. *Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued):*

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Agency has one item that qualifies for reporting in this category. It is the deferred loss on refunding which results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Agency has no deferred inflows of resources.

Compensated Absences

The Agency records a liability for vacation, sick and compensatory leave earned but not used. Each employee earns vacation pay based on the length of employment. Upon termination, employees receive payment for accrued vacation pay.

Employees continuously employed by the Agency for at least five years receive partial payment, upon termination, of accrued sick leave hours. The payment percentage is based upon the number of years of service.

The Agency allows hourly employees of all bargaining units to accrue up to a maximum of forty (40) hours of compensatory time each calendar year. At the end of each calendar year, hourly un-represented employees, and members of the general, operators and laboratory bargaining units have the option to receive payment for, or roll over to the next calendar year, all accrued compensatory time that has not yet been taken as paid time off.

At July 1, 2012 the accumulated vacation leave payable was \$1,921,069 with additions and deletions during the year of \$335,319, and \$775,509 respectively, resulting in an ending balance at June 30, 2013 of \$1,480,880. There was a net decrease of \$440,189 over the previous fiscal year. The sick and compensatory leave balance at July 1, 2012 was \$2,155,241 with additions and deletions during the year of \$1,135,858 and \$854,530 respectively, resulting in an ending balance at June 30, 2013 of \$2,436,570. There was a net increase of \$281,328 over the previous fiscal year. Total compensated absences have been recorded in the Administrative Service Fund as a combined total of \$3,917,450. The current year liability is estimated to be \$1,697,226.

(1) Organization and Summary of Significant Accounting Policies (continued):

d. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued):

Other Post - Employment Benefits

In accordance with the Agency's Memorandum of Understanding (MOU), the Agency provides post-employment benefits to all retired employees through the California Public Employees' Retirement System (CalPERS) Public Employees Medical and Hospital Care Act (PEMHCA) health program.

The Agency contributes an additional monthly longevity benefit to each retiree minus the minimum PEMHCA contribution or \$112.00, whichever is greater, according to the chart below who simultaneously retires from the Agency through CalPERS and who is a minimum age of fifty-five (55).

| Hire Date | Retirement Date | Benefit Level | Minimum Years of Agency Service | Benefit |
|---------------------|------------------------|---------------------------------------|--|---------------------------------|
| Before July 2, 1980 | N/A | Employee and/or eligible dependent(s) | 15 | 100% of applicable Kaiser Rate* |
| Before Jan. 1, 1992 | N/A | Employee and/or eligible dependent(s) | 20 | 50% of applicable Kaiser Rate* |
| N/A | After July 3, 2004 | Employee only or surviving spouse | 12 | 50% of applicable Kaiser Rate* |

The longevity benefit is available to qualifying retirees whether they enroll in a CalPERS medical plan or not. The retiree will be reimbursed on a monthly basis for his/her retiree longevity benefit via direct deposit to the retiree's (or surviving spouse's) bank account, up to the maximum benefit provided. Retirees are responsible for any taxes that may be due on reimbursement of retiree longevity benefits.

In accordance with GASB Statement No. 45 – Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pension (OPEB), public entities are required to accrue OPEB costs throughout the employee's working lifetime and record the actuarially calculated cost as a liability. The Agency contracted an independent pension consultant and actuaries to perform an actuarial valuation of the OPEB as of July 1, 2013, with results rolled back to July 1, 2012. The report used the "Entry Age Normal" actuarial cost method and an attribution period that runs from the date of hire until the expected retirement date. Normal costs can be defined to be the present value of future benefits that are "earned" by employees for service rendered during the current year. The report used the normal cost approach with which the Agency's unfunded actuarial accrued liability is being amortized as a level dollar amortization over a closed 26-year period.

As of June 30, 2013, no decision has been made to fund the actuarially calculated OPEB liability.

(1) *Organization and Summary of Significant Accounting Policies (continued):*

d. *Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued):*

Other Post - Employment Benefits (continued):

The following table presents the summary of the Actuarial Accrued Liability (AAL), Plan Assets and Annual Required Contribution for the Fiscal Year 2012/13.

| Valuation as on July 1, 2013 | FY12/13 |
|---|--------------------|
| Annual Required Contribution (ARC) | \$1,452,962 |
| Interest on net OPEB Obligation | \$263,481 |
| Adjustment to ARC | (291,768) |
| Annual OPEB Costs | \$1,424,675 |
| IEUA Contributions | (446,082) |
| Percentage Contributed | 31% |
| Increase or Decrease in Net OPEB | \$978,593 |
| Net OPEB Obligation – Beginning of Year | \$5,855,131 |
| Net OPEB Obligation – End of Year | \$ 6,833,724 |
| Annual Covered Payroll | \$23,184,095 |

Three-year trend information for OPEB

| Fiscal Year Ending | Annual OPEB Cost | Percentage of OPEB Contributed | Net OPEB Obligation |
|---------------------------|-------------------------|---------------------------------------|----------------------------|
| 6/30/2011 | \$1,363,512 | 24% | \$4,773,451 |
| 6/30/2012 | \$1,463,291 | 24% | \$5,855,131 |
| 6/30/2013 | \$1,424,675 | 31% | \$6,833,724 |

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$17,476,486 and the actuarial value of assets was Nil, resulting in unfunded actuarial accrued liabilities (UAAL) of \$17,476,486. The covered payroll (annual payroll of active employees covered by the plan) was \$23,184,095, and the ratio of the UAAL to the covered payrolls was 76.5%.

(1) *Organization and Summary of Significant Accounting Policies (continued):*

d. *Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued):*

Other Post - Employment Benefits (continued):

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan between the employer and the plan members and include the types of benefits provided at the time of each valuation, and the historical pattern of sharing of benefits costs between the employer and the plan members at that point. Since retiree health benefits will be paid over the next 50 years or more, a projection of future benefits payments and liabilities requires the use of actuarial assumptions to reflect the estimate of what is likely to occur over the long-term.

The valuation process uses a mathematical model to project the number of retirees and dependents in each future year based on the retirees at the beginning of the year who are expected to survive until the end of the year, and the active employees expected to retire during the year. The expected benefits payable in future year are calculated based on the number of projected retirees and dependents and the anticipated future per capita costs. Actuarial assumptions used for the July 1, 2013 valuation were:

Discount Rate – a 4.5% discount was used to calculate the present value of future benefit payments. Normal costs increase by 5.0% per year.

Health Care Trend – based on recent rate increases, the projected trend was developed for the actuarial valuation, assuming an annual increase in CalPERS Kaiser rates, as follows:

| <u>Year</u> | <u>Rate</u> |
|----------------|-------------|
| 2014 | 7.0% |
| 2015 | 6.7% |
| 2016 | 6.4% |
| 2017 | 6.1% |
| 2018 | 5.8% |
| 2019 | 5.5% |
| 2020 and after | 5.2% |

A separate audited post-employment benefit plan report is not available at this time.

(1) Organization and Summary of Significant Accounting Policies (continued):

d. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued):

Long-Term Obligations

In the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable fund statement of net position. Certain Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premium or discount.

Prior Fiscal Year Data

The information included in the accompanying financial statements for the prior fiscal year has been presented for comparison purposes only, and does not represent a complete presentation in accordance with generally accepted accounting principles. Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

Certain amounts in the June 30, 2012 financial statements have been reclassified for comparative purposes to conform to the presentation in the June 30, 2013 financial statements. As a result of the retroactive implementation of GASB Statement No. 65, net position at June 30, 2012 decreased by \$1,762,009.

II. STEWARDSHIP

(2) Stewardship, Compliance & Accountability:

Encumbrances

Encumbrance accounting is employed as an extension of formal budgetary integration in the Agency's enterprise funds.

Encumbrances (e.g., purchase orders, contracts, other commitments) outstanding at year end are reported as unrestricted net assets in the fund balances and do not constitute expenditures or liabilities. Upon Board approval, these commitments are re-appropriated and honored during the subsequent fiscal year.

Deficit Fund Balance

At June 30, 2013 there were expenditures over appropriations in certain funds at the department level. However, this did not result in a negative fund balance of the individual funds because of expenditure savings from other departments in the fund and/or adequate revenues or other funding sources in the fund to offset expenditures.

III. DETAILED NOTES ON ALL FUNDS

(3) Cash and Investments

The Agency follows the practice of pooling cash and investments of all funds except for restricted funds generally held by outside custodians and funds in its employees' deferred compensation plans. Each fund's position in the pool is reported on the combined balance sheet as cash and investments. Amounts in the Agency's deferred compensation plan, with the exception of ICMA, are no longer reported on the Agency's balance sheet as they are held in trust.

Interest income earned on pooled cash and investments is allocated to those funds which are required by law, local ordinance, administrative action or agreements to receive interest. Such allocation is made quarterly, at a minimum, based on the weighted average cash balances in each fund receiving interest. Interest income from cash and investments which are restricted is credited directly to the related fund.

Cash and investments as of June 30, 2013 are classified in the accompanying financial statement as follows:

| | |
|---|------------------------------------|
| Statement of net assets: | |
| Cash and investments | \$111,647,534 |
| Cash and investments held by fiscal agent | <u>33,568,624</u> |
| Total cash and investments | <u><u>\$145,216,158</u></u> |

Cash and investments as of June 30, 2012 consist of the following:

| | |
|--|------------------------------------|
| Cash on hand (Petty Cash) | \$2,138 |
| Deposits with financial institutions | 41,510,242 |
| Deposits held by other governmental agencies | 28,246,979 |
| Investments | <u>75,456,799</u> |
| Total cash and investments | <u><u>\$145,216,158</u></u> |

GASB Statement No. 31

The Agency adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as of July 1, 1997. GASB Statement No. 31 established fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the agency reports its investments at fair value in the balance sheet. All investment income, including changes in fair value of investments, is recognized as revenue in the operating statement.

Investments and Interest Receivable - Restricted

Restricted assets represent deposits held in short-term investments with Trustee/Fiscal Agents. Assets held with Trustee/Fiscal Agents include: (a) unspent bond proceeds available for capital construction payments; (b) proceeds from bonds which are restricted to making payments for debt service; (c) deposits held by contracting agencies for Regional Wastewater Capital Capacity Reimbursement Account (CCRA) fees collected on behalf of the Agency to fund regional wastewater capital construction expenditures, and (d) construction contract retentions which involve escrow agreements, and deposits held in lieu of retentions, both of which require funds to be separately set aside for retention. Construction contract retentions are included in Non-current assets within the Restricted Assets category on the Statement of Net Position.

(3) Cash and Investments (continued):

Investments Authorized by the California Government Code and the Agency's Investment Policy

The table below identifies the investment types that are authorized the California Government Code Section 53601 and the Agency's investment policy (where more restrictive). The table also identifies certain provisions of the California Government Code (or the Agency's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

The table does not address investment of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California Government Code or the Agency's investment policy.

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment in One Issuer</u> |
|--|--------------------------------|---|--|
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| State Treasury Obligations | 5 years | 10% | None |
| Local Agency Obligations | 5 years | None | None |
| Commercial Paper | 270 days | 20% | None |
| Time, Certificates, PSC of Deposit | 5 years | 30% | None |
| Repurchase Agreements | 90 days | 40% | None |
| Medium-Term Notes | 5 years | 10% | None |
| Money Market Funds | N/A | 20% | 10% |
| Local Agency Investment Fund | N/A | None | None |
| Local Agency Investment Pools | N/A | \$20M/Acct | None |
| Bank Deposits | N/A | None | None |

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by the provisions of the Agency's debt agreements, rather than the general provision of the California Government Code or the Agency's Investment Policy.

The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address quality of risk, interest rate risk, credit risk, and concentration of credit risk.

| <u>Authorized Investment Type</u> | <u>Minimum Rating</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage Allowed</u> | <u>Maximum Investment in One Issuer</u> |
|--|------------------------------|--------------------------------|--|--|
| U.S. Treasury Obligations | None | None | None | None |
| U.S. Agency Securities | None | None | None | None |
| Money Market Funds | AA-m / Aa2 | N/A | None | None |
| Certificates of Deposits | None | None | None | None |
| Investment Agreements | None | None | None | None |
| Commercial Paper | A-1 / Prime-1 | 270 days | None | None |
| Bankers Acceptances | A-1 / Prime-1 | 1 Year | None | None |
| Repurchase Agreements | A | 30 days | None | None |
| LAIF | None | N/A | None | None |

(3) Cash and Investments (continued):

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The Agency does not have any investments with fair values highly sensitive to interest rate fluctuations.

Investment Pool Oversight

Local Agency Investment Fund (LAIF)

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized basis.

Investment in Investment Trust of California (CalTRUST)

The Agency is a voluntary participant in the CalTRUST, a Joint Powers Authority established by public agencies in California for the purpose of pooling and investing local agency funds. A Board of Trustees supervises and administers the investment program of the Trust. CalTRUST invests in fixed income securities eligible for investment pursuant to California Government Code Sections 53601, et. Seq. and 53635, et. Seq. Investment guidelines adopted by the Board of Trustees may further restrict the types of investments held by the Trust. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by CalTRUST for the entire CalTRUST portfolio. The balance available for withdrawal is based on the accounting records maintained by CalTRUST. For purposes of determining fair market value, securities are normally priced on a daily basis on specified days if banks are open for business and the New York Stock Exchange is open for trading. The value of securities is determined on the basis of the market value of such securities or, if market quotations are not readily available, at fair value, under guidelines established by the Trustees. Investments with short remaining maturities may be valued at amortized cost, which the Board has determined to equal fair value.

Deposits

At June 30, 2013, the carrying amount of the Agency's deposits was \$41,510,242 and the bank balance was \$44,021,209. The \$2,510,967 difference represents outstanding checks and other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure public agencies deposits by pledging government securities with a value of 110% of a public agency's deposits. California law also allows financial institutions to secure entity's deposits by pledging first mortgage notes having a value of 150% of the Agency's total deposits. California law also allows financial institutions to secure Entity deposits by pledging first mortgage notes having a value of 150% of the District's total deposits. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking.

(3) Cash and Investments (continued):

Deposits (continued):

The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank of San Francisco, California, as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "Agency of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local government agency.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Agency has no formal policy for managing risks.

Presented below is the minimum rating required by the Agency's investment policy, and the actual Moody's rating as of fiscal year ended June 30, 2013 for each investment type:

| Investment Type | | Minimum Legal Rating | Moody's Rating as of June 30, 2013 | | | |
|---------------------------|---------------------|----------------------|------------------------------------|---------------------|------------|---------------------|
| | | | AA2 to AAA | A2- to AA3 | B to B+ | Unrated |
| U.S. Agency Securities | \$4,983,450 | N/A | \$4,983,450 | \$0 | \$0 | \$0 |
| Medium Term Notes | 6,315,036 | A | 0 | 6,315,036 | 0 | 0 |
| State Municipal Bonds | 7,233,548 | A | 0 | 5,238,448 | 0 | 1,995,100 |
| LAIF | 48,649,163 | N/A | 0 | 0 | 0 | 48,649,163 |
| Cal Trust | 3,508,250 | N/A | 0 | 0 | 0 | 3,508,250 |
| Held by Bond Trustee: | | | | | | |
| U.S. Agency Securities | 2,024,484 | N/A | 2,024,484 | 0 | 0 | 0 |
| Money Market Mutual Funds | 589,732 | AA-m / Aa2 | 0 | 0 | 0 | 589,732 |
| U.S. Treasuries | 2,153,136 | N/A | 2,153,136 | 0 | 0 | 0 |
| Total | \$75,456,799 | | \$9,161,070 | \$11,553,484 | \$0 | \$54,742,245 |

Concentration of Credit Risk

The Agency's investment policy contains no limitations on the amount that can be invested with any one issuer beyond that stipulated by the California Government Code. There is currently no investment in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represents 5% or more of the total Agency's investments.

(3) Cash and Investments (continued):

Custodial Credit Risk

The custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, the Agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Agency will not be able to recover the value of investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit 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 or 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 equal 110% of the total amount deposited by public agencies. California law also allows financial institutions to secure Agency deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2013, the Agency's deposits (bank balance) were insured by the Federal Depository Insurance Corporation up to \$250,000 and the remaining balances were collateralized under California law. None of the Agency's deposits or investments was exposed to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk borne by an interest-bearing asset, due to variability of the interest rate 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. The Agency's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Agency's investment policy states that purchases of investments will be restricted to securities with a final state maturity not to exceed five years. The Agency manages its exposure to interest rate risk is by purchasing a combination of short term and long term investments. Investment maturities are spread out evenly to provide the cash flow and liquidity needed for operations. The Agency has elected to use the segmented time distribution method of disclosure for its interest rate risk.

As of June 30, 2013, the Agency had the following investments and original maturities:

| Investment Type | Remaining Maturity (in Months) | | | | Fair Value |
|--------------------------|--------------------------------|--------------------|--------------------|---------------------|---------------------|
| | 12 Months Or Less | 13 to 24 Months | 25 to 60 Months | More Than 60 Months | |
| U.S. Agency Securities | \$0 | \$2,007,600 | \$2,975,850 | \$0 | \$4,983,450 |
| Medium Term Notes | 0 | 2,349,746 | 3,965,290 | 0 | 6,315,036 |
| State Municipal Bonds | 3,488,743 | 2,683,415 | 1,061,390 | 0 | 7,233,548 |
| State Investment Pool | 48,649,163 | 0 | 0 | 0 | 48,649,163 |
| Cal Trust | 3,508,250 | 0 | 0 | 0 | 3,508,250 |
| Held by Bond Trustee: | | | | | |
| Money Market Mutual Fund | 589,732 | 0 | 0 | 0 | 589,732 |
| U.S. Agency Securities | 2,024,484 | 0 | 0 | 0 | 2,024,484 |
| U.S. Treasuries | 2,153,136 | 0 | 0 | 0 | 2,153,136 |
| Total | \$60,413,508 | \$7,040,761 | \$8,002,530 | \$0 | \$75,456,799 |

(4) Deferred Compensation Plan

The Agency established a Deferred Compensation Plan for employees in December 1977. Under this plan, employees may choose to defer income until retirement or termination. All deferred wages are credited to the participating employee accounts. Internal Revenue Code Section 457 currently requires that plan assets be held in trust for the exclusive benefit of the participants and their beneficiaries. Investments in the Deferred Compensation Plan are held by a fiscal agent in investment options chosen by the participants. The Agency makes no contributions under this plan.

The Agency adopted GASB Statement No. 32 "Accounting and Financial Reporting for Internal Revenue Code (IRC) Section 457 Deferred Compensation Plans." The implementation of GASB Statement No. 32 requires the Agency to change its accounting for its Deferred Compensation Plan to exclude it from the financial statements, since the Agency neither has custody of the plan assets, nor directs or accounts for the plan investments. The Deferred Compensation Plan had been included as an asset and liability prior to July 1, 1998.

In fiscal year 1997/98, the Board of Directors adopted a resolution to establish another Deferred Compensation Plan that is a qualified plan under the IRC Section 401(a). Each participant is expected to contribute up to 10% of their employee's earnings up to a maximum of \$51,000 for 2013. All contributions are made with pre-tax income and are solely obtained from the employee's funds. An employee's election to participate in the plan is irrevocable and shall remain in force until the employee terminates employment. Under current IRS regulations once an employee elects to participate in the plan, he/she cannot change his/her contribution amount or withdraw from the plan until he/she leaves Agency employment.

Unlike the Deferred Compensation Plan under IRC Section 457, the IRC Section 401(a) Deferred Compensation Plan must be reported in the financial statements. The reported balances were \$1,336,147 and \$1,452,719 at fiscal years ended June 30, 2013 and 2012, respectively.

(5) Defined Benefit Pension Plan

Plan Description

The Agency contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. The Agency's defined benefit pension plan is identified as the Miscellaneous Plan of the Inland Empire Utilities Agency (Agency's Plan). PERS provides retirement, disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the state of California.

Benefit provisions, and all other requirements, are established by State statutes within the Public Employees' Retirement Law. The Agency's Plan selects optional provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office - 400 "Q" Street - Sacramento, CA 95811.

(5) Defined Benefit Pension Plan (continued):

Funding Policy

Effective October 2, 2011, Agency employees hired before January 1, 2012 shall contribute 2% of their annual PERS reportable covered salary to CalPERS. The Agency will contribute the remaining 6% for a total contribution of 8%. For all employees hired on or after January 1, 2012, the employee shall contribute 3% of their annual compensation to CalPERS. The Agency will contribute the remaining 4% for a total contribution of 7%. The Agency is required to contribute the actuarially determined remaining amounts necessary to fund the retirement benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration.

All full-time Agency employees participate in CalPERS with benefits vesting after five years of CALPERS related service. For each year of service credit, Agency employees hired prior to January 1, 2012 and who retire at or after age 55 are eligible for annual retirement benefits, payable monthly for life, in an amount equal to 2.5% of their average salary during the period of 12 consecutive months in which they earned their highest salary. For employees hired on or after January 1, 2012, the Agency contracts with CalPERS for a second tier pension plan which provides for the 2.0% @ 55 Benefit Formula with highest average monthly pay rate for a 3 year period. Employees hired after January 1, 2013, and defined as “new members” under the Public Employees’ Pension Reform Act of 2013 (“PEPRA”), Government Code section 7522, et seq., will receive the 2% @ 62 Benefit Formula and will pay one half (1/2) of their total normal cost rate as determined by CalPERS.

Annual Pension Costs

Under GASB Statement No. 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer’s actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2012 to June 30, 2013 has been determined by an actuarial valuation of the plan as of July 1, 2010.

In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2013, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2012 to June 30, 2013. The Agency’s annual pension cost for the fiscal year ended June 30, 2013 was \$4,875,602.

(5) Defined Benefit Pension Plan (continued):

Annual Pension Costs (continued):

A summary of the principle assumptions and methods used to determine the annual required contribution are shown below.

| | |
|----------------------------|--|
| Valuation Date | June 30, 2010 |
| Actuarial Cost Method | Entry Age Normal Cost Method |
| Amortization Method | Level Percentage of Payroll |
| Average Remaining Period | 23 Years as of the Valuation Date |
| Asset Valuation Method | 15 Year Smoothed Market |
| Actuarial Assumptions | |
| Investment Rate of Return | 7.75% (net of administration expenses) |
| Projected Salary Increases | 3.55% to 14.45% depending on Age, Service, and type of employment. |
| Inflation | 3.00% |
| Payroll Growth | 3.25% |
| Individual Salary Growth | A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25% |

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30 year rolling period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

Three-year Trend information for the IEUA CalPERS

| Fiscal Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---------------------------|----------------------------------|--------------------------------------|-------------------------------|
| 6/30/2011 | \$4,730,153 | 100% | 0 |
| 6/30/2012 | 4,976,080 | 100% | 0 |
| 6/30/2013 | 4,875,602 | 100% | 0 |

Funded Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the plan was 78.5% funded. The actuarial accrued liability for benefits was \$129,557,136 and the actuarial value of assets was \$101,701,391, resulting in unfunded actuarial accrued liabilities (UAAL) of \$27,855,745. The covered payroll (annual payroll of active employees covered by the plan) was \$23,644,373, and the ratio of the UAAL to the covered payrolls was 117.8%.

(6) Risk Management

The Agency is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. During fiscal year 1985/86, the Agency chose to establish a risk management program for risks associated with all liability losses except workers' compensation losses. These risks are covered by commercial insurance purchased from independent third parties.

- ✦ General and auto liability, public officials and employees' error and omissions: The Agency retains the risk of loss for general liability, automobile liability, and, errors and omissions claims of up to \$500,000 per person per occurrence.
- ✦ The Agency also retains the risk of loss for property damage, and boiler machinery claims of up to \$25,000.

In fiscal year 1993/94, the Agency adopted a self-insurance program for risks associated with workers' compensation to account for and finance uninsured workers' compensation losses. The Agency uses excess insurance agreements to reduce its exposure to large workers' compensation losses.

Excess insurance permits the recovery of a portion of losses from the excess insurers, although it does not discharge the primary liability of the fund as direct insurer of the risks.

- ✦ The Agency purchases commercial insurance coverage for that portion of workers' compensation claims exceeding the California statutory limits of \$1,000,000 per person per occurrence. The current commercial insurance provides coverage for workers' compensation claims up to \$25,000,000. The Agency does not report excess insurance risks as liabilities unless it is probable that those risks will not be covered by the excess insurance.

In addition to the above, the Agency has the following insurance coverage:

- ✦ Employee dishonesty coverage up to \$50,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage's, and computer fraud; with a deductible of \$1,000 per occurrence.
- ✦ Property damage has a \$1,000,000,000 per occurrence coverage limit, subject to a \$25,000 deductible per occurrence. All other claims categories provide coverage up to \$800,000,000 on an annual aggregate basis.
- ✦ Boiler and machinery coverage for the replacement cost up to a shared limit of \$100,000,000, subject to various deductibles depending on the type of equipment.

Insurance premiums are paid into the Administrative Services Fund by all other funds and are available to pay claims, claim reserves and administrative costs of the programs. The total is calculated using trends in actual claims experience. The allocation is based upon the percentage of each fund's current payroll as it relates to the total payroll of the Agency. These allocated interfund premiums are used to reduce the amount of claims expenditure reported in the Administrative Services Fund.

Settled claims from the risks discussed herein have not exceeded commercial insurance coverage in any of the last three fiscal years ending June 30, 2013, 2012, and 2011. Additionally, there have been no reductions in insurance coverage since the establishment of the risk management program.

(6) Risk Management (continued):

Claim Liabilities

Claim liabilities of the Agency are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claim liabilities include an amount for claims that have been incurred but not reported (IBNRs). A negative amount reflects a current year change in the estimated unpaid claims balance at the beginning of the year. Claim liabilities are calculated considering effects of inflation, recent claim settlement trends (including frequency and amount of payouts), and other economic and social factors. The liability for claims and judgments is reported in the accrued liabilities.

Changes in the balances of workers' compensation and general liability claims during the past two fiscal years were as follows:

| | Worker's Compensation | | General Liability | |
|--|-----------------------|------------------|-------------------|------------------|
| | 2012/13 | 2011/12 | 2012/13 | 2011/12 |
| Unpaid Claims, beginning of fiscal year | \$399,739 | \$328,410 | \$500,000 | \$2,000,000 |
| Incurred claims (including IBNRs) | (93,227) | 206,606 | 13,828 | 1,994 |
| Claim payments | (43,130) | (135,277) | (13,828) | (1,501,994) |
| Unpaid claims, end of fiscal year | \$263,382 | \$399,739 | \$500,000 | \$500,000 |

(7) Changes in Capital Assets

Jobs in Progress

At the Fiscal Year ended June 30, 2013, the Agency had several jobs in progress designed to expand the Regional Recycled Water Distribution System as part of the amendments to the Recycled Water Business Plan adopted in December 2007. Other significant projects are also underway to expand, improve and refurbish existing treatment facilities in the Agency's Regional Wastewater Program, including the disposition of wastewater by-products and provide for ancillary facilities that support operating activities.

| | |
|--|---------------------|
| Other Projects (less than \$1,000,000 each) | \$16,497,495 |
| RP-1 Dewatering Facility Expansion | 28,720,817 |
| RP-5 System Facility Upgrade & Improvements | 7,478,830 |
| 1630 W. Recycled Water Pipeline Segment | 7,177,688 |
| CCWRF Recycled Water Pump Station Expansion | 6,726,176 |
| RP-1 Asset Replacement | 2,845,788 |
| Wineville Extension Recycled Water Pipeline | 1,894,910 |
| RP-1 Flare & RP-1/RP-2 Boiler Replacement | 1,512,781 |
| Multi-Family Direct (Direct Installation of Ultra Low Flush and High Efficiency Toilets) | 1,121,836 |
| Total jobs in progress | \$73,976,321 |

(7) Changes in Capital Assets (continued):

The following is a summary of property, plant and equipment, net jobs in progress and intangible assets at June 30, 2013:

Capital Assets

| Capital assets- | Balance at 6/30/12 | Additions | Transfers & Retirements | Balance at 6/30/13 | Accumulated Depreciation at 6/30/13 | Net Book Value at 6/30/13 |
|---|-----------------------|---------------------|----------------------------|-----------------------|---|---------------------------------|
| Capital assets-not being depreciated: | | | | | | |
| Land | \$13,979,349 | \$88,525 | \$0 | \$14,067,874 | \$0 | \$14,067,874 |
| Jobs in progress | 114,720,236 | 23,406,425 | (64,150,340) | 73,976,321 | 0 | 73,976,321 |
| Total capital assets, not being depreciated | \$128,699,585 | \$23,494,950 | \$(64,150,340) | \$88,044,195 | \$0 | \$88,044,195 |
| Capital assets- being depreciated: | | | | | | |
| Interceptors, trunk lines and inter-ties | \$29,128,542 | \$6,950,046 | \$0 | \$36,078,588 | \$(8,285,334) | \$27,793,254 |
| Office facilities | 12,057,270 | 19,347 | 0 | 12,076,617 | (2,230,771) | 9,845,846 |
| Collection, outfall, and transmission lines | 120,286,916 | 1,143,737 | 0 | 121,430,653 | (61,359,809) | 60,070,844 |
| Reservoirs, settling basins, ponds, and chlorination stations | 103,610,966 | 5,682,014 | 0 | 109,292,980 | (21,515,199) | 87,777,781 |
| Recycled water distribution systems | 100,786,062 | 16,815,427 | (85,400) | 117,516,089 | (12,243,884) | 105,272,205 |
| Treatment plants, pump stations and office buildings | 252,801,456 | 8,033,030 | (6,097,094) | 254,737,392 | (104,191,823) | 150,545,569 |
| Equipment | 135,812,862 | 20,586,728 | (1,471,667) | 154,927,923 | (72,200,613) | 82,727,310 |
| Land improvement | 18,999,681 | 1,398,053 | 0 | 20,397,734 | (8,009,212) | 12,388,522 |
| Total capital assets, being depreciated | \$773,483,755 | \$60,628,382 | \$(7,654,161) | \$826,457,976 | \$(290,036,645) | \$536,421,331 |
| Less accumulated depreciation for: | | | | | | |
| Interceptors, trunk lines and inter-ties | \$(7,534,455) | \$(750,879) | \$0 | \$(8,285,334) | | |
| Office facilities | (1,991,978) | (238,793) | 0 | (2,230,771) | | |
| Collection, outfall, and transmission lines | (57,513,124) | (3,846,685) | 0 | (61,359,809) | | |
| Reservoirs, settling basins, ponds, and chlorination stations | (18,939,542) | (2,575,657) | 0 | (21,515,199) | | |
| Recycled water distribution systems | (9,775,308) | (2,468,576) | 0 | (12,243,884) | | |
| Treatment plants, pump stations and office buildings | (103,758,109) | (6,497,610) | 6,063,896 | (104,191,823) | | |
| Equipment | (61,452,622) | (12,202,668) | 1,454,677 | (72,200,613) | | |
| Land improvement | (7,138,058) | (871,154) | 0 | (8,009,212) | | |
| Total accumulated depreciation | \$(268,103,196) | \$(29,452,022) | \$7,518,573 | \$(290,036,645) | | |
| Total capital assets, being depreciated, net | \$505,380,559 | \$31,176,360 | \$(135,588) | \$536,421,331 | | |
| Total capital assets-Enterprise Funds, net | \$634,080,144 | \$54,671,310 | \$(64,285,928) | \$624,465,526 | | |

(7) Changes in Capital Assets (continued):

Intangible Assets

| Intangible assets- | Balance at 6/30/12 | Additions | Transfers & Retirements | Balance at 6/30/13 | Accumulated Amortization at 6/30/13 | Net Book Value at 6/30/13 |
|---|-------------------------------|---------------------|--|-------------------------------|--|--|
| Intangible assets-being amortized: | | | | | | |
| Computer Software | \$7,889,850 | \$2,131,951 | \$0 | \$10,021,801 | (\$4,230,991) | \$5,790,810 |
| Metropolitan Water District connections | 198,891 | 0 | 0 | 198,891 | (169,057) | 29,834 |
| Corps of Engineers-Cucamonga Creek | 43,489 | 0 | 0 | 43,489 | (24,709) | 18,780 |
| San Bernardino County Flood Control- Chino Road Barrier | 48,078 | 0 | 0 | 48,078 | (15,226) | 32,852 |
| County Sanitation Districts of Los Angeles County's facilities and capacity rights | 38,306,077 | 1,206,214 | (118,749) | 39,393,542 | (14,507,546) | 24,885,996 |
| Santa Ana Watershed Project Authority capacity rights | 12,467,002 | 0 | 0 | 12,467,002 | (5,799,578) | 6,667,424 |
| Organization and master planning | 1,844,537 | 95,268 | 0 | 1,939,805 | (577,067) | 1,362,738 |
| Total intangible assets being amortized | \$60,797,924 | \$3,433,433 | (\$118,749) | \$64,112,608 | (\$25,324,174) | \$38,788,434 |
| Less accumulated amortization for: | | | | | | |
| Computer Software | (\$3,304,599) | (\$926,392) | \$0 | (\$4,230,991) | | |
| Metropolitan Water District connections | (165,081) | (3,976) | 0 | (169,057) | | |
| Corps of Engineers-Cucamonga Creek berm | (23,839) | (870) | 0 | (24,709) | | |
| San Bernardino County Flood Control- Chino Road Barrier | (13,623) | (1,603) | 0 | (15,226) | | |
| County Sanitation Districts of Los Angeles County's facilities and capacity rights | (13,292,724) | (1,214,822) | 0 | (14,507,546) | | |
| Santa Ana Watershed Project Authority capacity rights | (5,501,994) | (297,584) | 0 | (5,799,578) | | |
| Organization and master planning | (540,782) | (36,285) | 0 | (577,067) | | |
| Total accumulated amortization | (22,842,642) | (2,481,532) | 0 | (25,324,174) | | |
| Total intangible assets-Enterprise Funds, net | \$37,955,282 | \$951,901 | (\$118,749) | \$38,788,434 | | |
| Total capital assets- Enterprise Funds, net | \$672,035,426 | \$55,623,211 | (\$64,404,677) | \$663,253,960 | | |

The ending balance of accumulated depreciation and amortization for all capital assets has been adjusted to the Statement of Net Position for 2013 (rounding difference.) For the Fiscal year ended June 30, 2013, depreciation was \$29,452,022 and amortization expense was \$2,481,532.

(8) Construction Commitments

The Agency is committed to several material construction contracts. Total outstanding obligations were \$14,659,065 at June 30, 2013. Some of the more significant contracts are as follows:

There are several projects on-going throughout the Agency's regional plants, with seven major recycled water projects on-going totaling \$13,171,217; one Agency wide project with a contract balance totaling \$585,535; two major projects on-going at RP-1 totaling \$549,540; three major projects at the Carbon Canyon facility totaling \$236,114; one upgrade at RP-2 totaling \$106,639; and one Recharge Facilities Improvement project totaling \$10,020.

The major projects include:

- ✦ **EN13023.00**– *930 Zone Recycled Water Pipeline construction.* This project is located northeast of the intersection of Galloping Hills Road and Buckhaven Road, in Chino Hills, California. The installation of 13,000 linear feet of 30-inch 930-zone recycled water pipeline will connect the proposed 5.0 reservoir and the Carbon Canyon Water Reclamation Facility (CCWRF) Recycled Water Pump Station. The transmission line will also have numerous direct connections to serve approximately another 300 acre-foot per year (AFY) to recycled water to customers. This project has an outstanding obligation of \$5,702,482.
- ✦ **EN13022.00** – *930 Zone Recycled Water Reservoir construction.* A 5 Million Gallon (MG) storage reservoir will be constructed in the City of Chino Hills. Since the recycled water use has continued to increase in the Cities of Chino Hills, and Ontario, additional storage is needed to serve these growing demands more reliably. This project has an outstanding obligation of \$4,382,000.
- ✦ **EN07010.00** – *Carbon Canyon Recycled Water Pump Station Expansion.* This project will include construction of the Chino Hills reservoir and pipeline to have approximately 9.5 MG capacity, and 21,500 linear feet of 36-inch pipeline, respectively. The project will allow for recycled water to be stored and distributed to the City of Chino Hills. It is the backbone of the Chino Hills Recycled Water system, and consists of a 5 MG reservoir located within the corporate limits of Chino Hills, and the feeder line - approximately 12,500 feet in total length - from the proposed reservoir to an existing connection point located at the northeast quadrant of the San Antonio Channel Crossing and Chino Hills Parkway. The project has an outstanding obligation of \$2,507,706.
- ✦ **EN11036.00** – *HVAC & Server Room Fire Suppression Improvements.* The scope of this project includes comprehensive evaluation and assessment of the Agency-wide heating, ventilation, and air-conditioning systems (HVAC) in order to improve performance and energy efficiency. The Agency hired an outside consultant to perform the HVAC system assessment, and provide recommendations for improvement. Some urgent and critical system replacements/upgrades may be performed as part of this project. The project has an outstanding obligation of \$585,535.
- ✦ **EN08023.05** – *RP-1 Primary Clarifier Rehabilitation 1 - 6.* The RP-1 condition assessment was developed as a result of the 2005 study conducted by Metcalf and Eddy at RP-1. The study evaluated all the major equipment, and provided a prioritized list of improvements that need to be completed for the facility over a ten year time period. Improvements included either repairs, rehabilitation, or equipment condition assessment, and action plans to properly respond as needed. This particular project is the continuation of the required rehabilitation work within the primary clarifiers. The project has an outstanding obligation of \$549,540.

(8) Construction Commitments (continued):

- ✦ **WR11017.00** – *Turner Basin Recharge Improvements*. IEUA, San Bernardino County, and several local and regional stakeholders developed the West End Conservation and Groundwater Task Force, for the development of a comprehensive plan that will guide future improvement efforts of the Turner / Guasti site. To-date, the Task Force has developed the Turner Basin / Guasti Park Multi-Use Project Implementation. This project is to excavate and enlarge one of the basins which have been identified as a high priority by Chino Basin Watermaster (CBWM). CBWM will reimburse half of the design and environmental work for this phase. The City of Ontario has identified an opportunity to complete the rough grading for free by allowing a contractor to remove fill dirt for a transportation project that the City is conducting a few miles away. The next phase of the project will be a feasibility / planning study for the entire site, including construction or enlargement of several other recharge basins, appurtenances to allow more recycled water and storm water to be captured and recharged, wetlands, and educational opportunities. The project has an outstanding obligation of \$435,000.

- ✦ **EN12018.00** – *Carbon Canyon Secondary Clarifier No. 2 Rehabilitation*. This project will rehabilitate the clarifier by restoring the metal and concrete work, and replace a number of mechanical items such as but not limited to Euro drive gear motor; drive assembly - Cage Drive Unit with Torque Control Drive; Scum Skimmer Blade; Wiper Blades; Rotating Scum Pipe Actuator; and, Sump Pump. Also, the rotating scum skimmer will be sandblasted, metal work will be re-coated, and bearings replaced. In addition, the concrete surfaces will be cleaned, and an automated weir washer will be installed. The project has a contract with an outstanding obligation of \$188,852.

- ✦ **EN05050.04** – *RP-2 Gas Flare Repair*. The existing RP-2 enclosed ground flare system was installed more than fifteen years ago, and has since been through various stages of repair. Over the years, and due to the corrosive nature of digester gas and presence of siloxane, materials and components of the flare have progressively deteriorated and have reached the limit of their useful life. It is critical to repair significant flare components to maintain reliability of the RP-2 flare, while concurrently pursuing a replacement flare. In addition, there is significant risk to venting biogas to the atmosphere and violating South Coast Air Quality Management District (SCAQMD) permit. The project will provide a complete repair, which will bring the flare to an acceptable operating condition and provide a greater level of reliability. The project has a contract with an outstanding obligation of \$106,639.

- ✦ **EN13029.00** – *Turner 1 Turnout*. This project is to construct the new turnout within Basin 1. It will be approximately 200 linear feet of 16 inch steel pipe which will supply 10 cubic feet per second of water to the basins. An automated control valve and flow metering will also be provided for remote operation of the facility. The Construction will also include modification of the existing drop-inlet structure within Deer Creek Channel which is north of Basin 4. This construction will provide a bypass which will be constructed within Deer Creek Channel. This project is part of the Turner Basin Recharge Improvement project which is funded partially by the Bureau of Reclamation. The project has a contract with an outstanding obligation of \$90,159.

- ✦ **EN11045.00** – *Carbon Canyon Secondary Clarifier Rehabilitation*. This project is intended to provide corrosion protection for the headspace portion of the primary clarification diversion structure. Also, the secondary clarifiers will be restored under condition restoration. This project has an outstanding obligation of \$34,004.

(8) Construction Commitments (continued):

- ✦ **EN13055.00** – *RP4 Power Distribution Assessment & Replacement*. This system was originally designed to take one electrical transformer down for service, and have the other transformer supply the full load, but the other transformer overloaded the electrical cables causing damage. This project will replace the damaged cables and replace the conduits from the two transformers to the two switchgears at the Recycled Water Pump Station at RP4. The project has a contract with an outstanding obligation of \$27,219.
- ✦ **EN13025.00** – *800 Zone Flow Meter Installation*. This project will install a flow metering system at a remote site that does not currently have access to a power supply from Southern California Edison (SCE). The new system will provide critical data for improved recycled water system flow control. This project has an outstanding obligation of \$22,698.
- ✦ **EN11032.00** – *Carbon Canyon 12KV Switchgear Repair*. This project entails assessment, repair and construction of rain protection for the Carbon Canyon Facility 12KV switchgear. The project has an outstanding obligation of \$13,258.
- ✦ **EN12025.00** – *Hickory Basin – Arizona Crossing*. This project consists of constructing a new soil cement access road on the northeast side of the Hickory Basin with an Arizona-type reinforced concrete pipe culvert. This project has an outstanding obligation of \$10,020.
- ✦ **EN11050.00**– *Turner Basin Capacity Improvements*. The existing turnout at Turner Basin is undersized and utilizes a drop inlet at a low elevation. The smaller size and the low elevation of the turnout and basin inlet results in the basins being underutilized. This project will install a new, larger turnout to take full advantage of the recharge capacity at the Turner Basins. The turnout will include a pressure sustaining ClaVal PRV with dual solenoid flow control, a magnetic flow meter, and will be fully automated. This project has an outstanding obligation of \$3,952.

(9) Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenses that may be disallowed by the grantor cannot be determined at this time, although the Agency expects such amounts, if any, to be immaterial.

At June 30, 2013, the Agency was a defendant in a number of lawsuits arising in the ordinary course of operations, which allege liability on the part of the Agency in connection with worker's compensation and general liability matters. Based on legal counsel's opinion, the potential losses and/or resolutions of these cases will not materially affect the financial condition of the Agency.

(10) Long-Term Receivables

Lewis Operating Corporation

On January 2002, the Agency sold the Co-Composter site to Lewis Operating Corporation. In addition to the purchase price, Lewis agreed to pay \$4,678,500 toward the Agency's relocation costs in two equal installments. On July 2011, the Board approved to extend the due date of the two installments by two years and reduce the interest rate from 6% to 5% per annum. As of June 30, 2013, the Agency has received the full amount and there is no outstanding receivable

(10) Long-Term Receivables (continued):

Niagara Bottling, L.L.C.

In March 2004, the Agency entered into an agreement with Niagara Bottling, L.L.C. for the construction of a Non-reclaimable Wastewater (NRW) lateral pipeline with a not-to-exceed cost of \$250,000. Niagara is responsible for reimbursing the Agency in equal monthly installments over a ten (10) year period with interest added at 3% per annum. As of June 30, 2013, the receivable amount is \$28,503, and is recorded in the Non-reclaimable Wastewater Capital Improvement (NC) Fund.

City of Ontario

On June 4, 2004, the Agency entered into an amendment to its original contract with the City of Ontario for the reimbursement of the RP-1 to RP-5 By-Pass Project. As of March 31, 2008 the project was completed, and as of June 30, 2013, the receivable amount is \$2,794,715 and is recorded in the Regional Wastewater Capital Improvement (RC) Fund.

Monte Vista Water District

On February 2, 2008, the Agency entered into an agreement with Monte Vista Water District (MVWD) for the construction of the regional recycled water distribution system that resides within the MVWD service area. Monte Vista Water District agrees to reimburse the Agency \$1,068,418 for the construction costs, payable yearly beginning June, 2009, plus interest at an annum rate of 2.2% for 20 years. As of June 30, 2013, the receivable amount is \$795,147, and is recorded in the Recycled Water (WC) Fund.

Cucamonga Valley Water District

On November 24, 2009, the Agency entered into an agreement with Cucamonga Valley Water District (CVWD) for the design and construction of the Church Street Recycled Water Lateral that resides within the CVWD service area. Cucamonga Valley Water District agrees to reimburse the Agency \$690,648 for the construction costs, payable yearly beginning June, 2011, plus interest at an annum rate of 0.74% for 20 years. As of June 30, 2013, the receivable amount is \$553,201, and is recorded in the Recycled Water (WC) Fund.

Bellevue Memorial Park

On June 2008, the Agency entered into an agreement with Bellevue Memorial Park for the construction of retrofit improvements for the use of recycled water. Bellevue agreed to reimburse the Agency \$850,000 for construction costs to be paid over a 5 year period. The monthly installments began on September 2009, and include interest charged on the outstanding principal of an annum rate of 4.85% interest annually for 5 years. As of June 30, 2013, the receivable amount is \$29,311 and is recorded in the Recycled Water (WC) Fund.

Chaffey Joint Union High School District

On September 2008, the Agency entered into an agreement with Chaffey Joint Union High School District for the construction of retrofit improvements for the use of recycled water. The Chaffey Joint Union High School District agreed to reimburse the Agency \$235,718 for construction costs to be paid over a 5 year period. The annual installments began on May 2010 and to continue through May 2014. As of June 30, 2013, the receivable amount is \$47,143 and is recorded in the Recycled Water (WC) Fund.

(10) Long-Term Receivables (continued):

Chaffey Joint Union High School District (continued):

On February 2012, the Agency entered into an amendment with Chaffey Joint Union High School District for two additional retrofit construction sites, the Valley View High School for \$78,953 and the Alternate Education Center for \$48,134. The Chaffey Joint Union High School District agreed to reimburse the Agency for construction costs for both sites over a 5 year period, with annual installments starting on February 2012 and continuing through February 2016. As of June 30, 2013, the receivable amount of \$31,581 for the Valley View High School retrofit and \$19,254 for the Alternate Education Center are recorded in the Recycled Water (WC) Fund.

County of San Bernardino

On April 2009, the Agency entered into an agreement with the County of San Bernardino for the construction of retrofit improvements for the use of recycled water located at Cucamonga Guasti Regional Park. The County of San Bernardino agreed to reimburse the Agency \$260,000 for construction costs to be paid over a 5 year period. The annual installments began on May 2010 and to continue through May 2014. As of June 30, 2013, there is no long term receivable from the County of San Bernardino

(11) Joint Ventures - Long-Term Agreements

The Agency participates in the following joint ventures with other districts and agencies for various water projects and operating facilities in Southern California.

Santa Ana Watershed Project Authority

The Santa Ana Watershed Project Authority (SAWPA) was formed under a joint exercise of power agreement for the purpose of undertaking projects for water quality control and protection in the Santa Ana River Watershed. SAWPA is composed of the five (5) water agencies within the watershed area: Eastern Municipal Water District, Orange County Water District, San Bernardino Valley Municipal Water District, Western Municipal Water District, and the Inland Empire Utilities Agency. Each participating agency appoints two commissioners to SAWPA to form an oversight committee of ten. Equal contributions are made by each member agency for administration and contributions based on capacity use rights for project agreements under which capital construction is accomplished. Special projects or studies are funded by equal contributions from each Agency based on the general or specific nature of the project or study. Financial data is available at the Agency's main office.

(11) Joint Ventures - Long-Term Agreements (continued):

Santa Ana Watershed Project Authority (continued):

Audited financial information for the operation of SAWPA as of and for the fiscal years ended June 30, 2013 is summarized as follows:

| | 2013 | 2012 |
|---------------------------------|------------------|--------------------|
| Total assets | \$185,329,072 | \$192,136,326 |
| Total liabilities | \$117,951,098 | \$124,995,167 |
| Total net assets | \$67,377,974 | \$67,141,159 |
| Total revenues | \$15,507,129 | \$18,061,846 |
| Total expenses | (14,948,890) | (16,539,553) |
| Net change in net assets | \$558,239 | \$1,522,293 |

Significant agreements that the Agency entered into with SAWPA (and the related costs), which are classified as intangible assets, are as follows:

Non-reclaimable Wastewater Brine Line Interceptor - In April 1972, the Agency entered into a contract with the County Sanitation Districts of Orange County (CSDOC) for the construction of a 30 million gallon per day (mgd) increment of capacity in a brine removal interceptor, to be constructed by CSDOC from Fountain Valley to the Orange/San Bernardino County line. SAWPA completed construction of the 30 mgd interceptor from that point through Prado Dam. Under Project Agreement #1, this 30 mgd capacity was assigned to SAWPA, with the Agency retaining rights to use up to 11.25 mgd of this capacity. The Agency's share of the construction costs not funded by grants was \$1,179,204.

Over the course of time, the Agency has purchased capacity from SAWPA in the Santa Ana Regional Interceptor (SARI) System.

As of June 30, 2005, the Agency has 4.0 mgd SARI pipeline and 2.25 treatment capacity. This consisted of the following:

- A) On June 10, 1981, the Agency entered into Project Agreement #7. The Agency purchased through its Non-reclaimable Capital Improvement (NC) Fund capacity use rights of 2.5 mgd in the SARI pipeline capacity, for a cost of \$2,621,204 per mgd. Subsequent annual capital replacement and supplemental costs were \$3,318,846, which brought the total expenditures to \$9,871,856 as of June 30, 2001.
- B) The Agency assumed the future liability of payments for supplemental treatment facilities billed by CSDOC after July 1, 1981, to provide treatment and capacity for up to 2.5 mgd of wastewater.

(11) Joint Ventures - Long-Term Agreements (continued):

Santa Ana Watershed Project Authority (continued):

- C) On June 30, 1989, the Agency purchased through its Regional Wastewater Capital Improvement Fund 1.5 mgd of SARI pipeline and treatment capacity. In September 1993, the Agency's Board approved the sale of .4 mgd SARI discharge right to the State of California Department of Corrections. The net cost of the 1.1 mgd of SARI pipeline and 1.5 mgd capacity is \$4,650,970. Subsequent annual capital replacement and supplemental costs were \$1,442,010, which brought the total expenditures to \$6,092,980 as of June 30, 2001.
- D) On June 19, 1998, the Agency entered into an agreement with SAWPA for the purchase of an additional 1.5 mgd of SARI pipeline capacity. One third of this capacity is earmarked for the Regional Wastewater Program. The Agency, through Regional Wastewater Capital Improvement (RC) Fund, purchased .5 mgd. The remaining 1.0 mgd was purchased with monies from the Non-reclaimable Capital Improvement (NC) Fund. The total cost of the purchase was \$5,625,000, with a 5% down payment. The balance is payable over 20 years with a zero interest rate, and has been discounted by \$2,095,253 at an imputed interest rate of 6%.
- E) In July 7, 1999, the Agency Board of Directors approved the purchase of 1.0 mgd of SARI pipeline capacity from SAWPA. The purchase price was \$3,750,000, and is recorded in the Non-reclaimable Wastewater (NC) Fund. The agreement called for a 5% down payment of \$187,500, and the balance of \$3,562,500 to be financed by SAWPA for a 20 year-period at a 6% interest rate. This note was paid in full as approved by the Board on May 21, 2003 for a principal balance of \$2,961,171 plus accrued interest of \$167,935.
- F) On April 21, 2004, the Agency Board of Directors approved the sale of 2.10 mgd of pipeline capacity and 2.05 mgd of treatment and disposal capacity to the Chino Basin Desalter Authority (CDA). The sale price totaled \$14.25 million payable in three equal installments within one year. This sale was recorded in two separate funds with \$4.73 million going to the Regional Wastewater Capital Improvement (RC) Fund and \$9.52 million going to the Non-reclaimable Wastewater (NC) Fund.

Chino Basin Desalter

The Chino Basin Desalter Authority (CDA) was formed in September, 2001 as a Joint Powers Authority (JPA) to acquire all assets and liabilities from Santa Ana Watershed Project Authority (SAWPA) Project #14. The purchase was consummated in February, 2002. The JPA is comprised of the cities of Chino, Chino Hills, Ontario, Norco, the Jurupa Community Services District, the Santa Ana River Water Company, and Inland Empire Utilities Agency (IEUA). IEUA serves as a non-voting member and provides finance and administration support for the JPA, as well as operational support for the Desalter 1 facility. In August of 2008, Western Municipal Water District was added as an additional member of CDA.

As of June 30, 2013, Desalter 1 and Desalter 2 delivered a total of 23,870 acre feet of water. Financial data is available at the Agency's main office.

(11) Joint Ventures - Long-Term Agreements (continued):

Inland Empire Regional Composting Authority

In February 2002, the Agency entered into a Joint Power Authority Agreement (JPA) with the County Sanitation District No. 2 of Los Angeles County (CSDLAC) to form the Inland Empire Regional Composting Authority (IERCA). The purpose of the JPA is to build and operate a fully enclosed biosolids composting facility. The JPA Agreement calls for a 50/50 share of all costs related to the activities of the JPA.

Prior to the JPA Agreement, the two partners entered into a separate agreement in December, 2001 to acquire real property for proposed joint use. As a result of this agreement, a piece of property and building in the City of Rancho Cucamonga, adjacent to IEUA's Regional Plant No. 4 (RP-4) was acquired in December, 2001 at a cost of \$15,116,229. Subsequent to the property acquisition, preliminary and final designs were launched to modify the building. The facility started operation in FY 2006/2007 and is staffed by twenty-four full time IEUA employees who provide all operational activities including, production, maintenance, safety and industrial hygiene training, and sales and administration. The IERCA reimburses IEUA 100% of employment costs. A tipping fee is paid by JPA partners for biosolids deliveries to IERCA, to recover O&M and R&R costs. The agency records biosolids tipping fees in RO fund.

As of June 30, 2013, the Agency's equity share is \$46,492,458 recorded in the Regional Wastewater Capital Improvement (RC) Fund. There was an additional capital contribution in amount of \$500,000 (50% of the Agency's equity share) as of June 30, 2013; this contribution is recorded as Long Term Investment under Other Assets on the Non-Current Assets statement of revenues in RC Fund. The Agency records the JPA labor costs for operating the facility in the RO Fund. IERCA financial data is available at the Agency's main office.

Santa Ana River Watermaster

The Santa Ana River Watermaster (hereafter referred to as Watermaster), was formally established on April 23, 1969 as part of a judgment resulting from a lawsuit by the Orange County Water District, filed with the Superior Court of California in the County of Orange, California. The Watermaster primarily administers the provisions of the judgment as well as, develops and implements its own basin management plan. Each year, the Watermaster is required to issue a report to satisfy its obligation to monitor and test water flows from the Upper Area to the Lower Area of the Santa Ana River.

The Watermaster represents the four water districts identified below and is composed of a committee of five representatives from the four water districts. Two representatives serve from Orange County Water District (OCWD) and one representative from the Inland Empire Utilities Agency (the Agency), Western Municipal Water District (WMWD) and the San Bernardino Valley Municipal Water District (SBMWD). Representation is based on percentages as defined by adjudication of the Santa Ana River Watermaster.

(11) Joint Ventures - Long-Term Agreements (continued):

Santa Ana River Watermaster (continued):

Costs and expenses incurred by the individual representatives are reimbursed directly from their respective water districts. Collective Watermaster costs and expenses are budgeted and funded by contributions from the four water districts. Financial data is available at the Agency's main office. The Agency's share of assets, liabilities, fund equity and changes therein during the year is 20 percent.

Participants in the Watermaster make contributions, based upon their percentages as defined by adjudication of the Santa Ana River Watermaster, as follows:

| | |
|--|--------------------|
| Orange County Water District | 40% |
| Inland Empire Utilities Agency | 20% |
| Western Municipal Water District | 20% |
| San Bernardino Valley Municipal Water District | 20% |
| Total | <u>100%</u> |

Financial information for the operation of Watermaster as of and for the fiscal years ended June 30, are summarized as follows:

| | <u>2012</u> | <u>2011</u> |
|-----------------------------------|-----------------|-----------------|
| Total assets - cash | <u>\$21,299</u> | <u>13,039</u> |
| Fund balance | <u>21,299</u> | <u>13,039</u> |
| Total revenues | 14,000 | 14,000 |
| Total expenses | <u>(5,740)</u> | <u>(11,061)</u> |
| Net increase/(decrease) in equity | <u>8,260</u> | <u>2,939</u> |

Santa Ana River Watermaster issues a separate Comprehensive Annual Financial Report. Copies of the report may be obtained upon request to: P.O. Box 5906, San Bernardino, California 92412.

(12) Long-term Debt and Notes Payable

Long-term Debt

Summary of changes in Long-Term debt for the fiscal year ended June 30, 2013:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year | Amounts Due After One Year |
|---|------------------------------|------------------|--------------------|---------------------------|--|---|
| <u>Bonds Payable:</u> | | | | | | |
| 2005A Revenue Bonds (1999 Refinancing) | \$19,035,000 | \$0 | \$1,390,000 | \$17,645,000 | \$1,445,000 | \$16,200,000 |
| 2008A Revenue Bonds | 125,000,000 | 0 | 0 | 125,000,000 | 0 | 125,000,000 |
| 2008B Variable Rate (2002 A Refinancing) | 49,235,000 | 0 | 1,660,000 | 47,575,000 | 1,725,000 | 45,850,000 |
| 2010A (1994 Refunding) | 42,060,000 | 0 | 3,600,000 | 38,460,000 | 3,700,000 | 34,760,000 |
| Sub-total | 235,330,000 | 0 | 6,650,000 | 228,680,000 | 6,870,000 | 221,810,000 |
| Deferred Bond Cost | 7,880,270 | 0 | 542,976 | 7,337,294 | | 7,337,294 |
| | \$243,210,270 | \$0 | \$7,192,976 | \$236,017,294 | \$6,870,000 | \$229,147,294 |

2005A Revenue Bonds

On May 1, 2005, the Chino Basin Regional Financing Authority issued the Chino Basin Regional Authority Revenue Bonds, Series 2005A in the amount of \$24,735,000.

- ✦ The bonds were issued to refund a portion of the outstanding Chino Basin Regional Financing Authority Revenue Bonds, Series 1999.
- ✦ The bonds maturing through 2023 are Insured Serial Bonds payable in annual installments ranging from \$1,390,000 to \$2,120,000 with interest rates from 3.00% to 5.00%. The balance outstanding at June 30, 2013 is comprised of the principal of \$17,645,000, plus a deferred premium of \$412,112 for a net balance of \$18,057,112.

2008A Revenue Bonds

On February 5, 2008, the Chino Basin Regional Financing Authority issued the Chino Basin Regional Financing Authority Revenue Bonds, Series 2008A in the amount of \$125,000,000.

- ✦ The Bonds were issued to (i) finance the cost of certain replacements of the Inland Empire Utilities Agency wastewater facilities and certain improvements to the wastewater recycled water and non-reclaimable wastewater facilities, (ii) to refund the outstanding Chino Basin Regional Financing Authority Commercial Paper, (iii) to purchase a debt service surety bond for deposit in the Reserve Fund, (iv) to capitalize interest on a portion of the Bonds, and (v) to pay the cost of issuing the Bonds.

(12) Long-term Debt and Notes Payable (continued):

Long-term Debt (continued):

2008A Revenue Bonds (continued):

- ✦ The bonds maturing through 2028 are Serial Bonds payable in annual installments ranging from \$2,620,000 to \$4,305,000 with an interest rate of 5.00%. The bonds maturing through 2034 are Term Bonds payable in annual installments ranging from \$5,495,000 to \$10,735,000 with an interest rate of 5.00%.
- ✦ The bonds maturing through 2039 are Term Bonds payable in annual installments ranging from \$11,285,000 to \$13,785,000 with an interest rate of 5.00%. The balance outstanding at June 30, 2013 is comprised of the principal of \$125,000,000, plus a deferred premium of \$4,209,877, for a net balance of \$129,209,877.

2008B Revenue Bonds

On March 1, 2008, the Chino Basin Regional Financing Authority issued the Chino Basin Regional Financing Authority Variable Rate Demand Revenue Refunding Bonds, Series 2008B in the total amount of \$55,675,000.

- ✦ The Bonds were issued to refund all of the outstanding Chino Basin Regional Financing Authority (Inland Empire Utilities Agency) Variable Rate Revenue Bond Series 2002A. The refunding resulted in a \$700,406 amortization in the deferred cost balance of the Series 2002A Bonds, expensed in 2008, and the recording of \$249,242 of deferred charge on refunding for the Series 2008B Bonds to be amortized through the year 2032.
- ✦ The bonds maturing through 2032 are Serial Bonds payable in annual installments ranging from \$1,660,000 to \$3,480,000 with a variable interest rate no higher than 12.00% per annum. The balance outstanding at June 30, 2013 comprised of the principal amount of \$47,575,000.

2010A Revenue Bonds

On July 15, 2010, the Chino Basin Regional Financing Authority issued the Chino Basin Regional Financing Authority Refunding Revenue Bonds, Series 2010A in the amount of \$45,570,000.

- ✦ The Bonds were issued to (i) refund the outstanding Chino Basin Regional Financing Authority (Inland Empire Utilities Agency) Revenue Bond Series 1994 (Chino Basin Municipal Water District Sewer System Project), and (ii) pay the costs of issuing the Bonds. The agency reduced its aggregate debt service payment by almost \$9,434,527 over the next 13 years. Net present value of this economic gain was \$8,022,916.
- ✦ The bonds maturing through 2022 are payable in annual installments ranging from \$3,600,000 to \$5,075,000 with an interest rate from 1.35% to 5.00% per annum, payable semi-annually. The balance outstanding on June 30, 2013 is comprised of the principal amount of \$38,460,000, plus unamortized deferred bond premium of \$2,715,305, for a net amount of \$41,175,305.

(12) Long-term Debt and Notes Payable (continued):

Long-term Debt (continued):

Aggregate Long Term Debt

As of June 30, 2013, the aggregate debt service requirements on bonded indebtedness to maturity are summarized as follows:

| Year Ending June 30 | Principal Payments | Interest Payments | Total |
|-----------------------------------|---------------------------|--------------------------|----------------------|
| 2014 | \$6,870,000 | \$8,706,520 | \$15,576,520 |
| 2015 | 7,105,000 | 8,518,844 | 15,623,844 |
| 2016 | 7,395,000 | 8,307,808 | 15,702,808 |
| 2017 | 7,670,000 | 8,074,315 | 15,744,315 |
| 2018 | 7,900,000 | 7,837,595 | 15,737,595 |
| 2019-2023 | 39,800,000 | 34,750,208 | 74,550,208 |
| 2024-2028 | 31,555,000 | 29,449,395 | 61,004,395 |
| 2029-2033 | 47,130,000 | 23,103,720 | 70,233,720 |
| 2034-2038 | 59,470,000 | 11,177,000 | 70,647,000 |
| 2039 | 13,785,000 | 344,625 | 14,129,625 |
| Subtotal | 228,680,000 | 140,270,029 | 368,950,029 |
| Plus: Net Premium (Discount) | 7,337,294 | | 7,337,294 |
| Total Debt Service Payable | \$236,017,294 | \$140,270,029 | \$376,287,323 |

All bond debt with variable interest rates use 0.2%, the rate in effect as of 06/30/13.

Debt Covenants

In accordance with bond covenants, system generated revenues comprised of user charges and connection fees and property tax revenues are pledged to fund bond debt service costs. San Bernardino County property tax revenues are distributed November through June annually. Each fiscal year end the Agency is required to reserve six months of tax receipts to fund debt service requirements due July through November of the following fiscal year. The Agency has complied with all covenants related to the outstanding debt issues as of June 30, 2013 (Refer to the bond disclosures in the statistical section).

(12) Long-term Debt and Notes Payable (continued):

Notes Payable

Summary of notes payable activity for the Fiscal Year ended June 30, 2013 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year | Amounts Due After One Year |
|------------------------------|------------------------------|--------------------|--------------------|---------------------------|--|---|
| <u>Notes Payable:</u> | | | | | | |
| SARI Pipeline Cap. 1.5mgd | \$1,313,848 | \$0 | \$188,355 | \$1,125,493 | \$199,659 | \$925,834 |
| State Revolving Fund Loan | 77,865,387 | 4,873,049 | 3,974,321 | 78,764,115 | 4,065,125 | 74,698,990 |
| City of Fontana | 7,934,424 | 0 | 482,579 | 7,451,845 | 482,578 | 6,969,267 |
| Total Notes Payable | \$87,113,659 | \$4,873,049 | \$4,645,255 | \$87,341,453 | \$4,747,362 | \$82,594,091 |

Santa Ana Watershed Project Authority

As a result of the purchase of 1.5 mgd SARI pipeline capacity from the Santa Ana Watershed Project Authority (SAWPA) in Fiscal Year 1997/98, the Agency signed a 20 year term note in the amount of \$5,625,000 with an initial deposit of \$281,250, and zero interest.

The balance of \$5,343,750 is payable in 20 annual installments of \$267,188 through July 15, 2017. The June 30, 1998 note balance was discounted at 6%, to derive a principal balance of \$2,981,310. The sixteenth installment is due on July 15, 2013. This is a combined note payable recorded in the Non-reclaimable Wastewater Capital Improvement (NC) and Regional Wastewater Capital Improvement (RC) Funds.

As of June 30, 2013, the future payments for the remaining note payable obligation by year is as follows:

| Year Ending June 30 | Principal Payments | Imputed Interest | Total |
|----------------------------|-------------------------------|-----------------------------|--------------------|
| 2014 | 199,659 | 67,529 | 267,188 |
| 2015 | 211,638 | 55,549 | 267,187 |
| 2016 | 224,336 | 42,852 | 267,188 |
| 2017 | 237,796 | 29,392 | 267,188 |
| 2018 | 252,064 | 15,124 | 267,188 |
| Total SAWPA Note | \$1,125,493 | \$210,446 | \$1,335,939 |

(12) Long-term Debt and Notes Payable (continued):

Notes Payable (continued):

State Water Resources Control Board

- ✦ The Regional Recycled Water Distribution System Phase I-V projects are in part funded by the State Revolving Fund (SRF) loans financed by the State Water Resources Control Board. As of June 30, 2007, the five projects in Phase I had been completed and received \$15,141,192 of SRF funding. Payments on SRF loans commence one year after the completion of construction, with principal and interest paid annually for 20 years at an annual rate of 2.5%. As of June 30, 2013, the balance is \$9,927,268.
- ✦ The RP-1 Pump Station and West Edison SAC Recycled Water Pipeline A & B projects (Phase II) are also in part funded by the State Revolving Fund (SRF). The three projects were complete as of June 30, 2010 and have received \$14,752,201 of SRF funding. The current balance as of June 30, 2013 is \$11,838,275.
- ✦ The RP-4 Pump Station, Pipeline and Reservoir projects (Phase III) are also in part funded by the State Revolving Fund (SRF). The three projects were complete as of June 30, 2010 and have received \$10,862,198 of SRF funding, with a current balance as of June 30, 2013 of \$8,726,635.
- ✦ The Recycled Water projects included in Phase IV are also in part funded by the State Revolving Fund (SRF). As of June 30, 2012, the four projects were complete and received \$15,061,175 of SRF funding. The current balance as of June 30, 2013 is \$13,577,976.
- ✦ The Recycled Water Project (Construction of 2 Monitoring Wells) in Phase V is also in part funded by the State Revolving Fund (SRF). The project was completed by June 30, 2011 and received \$999,024 of SRF funding. The current balance at June 30, 2013 is \$861,174.
- ✦ The Recycled Water Project (Southern Area) in Phase VI is also in part funded by the State Revolving Fund (SRF). As of June 30, 2013, we reflect a current balance of \$6,334,891.
- ✦ The Recycled Water Project (Central Area) in Phase X is also partially funded by the State Revolving Fund (SRF). As of June 30, 2013, we reflect a current balance of \$1,220,771.
- ✦ The RP-1 Dewatering Facility Expansion project is also in part funded by the State Revolving Fund (SRF). As of June 30, 2013, this project is approximately 95% complete and has received \$27,546,972 of SRF funding, and reflect an ending balance of \$26,277,125.

(12) Long-term Debt and Notes Payable (continued):

Notes Payable (continued):

State Water Resources Control Board (continued):

As of June 30, 2013, the future payments for the remaining loan obligations by year are as follows:

| Year Ending June 30 | Principal Payments | Interest Payment | Total Payment |
|----------------------------|---------------------------|-------------------------|----------------------|
| 2014 | \$4,065,125 | \$655,739 | \$4,720,864 |
| 2015 | 4,401,037 | 804,501 | 5,205,538 |
| 2016 | 4,449,757 | 755,782 | 5,205,538 |
| 2017 | 4,499,486 | 706,334 | 5,205,819 |
| 2018 | 4,550,247 | 655,027 | 5,205,274 |
| 2019/2023 | 23,550,517 | 2,477,191 | 26,027,709 |
| 2024/2028 | 21,910,327 | 1,117,994 | 23,028,321 |
| 2029/2033 | 10,864,767 | 301,243 | 11,166,010 |
| 2034 | 472,853 | 11,821 | 484,674 |
| Total SRF Loans | <u>\$78,764,115</u> | <u>\$7,485,632</u> | <u>\$86,249,748</u> |

City of Fontana

On October 18, 2005, the Agency entered into a reimbursement agreement with the City of Fontana for the design and construction of the San Bernardino Avenue lift station and force main, to convey wastewater to the Agency's regional water recycling facility, located at south of San Bernardino Avenue. The City of Fontana received \$9,577,747 from the State Water Resources Control Board, less \$1,596,323 in deferred interest charges for a net loan amount of \$7,981,424, for the cost of construction. The project was completed by June 30, 2010 and title and ownership of the regional lift station and force main were transferred to the Agency from the City of Fontana.

As of June 30, 2013, the future payments for the remaining note payable obligation by year are as follows:

| Year Ending June 30 | Principal Payments | Interest Amortization | Total |
|----------------------------|---------------------------|------------------------------|--------------------|
| 2014 | \$482,578 | \$79,824 | \$562,402 |
| 2015 | 482,578 | 79,824 | 562,402 |
| 2016 | 482,578 | 79,824 | 562,402 |
| 2017 | 482,578 | 79,824 | 562,402 |
| 2018 | 482,578 | 79,824 | 562,402 |
| 2019/2023 | 2,412,890 | 399,120 | 2,812,010 |
| 2024/2028 | 2,412,890 | 399,085 | 2,811,975 |
| 2029 | 213,177 | 5,755 | 218,932 |
| Total SRF Loans | <u>\$7,451,846</u> | <u>\$1,203,080</u> | <u>\$8,654,926</u> |

(13) Arbitrage Rebate Obligation

Arbitrage rebate refers to the required payment, to the U.S. Treasury, of excess earnings received on tax exempt bond proceeds that are invested at a higher yield than the yield of the tax exempt bond issue. Federal law requires that arbitrage liability, and cumulative excess arbitrage earnings, be calculated and remitted to the U.S. Treasury at the end of the fifth bond year, and every fifth year thereafter. The Agency has elected to have the arbitrage liability calculated annually.

- ✿ The 2005A Variable Rate, 2008A Revenue, and 2008B and 2010A Refunding Revenue Bonds are all subject to arbitrage limitations.
- ✿ The initial arbitrage rebate on the 2005A Variable Rate Revenue Bonds was calculated in May, 2010.
- ✿ On the 2008A and 2008B Bonds, the initial arbitrage rebate will be due in June, 2018.
- ✿ The initial arbitrage rebate on the 2010A Bonds will be due in July, 2015.

No arbitrage liability is currently due at June 30, 2013.

(14) Advance to/from Other Funds

The composition of advances to/from other funds balances as of June 30, 2013, is as follows:

| Funds | Advances To Other Funds: | |
|--|-------------------------------------|---------------------|
| | Recycled Water Fund | Total |
| Advances From Other Funds: | | |
| Major Funds: | | |
| Regional Wastewater Capital Improvement Fund | \$3,000,000 | \$3,000,000 |
| Non-Major Funds: | | |
| Non-reclaimable Wastewater Fund | 15,000,000 | 15,000,000 |
| Total advances | \$18,000,000 | \$18,000,000 |

Regional Wastewater Capital Improvement Fund & Recycled Water Fund

At June 30, 2013, the Regional Wastewater Capital Improvement (RC) Fund reported an advance to the Recycled Water (WC) Fund in the amount of \$3,000,000. This advance will support capital construction expenditures related to the Regional Recycled Water Distribution System as part of the Agency's Recycled Water Business Plan adopted in December 2007. Repayment is scheduled over several fiscal years from increased recycled water sales.

Non-reclaimable Wastewater Capital Improvement Fund & Recycled Water Fund

At June 30, 2013, the Non-reclaimable Wastewater Capital Improvement (NC) Fund reported an advance to the Recycled Water (WC) Fund, in the amount of \$15,000,000. This advance will support capital construction expenditures related to the Regional Recycled Water Distribution System as part of the Agency's Recycled Water Business Plan adopted in December 2007. Repayment is scheduled over several fiscal years from increased recycled water deliveries.

(15) Interfund Transfers

The Recycled Water (WC) Fund received debt service support from the Regional Wastewater Capital Improvement (RC) Fund in the amount of \$1,464,622 and \$200,000 in operating support from the Water Fund (WW). Capital support for the WC Fund totaled \$1,580,000, and consisted of \$1,050,000 from RC Fund, \$400,000 from the Regional Operations (RO) Fund, and \$130,000 from the Administrative Service (GG) Fund.

Non-Major Enterprise Funds received transfers in the amount of \$3,209,651 including \$2,514,514 from the Regional Wastewater Funds. These transfers included \$2,304,944 in capital support to the GG Fund from various funds. The remaining amount consisted of \$366,306 in debt service support, \$275,048 in operating support, and 263,353 in capital support to the Recharge Water (RW) Fund.

The following table reflects the interfund transfer balances in and out by fund as of June 30, 2013.

| | Transfers In: | | | Total |
|----------------------------|----------------------|--------------------|----------------------------|--------------------|
| | Regional Wastewater | Recycled Water | Non-Major Enterprise Funds | |
| Transfers out: | | | | |
| Regional Wastewater Funds | \$0 | \$2,914,622 | \$2,514,514 | \$5,429,136 |
| Recycled Water Fund | 0 | 0 | 616,769 | 616,769 |
| Non-Major Enterprise Funds | 0 | 330,000 | 78,368 | 408,368 |
| Total Transfers | \$0 | \$3,244,622 | \$3,209,651 | \$6,454,273 |

(16) Operating Leases

The Agency has two operating leases at June 30, 2013:

- ✦ One postage meter lease extending to June 30, 2016
- ✦ One lease for nine copiers, extending to June 30, 2016

Total operating lease costs were \$21,052 for the year ended June 30, 2013. The future minimum lease payments for equipment leases are as follows:

| <u>Year Ended June 30</u> | <u>Amount</u> |
|---------------------------|------------------------|
| 2014 | 21,587 |
| 2015 | 22,138 |
| 2016 | 22,803 |
| Total | <u>\$66,528</u> |

(17) Subsequent Event

On August 7, 2013 the Board of Directors approved a legal settlement to Pacific Tank & Construction, Inc. in the amount of \$1,500,000 as full settlement of all costs and charges associated with project EN08018.01, the 1630 West Recycled Water Pipeline Segment A. As of June 30, 2013 these costs were recorded as “Jobs In Process” in the Recycled Water Fund; and remittance was made August 16, 2013.

In preparing these financial statements, the Agency has evaluated events and transactions for potential recognition or disclosure through December 11, 2013, the date the financial statements were available to be issued, and found no other subsequent events.

(18) Restatement of Net Position and Related Accounts

This note describes the GASB pronouncements Agency is adopting for FY 2012/13 and the prior fiscal years. There is a financial impact for the adoption of GASB Statement No. 65, “Items Previously Reported as Assets and Liabilities”. Implementation of GASB Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”, reclassifies certain assets and liabilities to deferred inflows and outflows.

The implementation of GASB Statement No. 65 recognizes cost of issuance and is applied retroactively by restating financial statements, if practical for all periods presented. The implementation of GASB No. 65 resulted in reducing net position of the funds as of July 1, 2012, as shown below, to remove bond issue costs reported as deferred costs.

Regional Wastewater Capital Improvement Fund

Net Position for the Fiscal Year ended June 30, 2012 has been restated to reflect prior years’ recording of financial impact.

The effects of the restatement of net position are as follows:

| | |
|---|-----------------------------|
| Net position as previously reported June 30, 2012 | \$327,914,894 |
| Bond issue costs of prior years’ | (1,451,864) |
| Costs for prior year recorded as capital assets | <u>(1,802,451)</u> |
| Net position as restated, June 30, 2012 | <u>\$324,660,579</u> |

(18) Restatement of Net Position and Related Accounts (continued):

Recycled Water Fund

Net Position for the Fiscal Year ended June 30, 2012 has been restated to reflect prior years' recording of financial impact.

The effects of the restatement of net position are as follows:

| | |
|---|----------------------------|
| Net position as previously reported June 30, 2012 | \$68,499,804 |
| Bond issue costs of prior years' | (178,519) |
| Costs for prior year recorded as capital assets | <u>(117,172)</u> |
| Net position as restated, June 30, 2012 | <u>\$68,204,113</u> |

Non-Major Funds

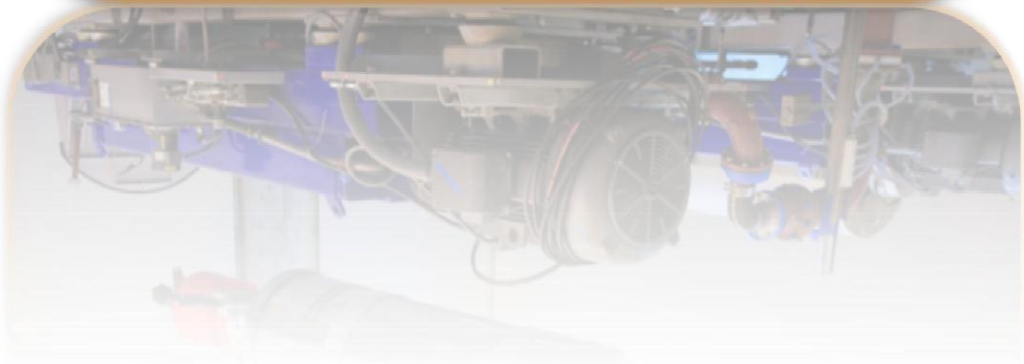
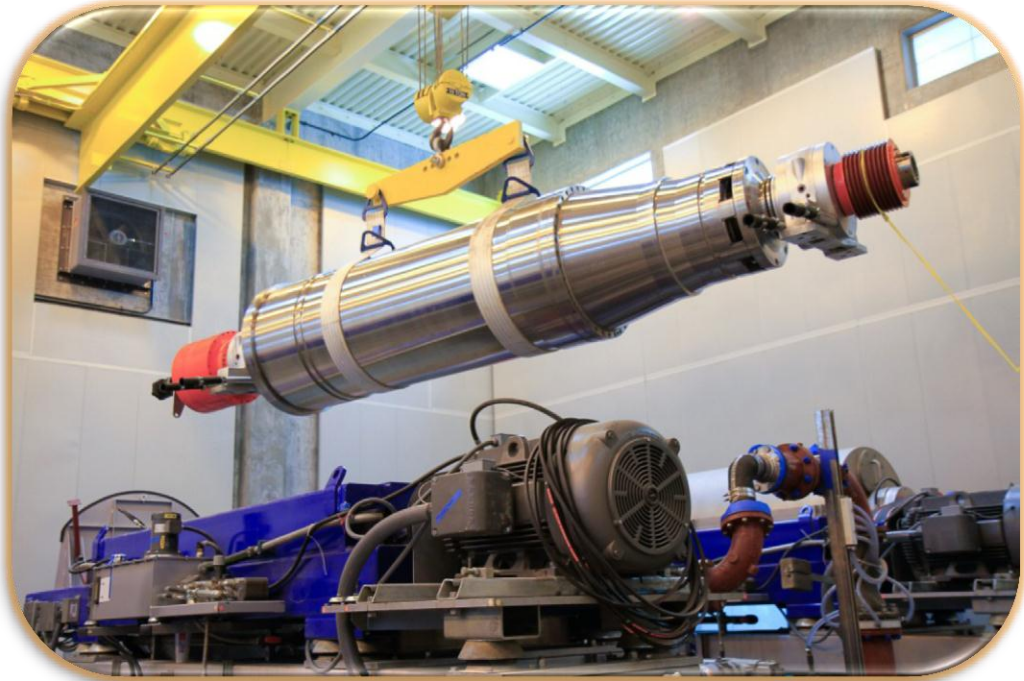
Net Position for the Fiscal Year ended June 30, 2012 has been restated to reflect prior years' recording of financial impact.

The effects of the restatement of net position are as follows:

| | |
|---|-----------------------------|
| Net position as previously reported June 30, 2012 | \$119,827,438 |
| Bond issue costs of prior years' | (131,626) |
| Costs for prior year recorded as capital assets | <u>(732,059)</u> |
| Net position as restated, June 30, 2012 | <u>\$118,963,753</u> |

In prior years, the Agency had capitalized certain projects to construction-in-progress that were not capital assets. The beginning net position is restated to remove these costs that were not capital in prior years.

*New Centrifuge
at Regional Plant No. 1*



Required Supplementary Information

Other Post-Employment Benefits Schedule of Funding Progress

INLAND EMPIRE UTILITIES AGENCY
REQUIRED SUPPLEMENTARY INFORMATION

CalPERS Miscellaneous Pension Plan
As of June 30, 2013

The Schedule of Funding Progress below shows the recent history of the Entry Age Actual Accrued Liability, Actuarial Value of Assets, the Unfunded Liability (their relationship), Funded Ratio Status (i.e. the ratio of the Actuarial Value of Assets to Entry Age Normal Accrued Liability), the estimated Annual Covered Payroll and the Unfunded Actuarial Accrued Liability (UAAL) as a percentage of the Annual Covered Payroll. This schedule of funding progress 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.

| Actuarial Valuation Date | Entry Age Actuarial Accrued Liability (AAL) (a) | Actuarial Value of Assets (b) | Unfunded (Overfunded) Actuarial Accrued Liability (UAAL) (a-b) | Funded Ratio (b/a) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ([a - b]/c) |
|--------------------------|---|-------------------------------|--|--------------------|---------------------|---|
| 6/30/2010 | 112,269,428 | 86,916,141 | 25,353,287 | 77.4% | 24,293,839 | 104.4% |
| 6/30/2011 | 122,731,341 | 94,418,030 | 28,313,311 | 76.9% | 23,924,612 | 118.3% |
| 6/30/2012 | 129,557,136 | 101,701,391 | 27,855,745 | 78.5% | 23,644,373 | 117.8% |

Other Post-Employment Benefit Plan

| Actuarial Valuation Date | Entry Age Actuarial Accrued Liability (AAL) (a) | Actuarial Value of Assets (b) | Unfunded (Overfunded) Actuarial Accrued Liability (UAAL) (a-b) | Funded Ratio (b/a) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ([a - b]/c) |
|--------------------------|---|-------------------------------|--|--------------------|---------------------|---|
| 04/01/09 | 13,977,691 | - | 13,977,691 | 0.00% | 24,293,839 | 57.5% |
| 10/01/11 | 14,520,001 | - | 14,520,001 | 0.00% | 23,924,612 | 60.7% |
| 07/01/13 | 17,476,486 | - | 17,476,486 | 0.00% | 23,184,095 | 76.5% |

INLAND EMPIRE UTILITIES AGENCY
SUPPLEMENTARY INFORMATION – ALL FUNDS

SUPPLEMENTARY SCHEDULES -

Non-Major Enterprise Fund Statements.

INDIVIDUAL FUNDS -

Individual Schedules of all funds are provided as supplementary information.



IEUA Solar Field



RP-5 Bio-Filter Media



Garden in Every School Project

INLAND EMPIRE UTILITIES AGENCY

Combining Statement of Net Position

June 30, 2013

(With Comparative Totals for June 30, 2012)

| | Non-Major Enterprise Funds | |
|---|----------------------------|-------------------|
| | Water | Non-reclaimable |
| | Resources | Wastewater |
| ASSETS | | |
| Current assets | | |
| Cash and investments | \$716,758 | \$4,575,568 |
| Accounts receivable | 9,851,447 | 1,646,922 |
| Interest receivable | 813 | 438,690 |
| Taxes receivable | 0 | 0 |
| Other receivables | 0 | 27,663 |
| Inventory | 0 | 0 |
| Prepaid items | 0 | 119,581 |
| Total current assets | 10,569,018 | 6,808,424 |
| Noncurrent assets | | |
| Restricted assets | | |
| Assets held for 401(a) plan | 0 | 0 |
| Assets held with trustee/fiscal agent | 0 | 0 |
| Total restricted assets | 0 | 0 |
| Capital assets | | |
| Land | 0 | 0 |
| Jobs in progress | 1,284,253 | 1,357,704 |
| Capital assets, net of accumulated depreciation | 21,020 | 11,514,676 |
| Intangible assets, net of accumulated amortization | 34,471 | 27,403,900 |
| Total capital assets | 1,339,744 | 40,276,280 |
| Other assets | | |
| Long-term receivables | 0 | 28,503 |
| Advances to other funds | 0 | 15,000,000 |
| Prepaid bond insurance | 0 | 37,002 |
| Total other assets | 0 | 15,065,505 |
| Total noncurrent assets | 1,339,744 | 55,341,785 |
| Total assets | 11,908,762 | 62,150,209 |

| Recharge Water | Administrative Services | Totals | |
|-------------------|----------------------------|--------------------|--------------------|
| | | 2013 | 2012 |
| \$2,217,792 | \$28,421,545 | \$35,931,663 | \$33,408,140 |
| 62,442 | 9,275,448 | 20,836,259 | 10,568,523 |
| 5,847 | 29,075 | 474,425 | 454,382 |
| 0 | 28,566 | 28,566 | 218,874 |
| 0 | 56,971 | 84,634 | 221,503 |
| 0 | 1,533,035 | 1,533,035 | 1,498,644 |
| 0 | 71,870 | 191,451 | 98,731 |
| <u>2,286,081</u> | <u>39,416,510</u> | <u>59,080,033</u> | <u>46,468,797</u> |
| 0 | 1,336,147 | 1,336,147 | 1,452,719 |
| <u>865,734</u> | <u>0</u> | <u>865,734</u> | <u>898,733</u> |
| <u>865,734</u> | <u>1,336,147</u> | <u>2,201,881</u> | <u>2,351,452</u> |
| 0 | 20,829 | 20,829 | 20,829 |
| 210,829 | 363,810 | 3,216,596 | 2,424,365 |
| 46,119,067 | 11,725,049 | 69,379,812 | 71,283,734 |
| <u>39,182</u> | <u>5,402,884</u> | <u>32,880,437</u> | <u>31,911,838</u> |
| <u>46,369,078</u> | <u>17,512,572</u> | <u>105,497,674</u> | <u>105,640,766</u> |
| 0 | 0 | 28,503 | 56,164 |
| 0 | 0 | 15,000,000 | 15,000,000 |
| <u>0</u> | <u>0</u> | <u>37,002</u> | <u>37,002</u> |
| <u>0</u> | <u>0</u> | <u>15,065,505</u> | <u>15,093,166</u> |
| <u>47,234,812</u> | <u>18,848,719</u> | <u>122,765,060</u> | <u>123,085,384</u> |
| <u>49,520,893</u> | <u>58,265,229</u> | <u>181,845,093</u> | <u>169,554,181</u> |

(continued)

INLAND EMPIRE UTILITIES AGENCY
Combining Statement of Net Position (Continued from previous page)
June 30, 2013
(With Comparative Totals for June 30, 2012)

| | <u>Non-Major Enterprise Funds</u> | |
|---|-----------------------------------|---------------------------------------|
| | <u>Water Resources</u> | <u>Non-reclaimable Wastewater</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$8,119,207 | \$409,851 |
| Accrued liabilities | 684,033 | 1,228,041 |
| Compensated absences | 0 | 0 |
| Retentions payable | 0 | 2,500 |
| Notes payable, due within one year | 0 | 133,106 |
| Long-term debt, due within one year | 0 | 0 |
| Interest payable | 0 | 59,479 |
| Retentions deposits and escrows | <u>0</u> | <u>0</u> |
| Total current liabilities | <u>8,803,240</u> | <u>1,832,977</u> |
| Noncurrent liabilities | | |
| Compensated absences | 0 | 0 |
| Long-term debt, due in more than one year | 0 | 7,377,885 |
| Notes payable, due in more than one year | 0 | 636,118 |
| Liability for 401(a) plan | 0 | 0 |
| Net OPEB liability | <u>0</u> | <u>0</u> |
| Total noncurrent liabilities | <u>0</u> | <u>8,014,003</u> |
| Total liabilities | <u>8,803,240</u> | <u>9,846,980</u> |
| NET POSITION | | |
| Net investment in capital assets | <u>1,339,743</u> | <u>32,129,172</u> |
| Restricted for: | | |
| Capital construction | 0 | 0 |
| Bond operating contingency requirement | <u>0</u> | <u>1,809,025</u> |
| Total restricted | <u>0</u> | <u>1,809,025</u> |
| Unrestricted | <u>1,765,779</u> | <u>18,365,032</u> |
| Total net position | <u><u>3,105,522</u></u> | <u><u>52,303,229</u></u> |

| Recharge Water | Administrative Services | Totals | |
|-------------------|----------------------------|--------------------|--------------------|
| | | 2013 | 2012 |
| \$116,586 | \$2,185,821 | \$10,831,465 | \$8,061,948 |
| 0 | 9,382,343 | 11,294,417 | 6,105,722 |
| 0 | 1,697,226 | 1,697,226 | 2,237,898 |
| 0 | 0 | 2,500 | 2,500 |
| 0 | 0 | 133,106 | 125,570 |
| 584,746 | 0 | 584,746 | 562,712 |
| 751 | 0 | 60,230 | 61,759 |
| 6,994 | 0 | 6,994 | 1,606 |
| <u>709,077</u> | <u>13,265,390</u> | <u>24,610,684</u> | <u>17,159,715</u> |
| 0 | 2,220,224 | 2,220,224 | 1,838,412 |
| 15,543,291 | 0 | 22,921,176 | 23,515,227 |
| 0 | 0 | 636,118 | 769,224 |
| 0 | 1,336,147 | 1,336,147 | 1,452,719 |
| 0 | 6,833,724 | 6,833,724 | 5,855,131 |
| <u>15,543,291</u> | <u>10,390,095</u> | <u>33,947,389</u> | <u>33,430,713</u> |
| <u>16,252,368</u> | <u>23,655,485</u> | <u>58,558,073</u> | <u>50,590,428</u> |
| <u>31,099,781</u> | <u>17,512,571</u> | <u>82,081,267</u> | <u>82,320,806</u> |
| 0 | 0 | 0 | 41,453 |
| 0 | 202,075 | 2,011,100 | 2,204,050 |
| 0 | 202,075 | 2,011,100 | 2,245,503 |
| <u>2,168,744</u> | <u>16,895,098</u> | <u>39,194,653</u> | <u>34,397,444</u> |
| <u>33,268,525</u> | <u>34,609,744</u> | <u>123,287,020</u> | <u>118,963,753</u> |

INLAND EMPIRE UTILITIES AGENCY
Combining Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2013

(With Comparative Totals for June 30, 2012)

| | <u>Non-Major Enterprise Funds</u> | |
|---|-----------------------------------|---------------------------------------|
| | <u>Water Resources</u> | <u>Non-reclaimable Wastewater</u> |
| OPERATING REVENUES | | |
| Service charges | \$4,262,366 | \$8,179,090 |
| Total operating revenues | <u>4,262,366</u> | <u>8,179,090</u> |
| OPERATING EXPENSES | | |
| Wastewater collection | 0 | 3,874,747 |
| Operations and maintenance | 672,907 | 0 |
| Administration and general | 3,759,199 | 1,552,327 |
| Depreciation and amortization | 5,367 | 1,950,173 |
| Total operating expenses | <u>4,437,473</u> | <u>7,377,247</u> |
| Operating income (loss) | <u>(175,107)</u> | <u>801,843</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 9,440 | 66,393 |
| Property tax revenue | 0 | 5 |
| Other nonoperating revenues | 23,697 | 15,270 |
| Interest on long-term debt | 0 | (409,430) |
| Other nonoperating expenses | <u>(165,360)</u> | <u>365,321</u> |
| Total nonoperating revenues (expenses) | <u>(132,223)</u> | <u>37,559</u> |
| Income (loss) before capital contributions and transfers | (307,330) | 839,402 |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | |
| Transfers in | 0 | 0 |
| Transfers out | (200,000) | (78,368) |
| Capital grants | <u>590,408</u> | <u>0</u> |
| Change in net position | <u>83,078</u> | <u>761,034</u> |
| Total net position - beginning | | |
| Prior period adjustment | | |
| Total net position as restated | <u>3,022,444</u> | <u>51,542,195</u> |
| Total net position - ending | <u>\$3,105,522</u> | <u>\$52,303,229</u> |

| Recharge Water | Administrative Services | Totals | |
|-------------------|----------------------------|---------------|---------------|
| | | 2013 | 2012 |
| \$0 | \$0 | \$12,441,456 | \$10,865,184 |
| 0 | 0 | 12,441,456 | 10,865,184 |
| 0 | 0 | 3,874,747 | 3,615,854 |
| 0 | 0 | 672,907 | 738,085 |
| 1,127,975 | 606,226 | 7,045,727 | 7,312,130 |
| 1,211,579 | 1,637,180 | 4,804,299 | 4,630,149 |
| 2,339,554 | 2,243,406 | 16,397,680 | 16,296,218 |
| (2,339,554) | (2,243,406) | (3,956,224) | (5,431,034) |
| 17,587 | 99,189 | 192,609 | 245,826 |
| 0 | 3,796,966 | 3,796,971 | 2,650,385 |
| 1,142,065 | 1,572,939 | 2,753,971 | 2,954,543 |
| (24,727) | 0 | (434,157) | (224,578) |
| (132,345) | (1,490,257) | (1,422,641) | (1,903,147) |
| 1,002,580 | 3,978,837 | 4,886,753 | 3,723,029 |
| (1,336,974) | 1,735,431 | 930,529 | (1,708,005) |
| 904,707 | 2,304,944 | 3,209,651 | 1,340,865 |
| 0 | (130,000) | (408,368) | (319,048) |
| 0 | 1,047 | 591,455 | 1,106,744 |
| (432,267) | 3,911,422 | 4,323,267 | 420,556 |
| | | | 119,406,882 |
| | | | (863,685) |
| 33,700,792 | 30,698,322 | 118,963,753 | 118,543,197 |
| \$33,268,525 | \$34,609,744 | \$123,287,020 | \$118,963,753 |

INLAND EMPIRE UTILITIES AGENCY
Combining Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

(With Comparative Totals for June 30, 2012)

| | <u>Non-Major Enterprise Funds</u> | |
|--|-----------------------------------|------------------------|
| | <u>Water</u> | <u>Non-reclaimable</u> |
| | <u>Resources</u> | <u>Wastewater</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$2,199,780 | \$7,378,489 |
| Cash received from interfund services provided | | |
| Cash payments to suppliers for goods and services | (1,941,648) | (5,076,459) |
| Cash payments to employees for services | (471,426) | (924,320) |
| Cash payments for interfund services used | <u>(375,622)</u> | <u>(1,119,855)</u> |
| Net cash provided by (used for) operating activities | <u>(588,916)</u> | <u>257,855</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Transfers in | | |
| Transfers out | (200,000) | (78,368) |
| Contract reimbursement from others | 23,697 | 15,270 |
| Tax revenues | | (3) |
| Issuance of long term receivables | | 27,662 |
| Cash paid to others | <u>(165,359)</u> | <u>356,143</u> |
| Net cash provided by (used for) noncapital financing activities | <u>(341,662)</u> | <u>320,704</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets | (439,077) | (1,466,573) |
| Capital grants | 590,409 | |
| Principal paid on capital debt | | (134,875) |
| Interest paid on capital debt | | (409,430) |
| Bond administration fees | | <u>9,178</u> |
| Net cash provided by (used for) capital and related financing activities | <u>151,332</u> | <u>(2,001,700)</u> |

| Recharge Water | Administrative Services | Totals | |
|--------------------|----------------------------|--------------------|--------------------|
| | | 2013 | 2012 |
| | (\$7,247,566) | \$2,330,703 | \$14,073,600 |
| | 22,634,150 | 22,634,150 | 21,979,072 |
| (630,136) | 3,092,561 | (4,555,682) | (12,441,659) |
| (361,482) | (17,598,854) | (19,356,082) | (19,074,832) |
| (169,457) | | (1,664,934) | (1,507,811) |
| <u>(1,161,075)</u> | <u>880,291</u> | <u>(611,845)</u> | <u>3,028,370</u> |
| 904,707 | 2,304,944 | 3,209,651 | 1,340,865 |
| | (130,000) | (408,368) | (319,048) |
| 1,121,959 | 1,611,799 | 2,772,725 | 2,915,891 |
| | 3,987,274 | 3,987,271 | 2,871,015 |
| | | 27,662 | 26,845 |
| <u>11,148</u> | <u>(1,487,863)</u> | <u>(1,285,931)</u> | <u>(1,747,333)</u> |
| <u>2,037,814</u> | <u>6,286,154</u> | <u>8,303,010</u> | <u>5,088,235</u> |
| (225,571) | (2,517,511) | (4,648,732) | (4,952,681) |
| | 1,047 | 591,456 | 1,106,744 |
| (562,711) | | (697,586) | (655,403) |
| (169,750) | (2,394) | (581,574) | (379,038) |
| | | 9,178 | 6,051 |
| <u>(958,032)</u> | <u>(2,518,858)</u> | <u>(5,327,258)</u> | <u>(4,874,327)</u> |

(Continued)

INLAND EMPIRE UTILITIES AGENCY**Combining Statement of Cash Flows - (Continued from previous page)****For the Fiscal Year Ended June 30, 2013**

(With Comparative Totals for June 30, 2012)

| | Non-Major Enterprise Funds | |
|--|----------------------------|-------------------------------|
| | Water Resources | Non-reclaimable Wastewater |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest on investments | \$11,825 | \$27,481 |
| Sale of investments | | |
| Net cash provided by (used for) investing activities | 11,825 | 27,481 |
| Net increase (decrease) in cash and cash equivalents | (767,421) | (1,395,660) |
| Cash and cash equivalents - beginning | 1,484,179 | 5,971,229 |
| Cash and cash equivalents - ending | \$716,758 | \$4,575,569 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | | |
| Operating income (loss) | (\$175,107) | \$801,843 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities | | |
| Depreciation and amortization | 5,367 | 1,950,173 |
| Changes in assets and liabilities | | |
| (Increase) decrease in | | |
| Accounts receivable | (2,062,630) | (820,739) |
| Other receivables | | 20,138 |
| Short term receivables | 44 | |
| Inventory | | |
| Prepaid items | | (88,376) |
| Deferred costs | | |
| Increase (decrease) in | | |
| Accounts payable | 1,382,082 | 140,371 |
| Accrued liabilities | 261,328 | (1,745,555) |
| Other noncurrent liabilities | | |
| Compensated absences | | |
| Net cash provided by (used for) operating activities | (\$588,916) | \$257,855 |

| Recharge Water | Administrative Services | Totals | |
|----------------------|----------------------------|-----------------------|-----------------------|
| | | 2013 | 2012 |
| \$20,002 | \$113,258 (45,949) | \$172,566 (45,949) | \$207,259 (22,036) |
| 20,002 | 67,309 | 126,617 | 185,223 |
| (61,291) | 4,714,896 | 2,490,524 | 3,427,501 |
| 3,144,816 | 23,706,649 | 34,306,873 | 30,879,372 |
| <u>\$3,083,525</u> | <u>\$28,421,545</u> | <u>\$36,797,397</u> | <u>\$34,306,873</u> |
| | | | |
| (\$2,339,554) | (\$2,243,406) | (\$3,956,224) | (\$5,431,034) |
| 1,211,579 | 1,637,182 | \$4,804,301 | 4,630,149 |
| | (7,364,261) | (10,247,630) | 3,348,026 |
| | | 20,138 | (21,497) |
| | 116,695 | 116,739 | (118,113) |
| | (34,391) | (34,391) | 61,233 |
| | (4,344) | (92,720) | 272,539 |
| | | 0 | 758 |
| 85,588 | 1,161,474 | 2,769,515 | (3,461,440) |
| (118,688) | 6,791,610 | 5,188,695 | 2,137,070 |
| | 978,592 | 978,592 | 1,082,042 |
| | (158,860) | (158,860) | 528,637 |
| <u>(\$1,161,075)</u> | <u>\$880,291</u> | <u>(\$611,845)</u> | <u>\$3,028,370</u> |

(Continued)

INLAND EMPIRE UTILITIES AGENCY

Combining Statement of Cash Flows - (Continued from previous page)

For the Fiscal Year Ended June 30, 2013

(With Comparative Totals for June 30, 2012)

| | <u>Non-Major Enterprise Funds</u> | |
|--|-----------------------------------|------------------------|
| | <u>Water</u> | <u>Non-reclaimable</u> |
| | <u>Resources</u> | <u>Wastewater</u> |
| RECONCILIATION OF CASH & CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS: | | |
| Cash and short-term investments | \$716,758 | \$4,575,569 |
| Restricted assets | 0 | 0 |
| Cash & cash equivalents at end of year | <u>\$716,758</u> | <u>\$4,575,569</u> |

| Recharge Water | Administrative Services | Total Non-Major Funds | |
|--------------------|----------------------------|-----------------------|---------------------|
| | | 2013 | 2012 |
| \$2,217,791 | \$28,421,545 | \$35,931,663 | \$33,408,140 |
| 865,734 | 0 | 865,734 | 898,733 |
| <u>\$3,083,525</u> | <u>\$28,421,545</u> | <u>\$36,797,397</u> | <u>\$34,306,873</u> |

Regional Plant No. 5 and Chino Creek Park



*Newest Additions
To the IEUA Family ...*



INLAND EMPIRE UTILITIES AGENCY

REGIONAL WASTEWATER FUND

COMBINING SCHEDULES

The Regional Wastewater Fund consists of the following sub-funds:

Regional Wastewater Capital Improvement (RC) Fund

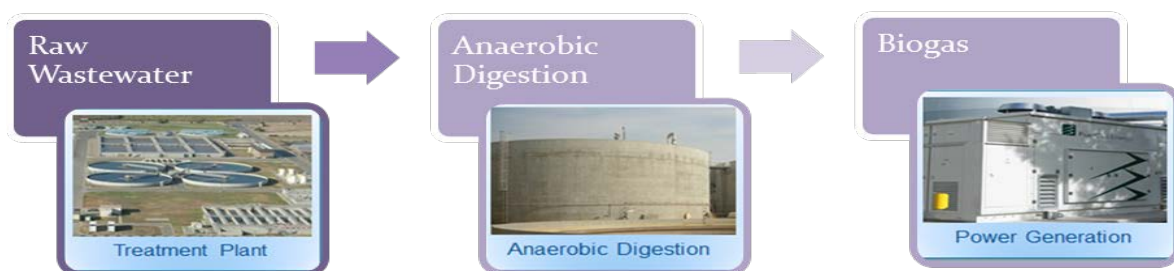
The RC fund records the activities associated with the acquisition, construction, replacement, and expansion of the Agency's wastewater treatment plants, energy cogeneration, solids handling facilities, large sewer interceptors, and appurtenant facilities. In addition, principal payments, interest expenses, and related administrative costs associated with the administration of the Regional Capital program and debt service costs are also recorded in this fund.

The RC Fund revenues include property tax receipts, connections fees, and interest income earned. Additionally, this fund records state loans and grants received for the recycled water capital projects.

Regional Wastewater Operations and Maintenance (RO) Fund

The RO Fund accounts for the revenue and operating cost directly related to the domestic sewage treatment service for the contracting agencies (wastewater collection and treatment) and organic management activities, including labor costs to operate and support the Inland Empire Regional Composting Facility.

The fund's major source of revenue is the service charges applied to the regional wastewater flows based on Equivalent Dwelling Units (EDU's). Other revenue sources included property tax receipts and tipping fees as reimbursement from the Inland Empire Regional Composting Authority for providing operation and maintenance services at the facility.



INLAND EMPIRE UTILITIES AGENCY
Regional Wastewater Fund
Combining Schedule of Net Position by Subfund
June 30, 2013
(With Comparative Totals for June 30, 2012)

| | Regional | Regional | Totals | |
|--|------------------------|-----------------------------|--------------|--------------|
| | Capital Improvement | Operations & Maintenance | 2013 | 2012 |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and investments | \$29,388,190 | \$33,688,521 | \$63,076,711 | \$42,353,227 |
| Accounts receivable | 492,243 | 6,279,417 | 6,771,660 | 7,568,863 |
| Interest receivable | 172,850 | 38,210 | 211,060 | 221,484 |
| Taxes receivable | 226,608 | 78,465 | 305,073 | 2,365,188 |
| Other receivables | 36,503 | | 36,503 | 2,516,204 |
| Prepaid items | 1,200 | | 1,200 | 1,200 |
| Total current assets | 30,317,594 | 40,084,613 | 70,402,207 | 55,026,166 |
| Noncurrent assets | | | | |
| Restricted assets | | | | |
| Deposits held by governmental agencies | 28,246,979 | | 28,246,979 | 16,632,592 |
| Assets held with trustee/fiscal agents | 4,407,241 | 3,918 | 4,411,159 | 4,930,567 |
| Total restricted assets | 32,654,220 | 3,918 | 32,658,138 | 21,563,159 |
| Capital assets | | | | |
| Land | 14,047,045 | | 14,047,045 | 13,958,520 |
| Jobs in progress | 41,907,388 | 7,535,057 | 49,442,445 | 63,889,238 |
| Capital assets, net of accumulated depreciation | 329,596,610 | 7,677,138 | 337,273,748 | 335,028,533 |
| Intangible assets, net of accumulated amortization | 5,561,558 | 94,077 | 5,655,635 | 5,761,290 |
| Total capital assets | 391,112,601 | 15,306,272 | 406,418,873 | 418,637,581 |
| Other assets | | | | |
| Long-term investments | 46,492,458 | 0 | 46,492,458 | 46,452,575 |
| Advances to other funds | 3,000,000 | 0 | 3,000,000 | 3,000,000 |
| Long-term receivables | 2,794,715 | 0 | 2,794,715 | 5,170,468 |
| Prepaid bond insurance | 436,958 | 22,227 | 459,185 | 459,185 |
| Prepaid Interest -SRF loans | 1,203,080 | 0 | 1,203,080 | 1,282,904 |
| Total other assets | 53,927,211 | 22,227 | 53,949,438 | 56,365,132 |
| Total noncurrent assets | 477,694,032 | 15,332,417 | 493,026,449 | 496,565,872 |
| Total assets | 508,011,626 | 55,417,030 | 563,428,656 | 551,592,038 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred loss on refunding | 2,350,350 | | 2,350,350 | 2,606,216 |
| Total deferred outflows of resources | 2,350,350 | 0 | 2,350,350 | 2,606,216 |

(Continued)

| | Regional Capital Improvement | Regional Operations & Maintenance | Totals | |
|---|------------------------------------|---|---------------|---------------|
| | | | 2013 | 2012 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable | \$1,562,953 | \$2,646,685 | \$4,209,638 | \$3,299,546 |
| Accrued liabilities | 32,406 | 127,163 | 159,569 | 242,849 |
| Retentions payable | 8,560 | 139,822 | 148,382 | 237,341 |
| Notes payable, due within one year | 1,876,127 | | 1,876,127 | 1,763,503 |
| Long-term debt, due within one year | 6,285,254 | | 6,285,254 | 6,087,288 |
| Interest payable | 1,562,815 | 35,729 | 1,598,544 | 1,640,697 |
| Retention deposits and escrows | 498,629 | 3,918 | 502,547 | 966,399 |
| Total current liabilities | 11,826,744 | 2,953,317 | 14,780,061 | 14,237,623 |
| Noncurrent liabilities | | | | |
| Long-term debt, due in more than one year | 171,520,346 | 4,431,897 | 175,952,243 | 182,732,986 |
| Notes payable, due in more than one year | 32,209,111 | | 32,209,111 | 32,567,066 |
| Total noncurrent liabilities | 203,729,457 | 4,431,897 | 208,161,354 | 215,300,052 |
| Total liabilities | 215,556,201 | 7,385,214 | 222,941,415 | 229,537,675 |
| NET POSITION | | | | |
| Net Investment in capital assets | 192,591,334 | 10,874,374 | 203,465,708 | 210,866,387 |
| Restricted for: | | | | |
| Capital construction | 28,246,979 | 0 | 28,246,979 | 16,685,774 |
| SRF Loan debt service | 1,387,280 | | 1,387,280 | 1,333,729 |
| Bond operating contingency requirement | 2,379,477 | 12,520,885 | 14,900,362 | 15,357,581 |
| Total restricted | 32,013,736 | 12,520,885 | 44,534,621 | 33,377,084 |
| Unrestricted | 70,200,705 | 24,636,557 | 94,837,262 | 80,417,108 |
| Total net position | \$294,805,775 | \$48,031,816 | \$342,837,591 | \$324,660,579 |

INLAND EMPIRE UTILITIES AGENCY
Regional Wastewater Fund
Combining Schedule of Revenues, Expenses and
Changes in Net Position by Subfund
For the Fiscal Year Ended June 30, 2013
(With Comparative Totals for June 30, 2012)

| | Regional | Regional | Totals | |
|---|------------------------|-----------------------------|----------------|----------------|
| | Capital Improvement | Operations & Maintenance | 2013 | 2012 |
| OPERATING REVENUES | | | | |
| Service charges | \$0 | \$39,711,858 | \$39,711,858 | \$35,602,244 |
| Total operating revenues | 0 | 39,711,858 | 39,711,858 | 35,602,244 |
| OPERATING EXPENSES | | | | |
| Wastewater collection | 0 | 781,264 | 781,264 | 2,013,577 |
| Wastewater treatment | 0 | 18,907,779 | 18,907,779 | 17,377,464 |
| Wastewater disposal | 0 | 8,612,642 | 8,612,642 | 11,316,321 |
| Administration and general | 5,029,642 | 9,260,970 | 14,290,612 | 15,365,378 |
| Depreciation and amortization | 21,687,398 | 443,113 | 22,130,511 | 21,638,428 |
| Total operating expenses | 26,717,040 | 38,005,768 | 64,722,808 | 67,711,168 |
| Operating income (loss) | (26,717,040) | 1,706,090 | (25,010,950) | (32,108,924) |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Interest income | 399,203 | 128,870 | 528,073 | 604,904 |
| Property tax revenue | 31,505,242 | 10,429,645 | 41,934,887 | 28,397,482 |
| Wastewater capital connection fees | 14,614,387 | 0 | 14,614,387 | 7,686,126 |
| Other nonoperating revenues | 466,514 | 4,225,580 | 4,692,094 | 4,478,139 |
| Interest on long-term debt | (7,005,997) | (214,375) | (7,220,372) | (6,251,496) |
| Other nonoperating expenses | (1,833,228) | (4,165,552) | (5,998,780) | (6,298,933) |
| Total nonoperating revenues (expenses) | 38,146,121 | 10,404,168 | 48,550,289 | 28,616,222 |
| Income (loss) before capital contributions and transfers | 11,429,081 | 12,110,258 | 23,539,339 | (3,492,702) |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | | | |
| Transfers out | (5,029,136) | (400,000) | (5,429,136) | (2,530,461) |
| Capital grants | 24,552 | 42,257 | 66,809 | 907,647 |
| Change in net position | 6,424,497 | 11,752,515 | 18,177,012 | (5,115,516) |
| Total net position - beginning | | | | 333,030,410 |
| Prior period adjustment (note 18) | | | | (3,254,315) |
| Total net position as restated | 288,381,278 | 36,279,301 | 324,660,579 | 329,776,095 |
| Total net position - ending | \$ 294,805,775 | \$ 48,031,816 | \$ 342,837,591 | \$ 324,660,579 |

INLAND EMPIRE UTILITIES AGENCY

RECYCLED WATER FUND

COMPARATIVE SCHEDULES

Recycled Water Fund:

The Recycled Water (WC) Fund records the revenues of recycled water sales and expenses associated with the operations and maintenance of the facilities that support the distribution of recycled water supplied from the Agency's recycling plants. Additionally, the Recycled Water fund records revenues and costs related to the construction of recycled water capital projects. These project costs include site studies, environmental reviews, design, construction, and construction management, trunk and distribution lines and pumping stations needed in the distribution of recycled water within the Agency's service area. The WC fund generates revenue through groundwater recharge rates and from the sale of recycled water to member agencies and industries, such as multiple golf courses throughout the service area.

Safe, Reliable Recycled Water



Regional Plant No. 5 Pump Station



Reliant Energy



Recycled Water Truck

INLAND EMPIRE UTILITIES AGENCY
Recycled Water Fund
Schedule of Net Position
June 30, 2013

(With Comparative Totals for June 30, 2012)

| | Totals | |
|--|--------------------|--------------------|
| | 2013 | 2012 |
| ASSETS | | |
| Current assets | | |
| Cash and investments | \$12,639,160 | \$11,811,214 |
| Accounts receivable | 8,309,254 | 4,302,969 |
| Interest receivable | 14,336 | 25,451 |
| Taxes receivable | 17,717 | 136,632 |
| Other receivable | 392,706 | 348,626 |
| Prepaid items | 13,500 | 13,500 |
| Total current assets | <u>21,386,673</u> | <u>16,638,392</u> |
| Noncurrent assets | | |
| Restricted assets | | |
| Assets held with trustee/fiscal agents | 44,752 | 4,026,901 |
| Total restricted assets | <u>44,752</u> | <u>4,026,901</u> |
| Capital assets | | |
| Jobs in progress | 21,317,280 | 48,406,633 |
| Capital assets, net of accumulated depreciation | 129,767,771 | 99,068,292 |
| Intangible assets, net of accumulated amortization | 252,362 | 282,154 |
| Total capital assets | <u>151,337,413</u> | <u>147,757,079</u> |
| Other assets | | |
| Long term receivables | 1,475,637 | 1,280,784 |
| Prepaid bond insurance | 151,830 | 151,830 |
| Prepaid interest - SRF loans | 1,425,710 | 1,516,227 |
| Total other assets | <u>3,053,177</u> | <u>2,948,841</u> |
| Total noncurrent assets | <u>154,435,342</u> | <u>154,732,821</u> |
| Total assets | <u>175,822,015</u> | <u>171,371,213</u> |

(Continued)

| | Totals | |
|---|---------------------|---------------------|
| | 2013 | 2012 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$4,253,300 | \$721,699 |
| Accrued liabilities | 12,739 | 23,874 |
| Retentions payable | 70,430 | 518,685 |
| Notes payable, due within one year | 2,738,129 | 2,704,473 |
| Interest payable | 981,090 | 898,329 |
| Retention deposits and escrows | 44,752 | 214,904 |
| Total current liabilities | <u>8,100,440</u> | <u>5,081,964</u> |
| Noncurrent liabilities | | |
| Advances from other funds | 18,000,000 | 18,000,000 |
| Long-term debt, due in more than one year | 30,273,875 | 30,312,057 |
| Notes payable, due in more than one year | 49,748,862 | 49,183,823 |
| Other noncurrent liabilities | 52,818 | 589,256 |
| Total noncurrent liabilities | <u>98,075,555</u> | <u>98,085,136</u> |
| Total liabilities | <u>106,175,995</u> | <u>103,167,100</u> |
| NET POSITION | | |
| Net Investment in capital assets | <u>68,576,546</u> | <u>69,485,893</u> |
| Restricted for: | | |
| Capital construction | 0 | 3,811,997 |
| SRF Loan debt service | 3,490,575 | 3,363,901 |
| Total restricted | <u>3,490,575</u> | <u>7,175,898</u> |
| Unrestricted | <u>(2,421,101)</u> | <u>(8,457,678)</u> |
| Total net position | <u>\$69,646,020</u> | <u>\$68,204,113</u> |

INLAND EMPIRE UTILITIES AGENCY
Recycled Water Fund
Schedule of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2013
(With Comparative Totals for June 30, 2012)

| | Totals | |
|--|--------------|--------------|
| | 2013 | 2012 |
| OPERATING REVENUES | | |
| Recycled water sales | \$7,951,605 | \$6,009,468 |
| Total operating revenue | 7,951,605 | 6,009,468 |
| OPERATING EXPENSES | | |
| Operations and Maintenance | 3,195,541 | 2,986,686 |
| Administration and general | 3,136,853 | 2,077,785 |
| Depreciation and amortization | 4,998,742 | 3,904,315 |
| Total operating expenses | 11,331,136 | 8,968,786 |
| Operating income (loss) | (3,379,531) | (2,959,318) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 98,102 | 112,466 |
| Property tax revenue | 2,355,088 | 1,646,650 |
| Other nonoperating revenues | 64,177 | 1,129,353 |
| Other nonoperating expenses | (666,671) | (811,930) |
| Interest on long-term debt | (2,150,763) | (970,462) |
| Total nonoperating revenues (expenses) | (300,067) | 1,106,077 |
| Income (loss) before capital contributions and transfers | (3,679,598) | (1,853,241) |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | |
| Transfers in | 3,244,622 | 1,764,375 |
| Transfers out | (616,769) | (255,731) |
| Capital grants | 2,493,652 | 2,826,279 |
| Change in net position | 1,441,907 | 2,481,682 |
| Total net position - beginning | | 66,018,122 |
| Prior period adjustment (note 18) | | (295,691) |
| Total net position as restated | 68,204,113 | 65,722,431 |
| Total net position - ending | \$69,646,020 | \$68,204,113 |

INLAND EMPIRE UTILITIES AGENCY
WATER RESOURCES FUND
COMPARATIVE SCHEDULES

Water Resources Fund

The Water Resources (WW) Fund records the fiscal activities associated with providing water resources and water use efficiency programs within the Agency’s service area. These programs include management and distribution of imported water supplies, development and implementation of regional water use efficiency initiatives, water resource planning and support for regional water supply programs including recycled water, groundwater recharge, and storm water management.

The WW Fund’s major revenue source can be attributed to the surcharge for imported water sold within the service area and a monthly meter service charge per meter. The regional water conservation programs receive dedicated funding, including a portion of the imported water acre foot surcharge and water meter service charge, and program grants and reimbursements from various sources including State, Federal and local agencies.



INLAND EMPIRE UTILITIES AGENCY
Water Resources Fund
Schedule of Net Position
June 30, 2013
(With Comparative Totals for June 30, 2012)

| | Totals | |
|--|--------------------|--------------------|
| | <u>2013</u> | <u>2012</u> |
| ASSETS | | |
| Current assets | | |
| Cash and investments | \$716,758 | \$1,484,179 |
| Accounts receivable | 9,851,447 | 7,788,818 |
| Interest receivable | 813 | 3,198 |
| Other receivable | <u>0</u> | <u>44</u> |
| Total current assets | <u>10,569,018</u> | <u>9,276,239</u> |
| Noncurrent assets | | |
| Capital assets | | |
| Jobs in progress | 1,284,253 | 845,176 |
| Capital assets, net of accumulated depreciation | 21,020 | 21,566 |
| Intangible assets, net of accumulated amortization | <u>34,471</u> | <u>39,292</u> |
| Total capital assets | <u>1,339,744</u> | <u>906,034</u> |
| Total noncurrent assets | <u>1,339,744</u> | <u>906,034</u> |
| Total assets | <u>11,908,762</u> | <u>10,182,273</u> |
| LIABILITIES | | |
| Accounts payable | 8,119,207 | 6,737,124 |
| Accrued liabilities | <u>684,033</u> | <u>422,705</u> |
| Total liabilities | <u>8,803,240</u> | <u>7,159,829</u> |
| NET POSITION | | |
| Net Investment in capital assets | 1,339,743 | 957,964 |
| Unrestricted | 1,765,779 | 2,064,480 |
| Total net position | <u>\$3,105,522</u> | <u>\$3,022,444</u> |

INLAND EMPIRE UTILITIES AGENCY
Water Resources Fund
Schedule of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2013
(With Comparative Totals for June 30, 2012)

| | Totals | |
|--|--------------------|--------------------|
| | 2013 | 2012 |
| OPERATING REVENUES | | |
| Service charges | \$4,262,366 | \$4,258,189 |
| Total operating revenues | <u>4,262,366</u> | <u>4,258,189</u> |
| OPERATING EXPENSES | | |
| Operations and maintenance | 672,907 | 738,085 |
| Administration and general | 3,759,199 | 3,357,035 |
| Depreciation and amortization | 5,367 | 5,367 |
| Total operating expenses | <u>4,437,473</u> | <u>4,100,487</u> |
| Operating income (loss) | <u>(175,107)</u> | <u>157,702</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 9,440 | 12,271 |
| Other nonoperating revenues | 23,697 | 402,049 |
| Other nonoperating expenses | (165,360) | (106,828) |
| Total nonoperating revenues (expenses) | <u>(132,223)</u> | <u>307,492</u> |
| Income (loss) before capital contributions and transfers | (307,330) | 465,194 |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | |
| Transfers out | (200,000) | (300,000) |
| Capital grants | 590,408 | 577,885 |
| Change in net position | <u>83,078</u> | <u>743,079</u> |
| Total net position - beginning | | 2,331,295 |
| Prior period adjustment (note 18) | | (51,930) |
| Total net position as restated | <u>3,022,444</u> | <u>2,279,365</u> |
| Total net position - ending | <u>\$3,105,522</u> | <u>\$3,022,444</u> |

Pretreatment and Source Control



IEUA's current pretreatment program has been developed to ensure that IEUA's treatment plants comply with effluent discharge requirements; to protect the public, the environment, IEUA personnel, and IEUA facilities from potentially harmful industrial wastes; and to ensure that industries pay their fair share of treatment operations and maintenance costs. The success of IEUA's pretreatment program can be attributed to rigorous up-front permitting, strict enforcement of permit and ordinance requirements, and intensive and extensive field presence by the IEUA inspection and monitoring team.



INLAND EMPIRE UTILITIES AGENCY

NON-RECLAIMABLE WASTEWATER FUND

COMPARATIVE SCHEDULES

The Non-reclaimable Wastewater Fund consists of the following:

The Non-reclaimable Wastewater System (NC) Fund records the transactions for the acquisition, construction, expansion, replacement, and operations of the Agency's non-reclaimable wastewater sewer lines, interceptors and appurtenant facilities. It also accounts for the revenues and operating costs directly related to providing collection services, wastewater conveyance/transport, and wastewater treatment.

The NC Fund's revenues are generated from volumetric, capacity, strength, and excess use fees, administrative fees, Capital Improvement Program (CIP) charges, proceeds from repayment of inter-fund loans, and other service charge revenues. Administrative costs associated with the implementation and maintenance of capital projects required for the improvements on collection lines of the NRW System are also recorded.



***Pipeline Cleaning Discharge –
IEUA Vactor Truck***

INLAND EMPIRE UTILITIES AGENCY
Non-reclaimable Wastewater Fund
Schedule of Net Position
June 30, 2013
(With Comparative Totals for June 30, 2012)

| | Totals | |
|--|-------------------|-------------------|
| | 2013 | 2012 |
| ASSETS | | |
| Current assets | | |
| Cash and investments | \$4,575,568 | \$5,929,776 |
| Accounts receivable | 1,646,922 | 826,182 |
| Interest receivable | 438,690 | 399,778 |
| Other receivables | 27,663 | 47,793 |
| Prepaid items | 119,581 | 31,205 |
| Total current assets | <u>6,808,424</u> | <u>7,234,734</u> |
| Noncurrent assets | | |
| Restricted assets | | |
| Assets held with trustee/fiscal agent | 0 | 41,453 |
| Total restricted assets | <u>0</u> | <u>41,453</u> |
| Capital assets | | |
| Jobs in progress | 1,357,704 | 1,034,757 |
| Capital assets, net of accumulated depreciation | 11,514,676 | 12,059,664 |
| Intangible assets, net of accumulated amortization | <u>27,403,900</u> | <u>27,665,460</u> |
| Total capital assets | <u>40,276,280</u> | <u>40,759,881</u> |
| Other assets | | |
| Advances to other funds | 15,000,000 | 15,000,000 |
| Long-term receivables | 28,503 | 56,164 |
| Prepaid bond insurance | <u>37,002</u> | <u>37,002</u> |
| Total other assets | <u>15,065,505</u> | <u>15,093,166</u> |
| Total noncurrent assets | <u>55,341,785</u> | <u>55,894,500</u> |
| Total assets | <u>62,150,209</u> | <u>63,129,234</u> |

(Continued)

| | Totals | |
|---|---------------------|---------------------|
| | 2013 | 2012 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$409,851 | \$269,480 |
| Accrued liabilities | 1,228,041 | 2,973,596 |
| Retention deposits and escrows | 2,500 | 2,500 |
| Notes payable, due within one year | 133,106 | 125,570 |
| Interest payable | 59,479 | 59,479 |
| Total current liabilities | <u>1,832,977</u> | <u>3,430,625</u> |
| Noncurrent liabilities | | |
| Long-term debt, due in more than one year | 7,377,885 | 7,387,190 |
| Notes payable, due in more than one year | 636,118 | 769,224 |
| Total noncurrent liabilities | <u>8,014,003</u> | <u>8,156,414</u> |
| Total liabilities | <u>9,846,980</u> | <u>11,587,039</u> |
| NET POSITION | | |
| Net Investment in capital assets | <u>32,129,172</u> | <u>32,595,520</u> |
| Restricted for: | | |
| Capital construction | 0 | 41,453 |
| Bond operating contingency requirement | 1,809,025 | 1,636,182 |
| Total restricted | <u>1,809,025</u> | <u>1,677,635</u> |
| Unrestricted | <u>18,365,032</u> | <u>17,269,040</u> |
| Total net position | <u>\$52,303,229</u> | <u>\$51,542,195</u> |

INLAND EMPIRE UTILITIES AGENCY
Non-reclaimable Wastewater Fund
Schedule of Revenues, Expenses and
Changes in Net Position
For the Fiscal Year Ended June 30, 2013
(With Comparative Totals for June 30, 2012)

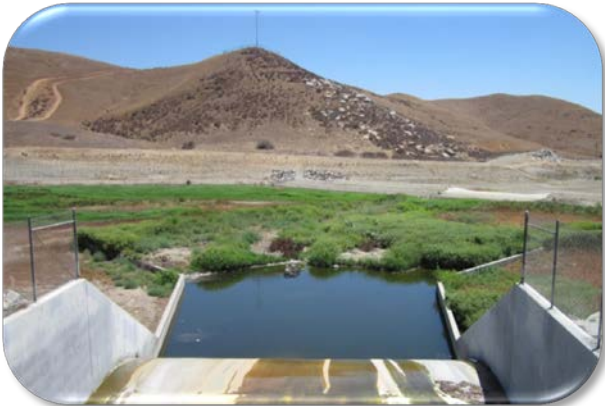
| | Totals | |
|---|--------------|--------------|
| | 2013 | 2012 |
| OPERATING REVENUES | | |
| Service charges | \$8,179,090 | \$6,606,995 |
| Total operating revenues | 8,179,090 | 6,606,995 |
| OPERATING EXPENSES | | |
| Wastewater collection | 3,874,747 | 3,615,854 |
| Administration and general | 1,552,327 | 1,292,693 |
| Depreciation and amortization | 1,950,173 | 1,621,180 |
| Total operating expenses | 7,377,247 | 6,529,727 |
| Operating income (loss) | 801,843 | 77,268 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 66,393 | 89,829 |
| Property tax revenue | 5 | 11 |
| Other nonoperating revenues | 15,270 | 85,686 |
| Interest on long-term debt | (409,430) | (201,677) |
| Other nonoperating expenses | 365,321 | (144,400) |
| Total nonoperating revenues (expenses) | 37,559 | (170,551) |
| Income (loss) before transfers | 839,402 | (93,283) |
| TRANSFERS | | |
| Transfers out | (78,368) | (19,048) |
| Change in net position | 761,034 | (112,331) |
| Total net position - beginning | | 51,774,203 |
| Prior period adjustment (note 18) | | (119,677) |
| Total net position as restated | 51,542,195 | 51,654,526 |
| Total net position - ending | \$52,303,229 | \$51,542,195 |

INLAND EMPIRE UTILITIES AGENCY
RECHARGE WATER FUND
COMPARATIVE SCHEDULES

Recharge Water Fund

The Recharge Water (RW) Fund accounts for the revenues and expenses associated with the groundwater recharge operations and maintenance through the joint effort of the Chino Basin Watermaster (CBWM), the Chino Basin Water Conservation District (CBWCD), the San Bernardino County Flood Control District (SBCFCD), and the Inland Empire Utilities Agency. Expenses include general basin maintenance or restoration costs, groundwater administration (e.g. labor, utilities, equipment, and tools), contracted services (e.g. weeding and vector control), as well as compliance reporting and environmental documentation for the program’s Fish & Game Permit. The operations and maintenance budget is partially funded by the Chino Basin Watermaster (CBWM) and the Agency. Revenues include reimbursements from CBWM, inter-fund transfers from Regional Wastewater Capital and Recycled Water funds, grant proceeds and interesting earnings on the programs reserve balance.

Debt service costs are for the Ground Water Basin Enhancement Project funded by the 2008B Variable Rate Bonds (refinancing the 2002A Bonds in May 2008). Debt principal and interest payments are equally reimbursed by the Chino Basin Watermaster and the Agency. The Agency’s portion is supported by a fund transfer from the Regional Wastewater Capital (RC) Improvement Fund.



Groundwater Recharge Basins

INLAND EMPIRE UTILITIES AGENCY**Recharge Water Fund****Schedule of Net Position****June 30, 2013**

(With Comparative Totals for June 30, 2012)

| | <u>Totals</u> | |
|--|-------------------|-------------------|
| | <u>2013</u> | <u>2012</u> |
| ASSETS | | |
| Current assets | | |
| Cash and investments | \$2,217,792 | \$2,287,536 |
| Accounts receivable | 62,442 | 42,336 |
| Interest receivable | 5,847 | 8,262 |
| Total current assets | <u>2,286,081</u> | <u>2,338,134</u> |
| Noncurrent assets | | |
| Restricted assets | | |
| Assets held with trustee/fiscal agents | <u>865,734</u> | <u>857,280</u> |
| Total restricted assets | <u>865,734</u> | <u>857,280</u> |
| Capital assets | | |
| Jobs in progress | 210,829 | 27,555 |
| Capital assets net of accumulated depreciation | 46,119,067 | 47,274,253 |
| Intangible assets, net of accumulated amortization | <u>39,182</u> | <u>47,890</u> |
| Total capital assets | <u>46,369,078</u> | <u>47,349,698</u> |
| Total noncurrent assets | <u>47,234,812</u> | <u>48,206,978</u> |
| Total assets | <u>49,520,893</u> | <u>50,545,112</u> |

(Continued)

| | <u>Totals</u> | |
|---|----------------------------|----------------------------|
| | <u>2013</u> | <u>2012</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$116,586 | \$30,997 |
| Accrued liabilities | 0 | 118,688 |
| Long-term debt, due within one year | 584,746 | 562,712 |
| Interest payable | 751 | 2,280 |
| Retentions deposits and escrows | <u>6,994</u> | <u>1,606</u> |
| Total current liabilities | <u>709,077</u> | <u>716,283</u> |
| Noncurrent liabilities | | |
| Advances from other funds | | |
| Long-term debt, due in more than one year | <u>15,543,291</u> | <u>16,128,037</u> |
| Total noncurrent liabilities | <u>15,543,291</u> | <u>16,128,037</u> |
| Total liabilities | <u>16,252,368</u> | <u>16,844,320</u> |
| NET POSITION | | |
| Net Investment in capital assets | <u>31,099,781</u> | <u>31,898,858</u> |
| Unrestricted | <u>2,168,744</u> | <u>1,801,934</u> |
| Total net position | <u><u>\$33,268,525</u></u> | <u><u>\$33,700,792</u></u> |

INLAND EMPIRE UTILITIES AGENCY
Recharge Water Fund
Schedule of Revenues, Expenses
and Changes in Net Position
For the Fiscal Year Ended June 30, 2013
(With Comparative Totals for June 30, 2012)

| | Totals | |
|--|---------------------|---------------------|
| | 2013 | 2012 |
| OPERATING REVENUES | | |
| Recycled water sales | \$0 | \$0 |
| Total operating revenues | 0 | 0 |
| OPERATING EXPENSES | | |
| Administration and general | 1,127,975 | 1,190,345 |
| Depreciation and amortization | 1,211,579 | 1,119,489 |
| Total operating expenses | 2,339,554 | 2,309,834 |
| Operating income (loss) | (2,339,554) | (2,309,834) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 17,587 | 20,383 |
| Other nonoperating revenues | 1,142,065 | 911,817 |
| Interest on long-term debt | (24,727) | (22,901) |
| Other nonoperating expenses | (132,345) | (356,071) |
| Total nonoperating revenues (expenses) | 1,002,580 | 553,228 |
| Income (loss) before capital contributions and transfers | (1,336,974) | (1,756,606) |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | |
| Transfers in | 904,707 | 780,636 |
| Capital grants | 0 | 388,846 |
| Change in net position | (432,267) | (587,124) |
| Total net position - beginning | | 34,736,683 |
| Prior period adjustment (note 18) | | (448,767) |
| Total net position as restated | 33,700,792 | 34,287,916 |
| Total net position - ending | <u>\$33,268,525</u> | <u>\$33,700,792</u> |

INLAND EMPIRE UTILITIES AGENCY ADMINISTRATIVE SERVICES FUND COMPARATIVE SCHEDULES

Administrative Services Fund

The Agency's costs of general and administrative expenses for various cost centers and staff labor pool are initially budgeted in the Administrative Services (GG) Fund. These costs include capital acquisitions for general administrative purposes, purchases of non-capital and non-project related materials, supplies, tools, and contract services. Throughout the year, pertinent expenses such as staff labor, equipment, and facilities maintenances and other indirect costs are allocated to the Agency's various programs, departments, and external clients on a cost reimbursement basis, based on either estimated staff work time, frequency of equipment usage, or full time equivalent (FTE) participation for specific program or activities.

Revenues for the GG fund include 8% of the Agency's total property tax revenue, contract cost reimbursements, and interest. Other funding sources include inter-fund transfers for capital replacement support from the Regional Wastewater, Non-Reclaimable Wastewater, and Recycled Water Programs.



***IEUA Headquarters, Building A—
Board Room in Chino, CA***



Reception Area of Headquarters, Building A

INLAND EMPIRE UTILITIES AGENCY
Administrative Services Fund
Schedule of Net Position
June 30, 2013
(With Comparative Totals for June 30, 2012)

| | Totals | |
|--|-------------------|-------------------|
| | 2013 | 2012 |
| ASSETS | | |
| Current assets | | |
| Cash and investments | \$28,421,545 | \$23,706,649 |
| Accounts receivable | 9,275,448 | 1,911,187 |
| Interest receivable | 29,075 | 43,144 |
| Taxes receivable | 28,566 | 218,874 |
| Other receivables | 56,971 | 173,666 |
| Inventory | 1,533,035 | 1,498,644 |
| Prepaid items | 71,870 | 67,526 |
| Total current assets | <u>39,416,510</u> | <u>27,619,690</u> |
| Noncurrent assets | | |
| Restricted assets | | |
| Assets held for 401(a) plan | <u>1,336,147</u> | <u>1,452,719</u> |
| Total restricted assets | <u>1,336,147</u> | <u>1,452,719</u> |
| Capital assets | | |
| Land | 20,829 | 20,829 |
| Jobs in progress | 363,810 | 516,877 |
| Capital assets, net of accumulated depreciation | 11,725,049 | 11,928,251 |
| Intangible assets, net of accumulated amortization | <u>5,402,884</u> | <u>4,159,196</u> |
| Total capital assets | <u>17,512,572</u> | <u>16,625,153</u> |
| Total noncurrent assets | <u>18,848,719</u> | <u>18,077,872</u> |
| Total assets | <u>58,265,229</u> | <u>45,697,562</u> |

(Continued)

| | Totals | |
|--|----------------------------|----------------------------|
| | 2013 | 2012 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$2,185,821 | \$1,024,347 |
| Accrued liabilities | 9,382,343 | 2,590,733 |
| Compensated absences | 1,697,226 | 2,237,898 |
| Current liabilities | <u>13,265,390</u> | <u>5,852,978</u> |
| Noncurrent liabilities | | |
| Compensated absences | 2,220,224 | 1,838,412 |
| Liability for 401(a) plan | 1,336,147 | 1,452,719 |
| Net OPEB liability (note 1 d.) | 6,833,724 | 5,855,131 |
| Total noncurrent liabilities | <u>10,390,095</u> | <u>9,146,262</u> |
| Total liabilities | <u>23,655,485</u> | <u>14,999,240</u> |
| NET POSITION | | |
| Net Investment in capital assets | <u>17,512,571</u> | <u>16,868,464</u> |
| Restricted for: | | |
| Bond operating contingency requirement | <u>202,075</u> | <u>567,868</u> |
| Total restricted | <u>202,075</u> | <u>567,868</u> |
| Unrestricted | <u>16,895,098</u> | <u>13,261,990</u> |
| Total net position | <u><u>\$34,609,744</u></u> | <u><u>\$30,698,322</u></u> |

INLAND EMPIRE UTILITIES AGENCY
Administrative Services Fund
Schedule of Revenues, Expenses and
Changes in Net Position
For the Fiscal Year Ended June 30, 2013
(With Comparative Totals for June 30, 2012)

| | Totals | |
|--|--------------|--------------|
| | 2013 | 2012 |
| OPERATING REVENUES | | |
| Service charges | \$0 | \$0 |
| Total operating revenues | 0 | 0 |
| OPERATING EXPENSES | | |
| Administration and general | 606,226 | 1,472,057 |
| Depreciation and amortization | 1,637,180 | 1,884,113 |
| Total operating expenses | 2,243,406 | 3,356,170 |
| Operating income (loss) | (2,243,406) | (3,356,170) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 99,189 | 123,343 |
| Property tax revenue | 3,796,966 | 2,650,374 |
| Other nonoperating revenues | 1,572,939 | 1,554,991 |
| Other nonoperating expenses | (1,490,257) | (1,295,848) |
| Total nonoperating revenues (expenses) | 3,978,837 | 3,032,860 |
| Income (loss) before capital contributions and transfers | 1,735,431 | (323,310) |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | |
| Transfers in | 2,304,944 | 560,229 |
| Transfers out | (130,000) | 0 |
| Capital grants | 1,047 | 140,013 |
| Change in net position | 3,911,422 | 376,932 |
| Total net position - beginning | | 30,564,701 |
| Prior period adjustment (note 18) | | (243,311) |
| Total net position as restated | 30,698,322 | 30,321,390 |
| Total net position - ending | \$34,609,744 | \$30,698,322 |

INLAND EMPIRE UTILITIES AGENCY
Index of Statistical Section Schedules

June 30, 2013

This part of Inland Empire Utilities Agency's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Agency's overall financial health.

| | | |
|-----|---|-----|
| (1) | <i>Financial Trends</i> | 122 |
| | a. <i>These schedules contain trend information to help the reader understand how IEUA's financial performance and well-being has changed over time.</i> | |
| (2) | <i>Revenue Capacity</i> | 126 |
| | a. <i>These schedules contain information to help the reader assess IEUA's most significant revenue sources.</i> | |
| (3) | <i>Debt Capacity</i> | 133 |
| | a. <i>These schedules present information to help the reader assess the affordability of IEUA's current levels of outstanding debt and ability to issue additional debt in the future.</i> | |
| (4) | <i>Operating Indicators</i> | 138 |
| | a. <i>These schedules contain service and infrastructure data to help the reader understand the information in IEUA's financial reports and how it relates to the services that IEUA provides and the activities it performs.</i> | |
| (5) | <i>Demographic and Economic Information</i> | 144 |
| | a. <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which IEUA's financial activities take place.</i> | |

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

INLAND EMPIRE UTILITIES AGENCY
Historical Operating Results
Wastewater Revenue Funds' Combined Statement of Revenues, Expenses
and Changes in Fund Net Assets
Fiscal Years Ended June 30, 2004 through 2013
(Dollars in Thousands)

| | <u>2012/13</u> | <u>2011/12</u> | <u>2010/11</u> | <u>2009/10</u> | <u>2008/09</u> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Operating revenues | | | | | |
| Service charges | \$ 47,891 | \$ 42,209 | \$ 41,544 | \$ 42,108 | \$ 41,575 |
| Other charges | 7,952 | 6,009 | 4,353 | 4,162 | 2,715 |
| Total operating revenues | <u>55,843</u> | <u>48,218</u> | <u>45,897</u> | <u>46,270</u> | <u>44,290</u> |
| Operating expenses | | | | | |
| Wastewater collection | 4,656 | 5,629 | 6,517 | 7,338 | 5,939 |
| Wastewater treatment | 18,908 | 17,377 | 17,208 | 19,016 | 20,049 |
| Wastewater disposal | 8,613 | 11,316 | 10,664 | 10,030 | 12,885 |
| Operations and maintenance | 3,195 | 2,987 | 2,600 | - | - |
| Administration and general | 20,714 | 21,398 | 20,465 | 22,018 | 25,685 |
| Depreciation and amortization | 31,928 | 30,168 | 29,993 | 26,168 | 22,179 |
| Total operating expenses | <u>88,014</u> | <u>88,875</u> | <u>87,447</u> | <u>84,570</u> | <u>86,737</u> |
| Operating income (loss) | <u>(32,171)</u> | <u>(40,657)</u> | <u>(41,550)</u> | <u>(38,300)</u> | <u>(42,447)</u> |
| Non-operating revenues (expenses) | | | | | |
| Interest income | 809 | 951 | 1,159 | 1,684 | 2,742 |
| Property tax revenue | 48,087 | 32,695 | 33,419 | 34,355 | 36,325 |
| Wastewater capital connection fees | 14,614 | 7,686 | 5,398 | 7,753 | 5,753 |
| Other nonoperating revenues | 7,486 | 8,160 | 6,008 | 7,566 | 3,098 |
| Interest on long-term debt | (8,321) | (7,447) | (7,803) | (9,891) | (13,498) |
| Other nonoperating expenses | (9,407) | (8,907) | (7,626) | (7,283) | (3,268) |
| Total nonoperating revenues (expenses) | <u>53,268</u> | <u>33,138</u> | <u>30,555</u> | <u>34,184</u> | <u>31,152</u> |
| Income (loss) before contributions and transfers | <u>21,097</u> | <u>(7,519)</u> | <u>(10,995)</u> | <u>(4,116)</u> | <u>(11,295)</u> |
| Capital grants | 2,561 | 4,263 | 6,852 | 10,163 | 12,275 |
| Contribution in aid | - | - | - | - | - |
| Transfers (to non-sewer funds) | 200 | 300 | 300 | 300 | 300 |
| Change in net position | <u>\$ 23,858</u> | <u>\$ (2,956)</u> | <u>\$ (3,843)</u> | <u>\$ 6,347</u> | <u>\$ 1,280</u> |
| Total net position - beginning | 512,616 | 515,572 | 518,244 | 511,897 | 434,393 |
| Prior period adjustment | (4,361) | - | 1,171 | - | 76,224 |
| Total net position - ending | <u>\$ 532,113</u> | <u>\$ 512,616</u> | <u>\$ 515,572</u> | <u>\$ 518,244</u> | <u>\$ 511,897</u> |

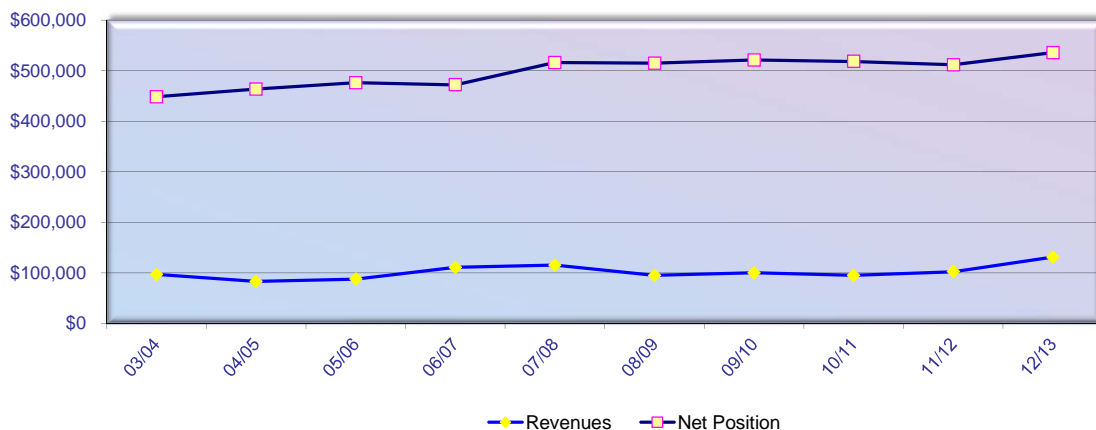
INLAND EMPIRE UTILITIES AGENCY
Historical Operating Results
Wastewater Revenue Funds' Combined Statement of Revenues, Expenses
and Changes in Fund Net Assets
Fiscal Years Ended June 30, 2004 through 2013
(Dollars in Thousands)

| <u>2007/08</u> | <u>2006/07</u> | <u>2005/06</u> | <u>2004/05</u> | <u>2003/04</u> |
|-------------------|-------------------|-------------------|-------------------|-------------------|
| \$ 38,021 | \$ 36,132 | \$ 31,716 | \$ 27,090 | \$ 25,579 |
| - | - | - | 1,755 | 1,707 |
| <u>38,021</u> | <u>36,132</u> | <u>31,716</u> | <u>28,845</u> | <u>27,286</u> |
| 5,361 | 1,086 | 1,143 | 1,052 | 967 |
| 22,430 | 25,082 | 22,694 | 19,194 | 18,677 |
| 12,722 | 7,434 | 6,235 | 5,851 | 4,749 |
| 2,135 | 4,442 | 42 | 1,067 | - |
| 12,728 | 17,650 | 16,607 | 15,483 | 11,997 |
| 17,289 | 17,603 | 18,261 | 16,160 | 14,178 |
| <u>72,665</u> | <u>73,297</u> | <u>64,982</u> | <u>58,807</u> | <u>50,568</u> |
| <u>(34,644)</u> | <u>(37,165)</u> | <u>(33,266)</u> | <u>(29,962)</u> | <u>(23,282)</u> |
| 4,659 | 5,226 | 3,670 | 2,642 | 2,693 |
| 34,451 | 31,018 | 20,070 | 16,674 | 21,508 |
| 16,626 | 24,672 | 20,896 | 27,958 | 28,451 |
| 15,280 | 5,711 | 6,302 | 2,005 | 12,780 |
| (10,101) | (8,419) | (7,029) | (6,613) | (6,669) |
| (1,224) | (15,275) | (1,415) | (804) | (3,152) |
| <u>59,691</u> | <u>42,933</u> | <u>42,494</u> | <u>41,862</u> | <u>55,611</u> |
| <u>25,047</u> | <u>5,768</u> | <u>9,228</u> | <u>11,900</u> | <u>32,330</u> |
| 1,095 | 3,380 | 2,493 | 975 | 221 |
| - | - | 75 | - | 1,225 |
| (4,546) | (14,358) | (3,107) | (6,124) | (4,838) |
| <u>\$ 21,596</u> | <u>\$ (5,210)</u> | <u>\$ 8,689</u> | <u>\$ 6,751</u> | <u>\$ 28,938</u> |
| 412,797 | 422,441 | 413,752 | 407,001 | 378,063 |
| <u>\$ 434,393</u> | <u>\$ 412,797</u> | <u>\$ 422,441</u> | <u>\$ 413,752</u> | <u>\$ 407,001</u> |

INLAND EMPIRE UTILITIES AGENCY
Combined Schedule of Revenues, Expenses and Changes in Net Position
- All Funds -
For The Past Ten Fiscal Years
(Dollars in Thousands)

| | 2012/13 | 2011/12 | 2010/11 | 2009/10 |
|--|-------------------|-------------------|-------------------|-------------------|
| Operating revenues | | | | |
| Service charges | \$ 52,153 | \$ 46,468 | \$ 44,776 | \$ 44,545 |
| Other Charges | - | - | - | - |
| Recycled water sales | 7,952 | 6,009 | 4,352 | 4,162 |
| Total operating revenues | <u>60,105</u> | <u>52,477</u> | <u>49,128</u> | <u>48,707</u> |
| Operating expenses | | | | |
| Wastewater collection | 4,656 | 5,629 | 6,517 | 7,338 |
| Wastewater treatment | 18,908 | 17,378 | 17,208 | 19,016 |
| Wastewater disposal | 8,613 | 11,316 | 10,664 | 10,030 |
| Administration and general | 3,868 | 24,755 | 23,266 | 21,567 |
| Depreciation and amortization | 26,582 | 30,173 | 29,999 | 26,173 |
| Operations and maintenance | 31,933 | 3,725 | 3,230 | 2,760 |
| Total operating expenses | <u>94,560</u> | <u>92,976</u> | <u>90,884</u> | <u>86,884</u> |
| Operating income (loss) | <u>(34,455)</u> | <u>(40,499)</u> | <u>(41,756)</u> | <u>(38,177)</u> |
| Non-Operating revenues (expenses) | | | | |
| Interest income | 819 | 963 | 1,179 | 1,715 |
| Property tax revenue | 48,087 | 32,695 | 33,419 | 34,355 |
| Wastewater capital connection fees | 14,614 | 7,686 | 5,398 | 7,753 |
| Other non-operating revenues | 7,510 | 8,562 | 6,090 | 7,638 |
| Interest on long-term debt | (9,958) | (7,447) | (8,058) | (9,891) |
| Other non-operating expenses | (7,936) | (9,014) | (7,773) | (7,684) |
| Total non-operating revenues (expenses) | <u>53,136</u> | <u>33,445</u> | <u>30,255</u> | <u>33,886</u> |
| Income (loss) before contributions and transfers | 18,681 | (7,054) | (11,501) | (4,291) |
| Capital grants | 3,152 | 4,841 | 7,587 | 10,387 |
| Contributions in aid | - | - | - | - |
| Change in net position | <u>\$ 21,833</u> | <u>\$ (2,213)</u> | <u>\$ (3,914)</u> | <u>\$ 6,096</u> |
| Total net position - beginning | <u>\$513,938</u> | <u>\$518,455</u> | <u>\$522,370</u> | <u>\$515,104</u> |
| Net position by component: | | | | |
| Net Investment in capital assets | 354,124 | 362,673 | 372,277 | 377,512 |
| Restricted for Debt service & Capital construction | 50,036 | 42,798 | 50,378 | 63,545 |
| Unrestricted | 131,611 | 106,357 | 95,800 | 81,313 |
| Total net position - ending | <u>\$ 535,771</u> | <u>\$ 511,828</u> | <u>\$ 518,455</u> | <u>\$ 522,370</u> |

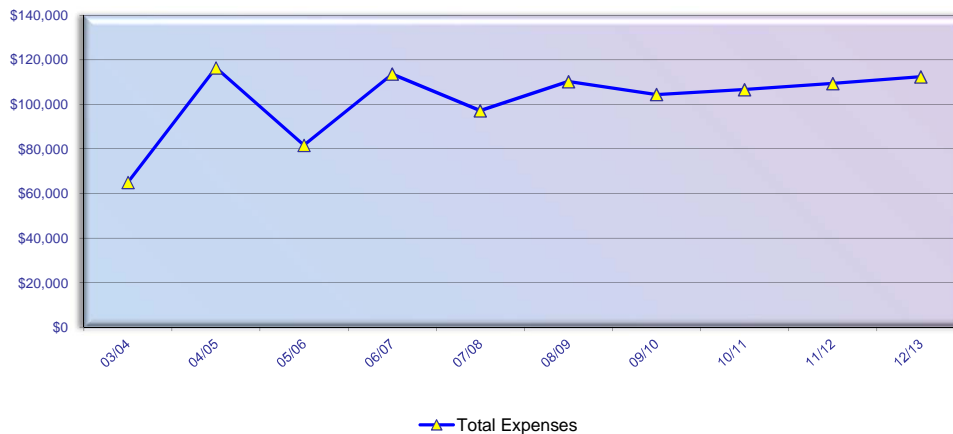
Operating & Non-Operating Revenues & Net Position Trends
For the Past Ten Fiscal Years



INLAND EMPIRE UTILITIES AGENCY
Combined Schedule of Revenues, Expenses and Changes in Net Position
- All Funds -
For The Past Ten Fiscal Years (continued)
(Dollars in Thousands)

| 2008/09 | 2007/08 | 2006/07 | 2005/06 | 2004/05 | 2003/04 |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| \$ 43,832 | \$ 39,459 | \$ 37,964 | \$ 33,837 | \$ 29,194 | \$ 27,509 |
| - | - | - | - | 1,755 | 1,707 |
| 2,716 | 2,007 | 3,254 | 1,147 | 653 | 589 |
| <u>46,548</u> | <u>41,466</u> | <u>41,218</u> | <u>34,984</u> | <u>31,602</u> | <u>29,805</u> |
| 2,351 | 5,361 | 1,086 | 1,143 | 1,052 | 967 |
| 23,640 | 22,429 | 25,082 | 22,694 | 19,194 | 18,677 |
| 9,885 | 12,723 | 7,434 | 6,236 | 5,851 | 4,749 |
| 25,101 | 22,322 | 24,447 | 23,568 | 20,605 | 14,415 |
| 22,185 | 19,054 | 18,944 | 18,719 | 16,311 | 14,328 |
| 5,539 | 2,175 | 7,431 | 67 | 1,688 | 1,788 |
| <u>88,701</u> | <u>84,064</u> | <u>84,424</u> | <u>72,427</u> | <u>64,701</u> | <u>54,924</u> |
| <u>(42,154)</u> | <u>(42,598)</u> | <u>(43,206)</u> | <u>(37,443)</u> | <u>(33,099)</u> | <u>(25,119)</u> |
| 2,796 | 5,006 | 5,325 | 3,868 | 2,903 | 2,874 |
| 36,325 | 34,451 | 31,018 | 20,070 | 16,674 | 21,508 |
| 5,753 | 16,626 | 24,671 | 20,895 | 27,958 | 28,451 |
| 3,543 | 17,720 | 8,645 | 8,007 | 4,195 | 14,288 |
| (13,498) | (11,278) | (9,540) | (7,796) | (7,138) | (6,876) |
| <u>(8,031)</u> | <u>(1,890)</u> | <u>(19,678)</u> | <u>(1,478)</u> | <u>(868)</u> | <u>(3,211)</u> |
| <u>26,888</u> | <u>60,635</u> | <u>40,441</u> | <u>43,566</u> | <u>43,724</u> | <u>57,034</u> |
| (15,266) | 18,036 | (2,765) | 6,123 | 10,623 | 10,625 |
| 13,924 | 12,373 | 13,883 | 6,656 | 4,220 | 17,480 |
| - | - | - | 68 | 26 | 1,482 |
| <u>\$ (1,342)</u> | <u>\$ 30,409</u> | <u>\$ 11,118</u> | <u>\$ 12,847</u> | <u>\$ 14,869</u> | <u>\$ 29,587</u> |
| <u>\$516,446</u> | <u>\$472,192</u> | <u>\$476,440</u> | <u>\$463,594</u> | <u>\$448,725</u> | <u>\$397,847</u> |
| 370,516 | 355,794 | 330,897 | 339,320 | 300,869 | 256,642 |
| 81,418 | 123,620 | 66,071 | 59,447 | 101,162 | 138,875 |
| 63,170 | 37,032 | 75,224 | 77,673 | 61,563 | 53,208 |
| <u>\$ 515,104</u> | <u>\$ 516,446</u> | <u>\$ 472,192</u> | <u>\$ 476,440</u> | <u>\$ 463,594</u> | <u>\$ 448,725</u> |

Operating & Non-Operating Expense Trends
For the Past Ten Fiscal Years



INLAND EMPIRE UTILITIES AGENCY
Wastewater Capital Connection Deposits Held
For the Past Ten Fiscal Years

Table 1

| Fiscal Year | CVWD* | Chino | Chino Hills | Fontana |
|-------------|------------|-----------|-------------|------------|
| 2003/04 | 30,879,647 | 5,949,450 | 5,774,412 | 17,316,903 |
| 2004/05 | 16,709,735 | 4,073,882 | 2,848,819 | 10,823,845 |
| 2005/06 | 1,687,180 | 977,463 | 257,703 | 1,600,188 |
| 2006/07 | 2,788,920 | 2,416,243 | 911,522 | 2,351,750 |
| 2007/08 | 1,603,879 | 1,217,755 | 2,360,905 | 2,711,172 |
| 2008/09 | 1,228,895 | 901,211 | 977,018 | 2,288,501 |
| 2009/10 | 2,133,583 | 836,680 | 641,780 | 2,509,193 |
| 2010/11 | 3,713,185 | 1,425,146 | 861,408 | 4,128,203 |
| 2011/12 | 3,527,692 | 2,031,803 | 843,754 | 4,269,896 |
| 2012/13 | 6,929,682 | 6,872,100 | 933,078 | 5,210,856 |
| Percentage | 24.5% | 24.3% | 3.3% | 18.5% |

Wastewater Capital Connection Fee Agreement

On April 12, 1984, an Amendment was made to the Chino Basin Regional Sewage Service Contract, wherein each Contracting Agency agreed to contribute Wastewater Funds (Connection Fees) to the Inland Empire Utilities Agency (IEUA) for the improvement and expansion of the Regional Wastewater System. According to the Chino Basin Regional Sewage Service Contract, the Contracting Agencies must deposit or credit an amount for each wastewater connection into a Capital Capacity Reimbursement Account (CCRA). While the source of these funds is left to the discretion of the individual agencies, it is generally obtained by a connection assessment against new construction. Funds deposited into the CCRA may be used only to provide Supplemental Capital Outlay Contributions to IEUA. According to the Chino Basin Regional Sewage Service Contract, each Contracting Agency must report monthly building (permit) activity to IEUA, and the ending monthly balance of funds in each respective Capital Capacity Reimbursement Account.

In accordance with the Chino Basin Regional Sewage Service Contract, IEUA must provide each Contracting Agency: a) a quarterly report concerning the level of Capital Capacity Reimbursement Account reserves, b) Regional Wastewater Capital Improvement expenditures and, c) the estimated amount of Supplemental Capital Outlay which will be necessary to call for funds from each Contracting Agency .

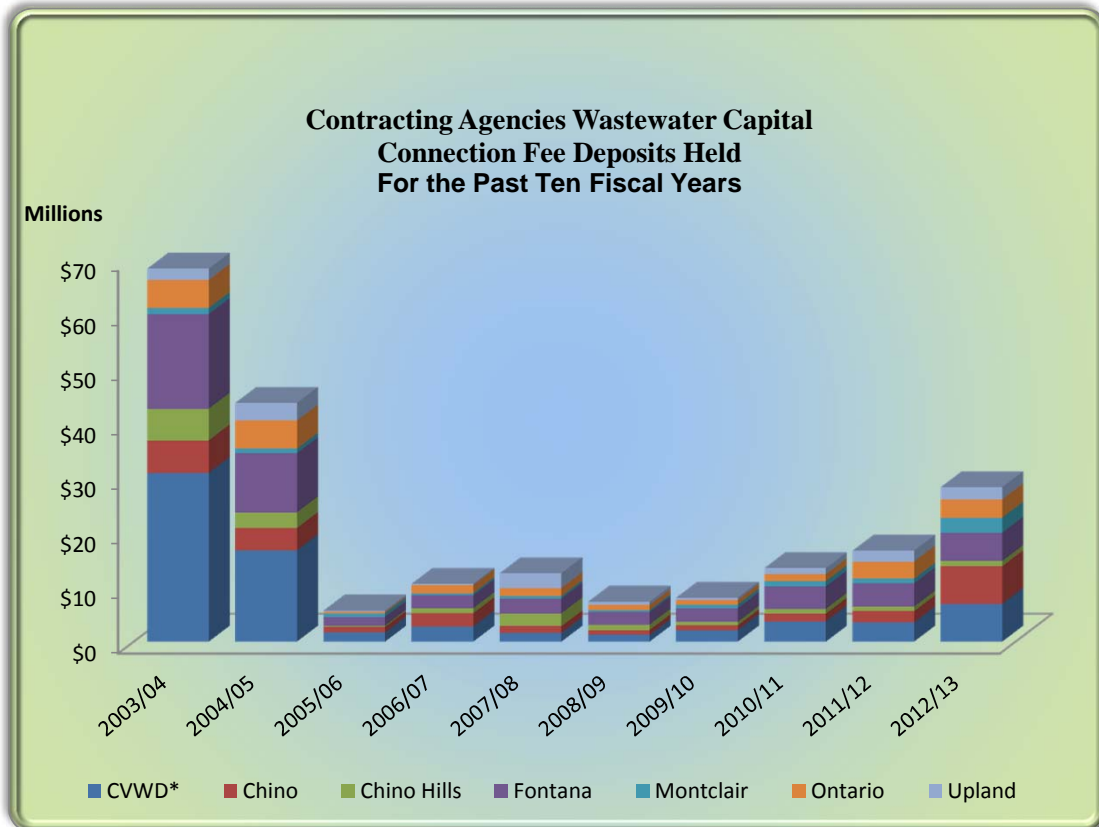
Connection fee payments to IEUA are calculated based on the percentage of each Contracting Agency's Reimbursement Account balance relative to the total balance of all Contracting Agency held funds. That percentage is then utilized to calculate each Contracting Agency's (pro rata) contribution of an IEUA "Capital Call" for funds from the Reimbursement Accounts. Table 1 & 2 represent the connection fee balances reported in the respective Contracting Agency's Annual Financial Reports. Balances reported for FY 2012/2013 are subject to further adjustment after audit.

*Cucamonga Valley Water District

INLAND EMPIRE UTILITIES AGENCY
Wastewater Capital Connection Deposits Held
For the Past Ten Fiscal Years

Table 2

| Fiscal Year | Montclair | Ontario | Upland | Total |
|-------------|-----------|-----------|-----------|------------|
| 2003/04 | 1,109,833 | 5,132,842 | 2,041,227 | 68,204,314 |
| 2004/05 | 831,738 | 5,137,652 | 3,244,291 | 43,669,962 |
| 2005/06 | 645,129 | 241,894 | 259,375 | 5,668,934 |
| 2006/07 | 400,636 | 1,478,984 | 243,823 | 10,591,879 |
| 2007/08 | 417,175 | 1,498,502 | 2,732,573 | 12,541,961 |
| 2008/09 | 372,384 | 921,436 | 605,408 | 7,294,853 |
| 2009/10 | 651,837 | 842,484 | 432,863 | 8,048,420 |
| 2010/11 | 930,082 | 1,282,000 | 1,106,443 | 13,446,467 |
| 2011/12 | 825,708 | 3,151,337 | 1,982,403 | 16,632,593 |
| 2012/13 | 2,746,961 | 3,337,340 | 2,216,963 | 28,246,980 |
| Percentage | 9.7% | 11.8% | 7.9% | 100.0% |



INLAND EMPIRE UTILITIES AGENCY
Regional Wastewater Program Capital Requirements
For the Ten Fiscal Years Ending June 30, 2023*

| Project Description | Actual | Projected | |
|---|------------------|------------------|------------------|
| | 2012/13 | 2013/14 | 2014/15 |
| <u>Replacement Projects</u> | | | |
| RP-1,RP-2,CarbCny O&M Manual | 3,638 | - | - |
| RP-1 Fuel Cell | 121,864 | 150,000 | - |
| TP-1 Disinfection Pump Improvements | 17,657 | 531,117 | - |
| RP-1/RP-2 Boiler Replacements | 470,978 | 300,000 | - |
| CCWRF Secondary Clarifier No.2 Rehab. | 520,582 | 649,828 | - |
| Chino Creek Invert Repair | 240 | 250,000 | - |
| RP-1 Aeration Ducting | 10,648 | 848,000 | - |
| Ramona Ave Siphon Lining & Manholes | 68,440 | 190,517 | - |
| CCWRF Odor Control System Replacement | 3,109 | 250,000 | - |
| RP-1 Headworks Rehabilitation Project | - | 725,000 | 1,000,000 |
| Major Facilities Repair/ Replacement | 464,596 | - | 700,000 |
| Replace Two Gas Conditioner Tanks at RP-2 Gas Mixer Room | - | 40,000 | - |
| Replace Filter Cloth Socks on four Disc Filter Units at RP-4 | - | 80,000 | - |
| Various Replacement Projects | 1,633,247 | - | - |
| Total Replacement Projects | 3,314,999 | 4,014,462 | 1,700,000 |
| <u>Equipment Projects</u> | | | |
| Major Facilities Repairs/Replacements | - | 1,500,000 | - |
| Agency Wide Chlorine Residual Analyzer Replacement | - | 200,000 | 160,000 |
| Future DCS Initiatives | - | 50,000 | 150,000 |
| Upgrade DCS Foxboro I/A to Infusion (Won | - | 100,000 | 100,000 |
| Upgrade DCS AIM Historian to InSQL | - | 100,000 | - |
| Server Replacement Project - PAC Network | - | 52,000 | - |
| Sharepoint - PAC Network | - | - | 25,000 |
| Network Time Appliance - PAC Network | - | - | - |
| Software Licenses - PAC Network | - | 28,000 | - |
| Core Switch RP-1 - PAC Network | - | 45,000 | - |
| SB Lift Panel View (2) Disaster Recovery/Standardization Proj.-PACNet | - | - | - |
| Replace PLC-5 rack solution w/ControlLogix Rack and PLCs-PACNet | - | 80,000 | - |
| PACNet-Replace L55 Processors | - | 22,000 | - |
| Switch/router replacement - PAC Network | - | 75,000 | - |
| Workstation Replacement - PAC Network | - | 10,500 | - |
| GC Pesticides Wastewater | - | 100,000 | - |
| Replace RP-1 East and West Iron Sponge | - | 115,000 | - |
| Agency Wide Security Equipment Upgrade | - | 30,000 | 30,000 |
| Various Equipment Projects | 938,893 | - | - |
| Total Equipment Projects | 938,893 | 2,507,500 | 465,000 |

INLAND EMPIRE UTILITIES AGENCY
Regional Wastewater Program Capital Requirements
For the Ten Fiscal Years Ending June 30, 2023*

| Projected | | | | | | | | |
|------------------|------------------|------------------|------------------|----------------|----------------|----------------|----------|---------------------|
| 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Total |
| - | 500,000 | 495,998 | 415,516 | - | - | - | - | 1,415,152 |
| - | - | - | - | - | - | - | - | 271,864 |
| - | - | - | - | - | - | - | - | 548,774 |
| - | - | - | - | - | - | - | - | 770,978 |
| - | - | - | - | - | - | - | - | 1,170,410 |
| - | - | - | - | - | - | - | - | 250,240 |
| - | - | - | - | - | - | - | - | 858,648 |
| - | - | - | - | - | - | - | - | 258,957 |
| 1,250,000 | 1,500,000 | - | - | - | - | - | - | 3,003,109 |
| - | 4,500,000 | 4,500,000 | - | - | - | - | - | 10,725,000 |
| 700,000 | 700,000 | 700,000 | 700,000 | 700,000 | 700,000 | 700,000 | - | 6,064,596 |
| - | - | - | - | - | - | - | - | 40,000 |
| - | - | - | - | - | - | - | - | 80,000 |
| | | | | | | | | 1,633,247 |
| 1,950,000 | 7,200,000 | 5,695,998 | 1,115,516 | 700,000 | 700,000 | 700,000 | - | \$26,930,773 |
| - | - | - | - | - | - | - | - | 1,500,000 |
| - | - | - | - | - | - | - | - | 360,000 |
| - | - | - | - | - | - | - | - | 200,000 |
| - | - | - | - | - | - | - | - | 200,000 |
| - | - | - | - | - | - | - | - | 100,000 |
| - | - | - | - | - | - | - | - | 52,000 |
| - | - | - | - | - | - | - | - | 25,000 |
| - | 15,000 | - | - | - | - | - | - | 15,000 |
| - | - | - | - | - | - | - | - | 28,000 |
| - | - | - | - | - | - | - | - | 45,000 |
| - | 35,000 | - | - | - | - | - | - | 35,000 |
| - | - | - | - | - | - | - | - | 80,000 |
| - | - | - | - | - | - | - | - | 22,000 |
| - | - | - | - | - | - | - | - | 75,000 |
| - | - | - | - | - | - | - | - | 10,500 |
| - | - | - | - | - | - | - | - | 100,000 |
| - | - | - | - | - | - | - | - | 115,000 |
| - | - | - | - | - | - | - | - | 60,000 |
| | | | | | | | | 938,893 |
| - | 50,000 | - | - | - | - | - | - | 3,965,884 |

INLAND EMPIRE UTILITIES AGENCY
Regional Wastewater Program Capital Requirements (continued)
For the Ten Fiscal Years Ending June 30, 2023*

| Project Description | Actual | Projected | |
|--|--------------------|---------------------|---------------------|
| | 2012/13 | 2013/14 | 2014/15 |
| Construction Projects | | | |
| Engineering-As-Building | 463 | 156,787 | - |
| RP-2 Digester Gas Sys Modifications | 180,926 | 300,000 | - |
| RP-1 Dewatering Facility Expansion | 2,201,450 | 5,207 | - |
| New Operations Laboratory | 4,522 | - | - |
| RP-1 Asset Replacement | 2,181,525 | 500,000 | - |
| RP-4 Headworks Retrofit | 60,951 | 650,000 | - |
| RP-5 SHF/REEP Independent Review | 48,941 | 150,000 | - |
| Headquarters Repairs and Drainage Improv | 15,920 | 20,000 | 20,000 |
| RP-5 Flow Equalization and Effluent Moni | 7,488 | 550,000 | 50,000 |
| HVAC & Server Room Fire Suppression Impr | 272,789 | 1,200,000 | 600,000 |
| Central Plant for the New Operations Lab | 51,751 | 700,000 | - |
| RP-5 Pond/Drainage Improvements | 25,804 | 316,383 | - |
| Agency Wide HVAC Improvements | 4,420 | 2,437 | - |
| SCADA Enterprise System | 26,798 | 850,000 | 2,000,000 |
| RP-2 Drying Beds Drainage Improvments | 23,602 | 51,700 | - |
| RP-2 Digester No. 4 Dome Guides Repair | 282,718 | 56,896 | - |
| Mountain Avenue Improvements | 90,142 | 470,000 | - |
| Montclair Lift Stn Communication System | 373 | 150,000 | - |
| RP-1/RP-2 Flare Replacement | 5,387 | 600,000 | 1,000,000 |
| RP-5 Standby Generators Control Mods | 2,588 | 50,000 | - |
| RP-2 Digester #4 Dome Replacement | 11,151 | 1,800,000 | - |
| RP-4 Power Distribution Assessment & Repair | - | 10,000 | - |
| RP-2 Splitter Box Gate Replacement | 93 | 30,000 | - |
| Montclair Lift Station Upgrades | 255,727 | 1,600,000 | 584,356 |
| Agency Wide HVAC Improvements | - | 658,926 | - |
| Misc WW Construction & Emergency Projects | - | 250,000 | 250,000 |
| CM Misc. RC Construction & Emergency Proj | - | 250,000 | 250,000 |
| RP-2 Drying Beds Rehabilitation | - | 90,000 | 510,000 |
| RP-5 New Emergency Basin Pump Station | - | - | 150,000 |
| RP-5 Anoxic Mixers, Filter Backwash PS & Alum System Upgrades | - | - | - |
| RP-4 Process Improvements | - | 240,000 | 1,360,000 |
| RP-1 Sludge Thickening System Improvement | - | 250,000 | 1,000,000 |
| RP-1 Secondary Clarifier Asset Rehab | - | 800,000 | 1,000,000 |
| CM Misc. RO Construction & Emergency Proj | - | 250,000 | 250,000 |
| Misc RO Constr. & Emerg Proj | - | 250,000 | 250,000 |
| CCWRF Secondary Clarifier No. 3 Rehab | - | 100,000 | 900,000 |
| Fontana Interceptor Relief Sewer Manholes Rehabilitation | - | 200,000 | 850,000 |
| Regional Sewer Special Projects | - | 100,000 | 100,000 |
| Facility Projects - RO (Previously in RC) | - | - | - |
| Facility Projects - RO | - | - | - |
| Whispering Lakes PS Rehab | - | - | - |
| RP-2 Flare Replacement | - | - | - |
| RP-5 Liquids and Solids Processing | - | - | - |
| RP-2 Digester Cleaning | - | 320,000 | 320,000 |
| Network Switch Repl -Fore Plant Net | - | 75,000 | 75,000 |
| UPS Replacement Forecast - PAC | - | 33,500 | 33,500 |
| Server Replace-Plant Auto FORECAST | - | 46,000 | 25,200 |
| Workstation Replace Fore-PAC Net | - | 16,000 | 15,500 |
| Operations Data Management System | - | - | - |
| Purchase & Installation of RP-5 Satellite Warehouse & MM Shop Steel Bldg | - | - | 250,000 |
| Various Capital Construction Projects | (65,422) | - | - |
| Total Construction Projects | 5,690,110 | 14,148,836 | 11,843,556 |
| Total Capital Costs | \$9,944,002 | \$20,670,798 | \$14,008,556 |

INLAND EMPIRE UTILITIES AGENCY
Regional Wastewater Program Capital Requirements (continued)
For the Ten Fiscal Years Ending June 30, 2023*

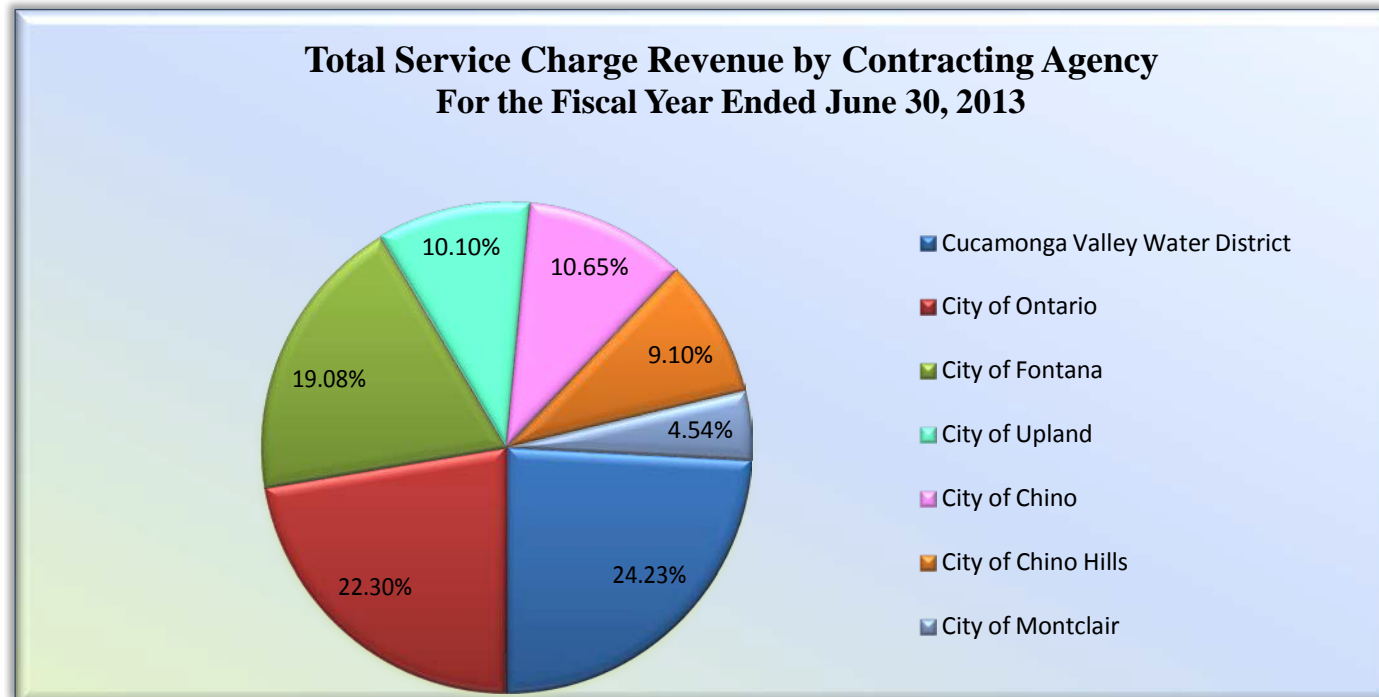
Projected

| 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Total |
|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| - | - | - | - | - | - | - | - | 157,250 |
| - | - | - | - | - | - | - | - | 480,926 |
| - | - | - | - | - | - | - | - | 2,206,657 |
| 1,100,000 | 10,000,000 | 4,000,000 | - | - | - | - | - | 15,104,522 |
| - | - | - | - | - | - | - | - | 2,681,525 |
| - | - | - | - | - | - | - | - | 710,951 |
| - | - | - | - | - | - | - | - | 198,941 |
| - | - | - | - | - | - | - | - | 55,920 |
| - | - | - | - | - | - | - | - | 607,488 |
| 300,000 | - | - | - | - | - | - | - | 2,372,789 |
| - | - | - | - | - | - | - | - | 751,751 |
| - | - | - | - | - | - | - | - | 342,187 |
| - | - | - | - | - | - | - | - | 6,857 |
| 2,500,000 | 2,500,000 | 2,000,000 | - | - | - | - | - | 9,876,798 |
| - | - | - | - | - | - | - | - | 75,302 |
| - | - | - | - | - | - | - | - | 339,614 |
| - | - | - | - | - | - | - | - | 560,142 |
| - | - | - | - | - | - | - | - | 150,373 |
| - | - | - | - | - | - | - | - | 1,605,387 |
| - | - | - | - | - | - | - | - | 52,588 |
| - | - | - | - | - | - | - | - | 1,811,151 |
| - | - | - | - | - | - | - | - | 10,000 |
| - | - | - | - | - | - | - | - | 30,093 |
| - | - | - | - | - | - | - | - | 2,440,083 |
| - | - | - | - | - | - | - | - | 658,926 |
| 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 2,500,000 |
| 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 2,500,000 |
| - | - | - | - | - | - | - | - | 600,000 |
| 800,000 | 800,000 | - | - | - | - | - | - | 1,750,000 |
| 315,000 | 1,785,000 | - | - | - | - | - | - | 2,100,000 |
| - | - | - | - | - | - | - | - | 1,600,000 |
| 600,000 | 3,300,000 | 3,300,000 | - | - | - | - | - | 8,450,000 |
| 1,000,000 | 1,000,000 | 1,000,000 | 500,000 | - | - | - | - | 5,300,000 |
| 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 2,500,000 |
| 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 2,500,000 |
| - | - | - | - | - | - | - | - | 1,000,000 |
| 850,000 | - | - | - | - | - | - | - | 1,900,000 |
| 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 1,000,000 |
| 4,000,000 | - | 1,550,000 | 6,450,000 | 6,850,000 | - | - | - | 18,850,000 |
| 5,200,000 | 5,475,000 | 4,750,000 | 4,750,000 | 9,250,000 | 9,250,000 | 9,250,000 | 9,250,000 | 57,175,000 |
| 500,000 | 1,500,000 | - | - | - | - | - | - | 2,000,000 |
| - | - | - | 500,000 | 1,500,000 | - | - | - | 2,000,000 |
| - | - | - | 2,500,000 | 2,500,000 | 28,500,000 | 28,500,000 | 28,500,000 | 90,500,000 |
| 320,000 | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 | - | 2,880,000 |
| 50,000 | - | - | - | - | - | - | - | 200,000 |
| 33,500 | - | - | - | - | - | - | - | 100,500 |
| 45,500 | 45,500 | - | - | - | - | - | - | 162,200 |
| 15,000 | 14,500 | - | - | - | - | - | - | 61,000 |
| 450,000 | - | - | - | - | - | - | - | 450,000 |
| - | - | - | - | - | - | - | - | 250,000 |
| - | - | - | - | - | - | - | - | (65,422) |
| 19,179,000 | 27,840,000 | 18,020,000 | 16,120,000 | 21,520,000 | 39,170,000 | 39,170,000 | 38,850,000 | 251,636,902 |
| \$21,129,000 | \$35,090,000 | \$23,715,998 | \$17,235,516 | \$22,220,000 | \$39,870,000 | \$39,870,000 | \$38,850,000 | \$282,533,559 |

INLAND EMPIRE UTILITIES AGENCY
Regional Wastewater Funds
Service Charge Revenue and Rates by Contracting Agency
For the Fiscal Year Ended June 30, 2013

Through hard work, commitment and discipline, the IEUA team provides the communities they live and work in, with wastewater and related utility services, at some of the lowest rates in the State. The following table displays data for FY 2012/2013.

| Contracting Agency | Total EDU's | Rate | Service Charge Revenue | % of Service Charge Revenue |
|---|------------------|-------|------------------------|-----------------------------|
| Cucamonga Valley Water District | 769,392 | 12.39 | \$ 9,532,767 | 24.23% |
| City of Ontario | 707,904 | 12.39 | \$ 8,770,935 | 22.30% |
| City of Fontana | 605,834 | 12.39 | \$ 7,506,286 | 19.08% |
| City of Upland | 320,624 | 12.39 | \$ 3,972,526 | 10.10% |
| City of Chino | 338,269 | 12.39 | \$ 4,191,152 | 10.65% |
| City of Chino Hills | 288,891 | 12.39 | \$ 3,579,355 | 9.10% |
| City of Montclair | 144,095 | 12.39 | \$ 1,785,337 | 4.54% |
| Total Contracting Agencies' Service Charge Revenue | 3,175,009 | | \$ 39,338,356 | 100.00% |

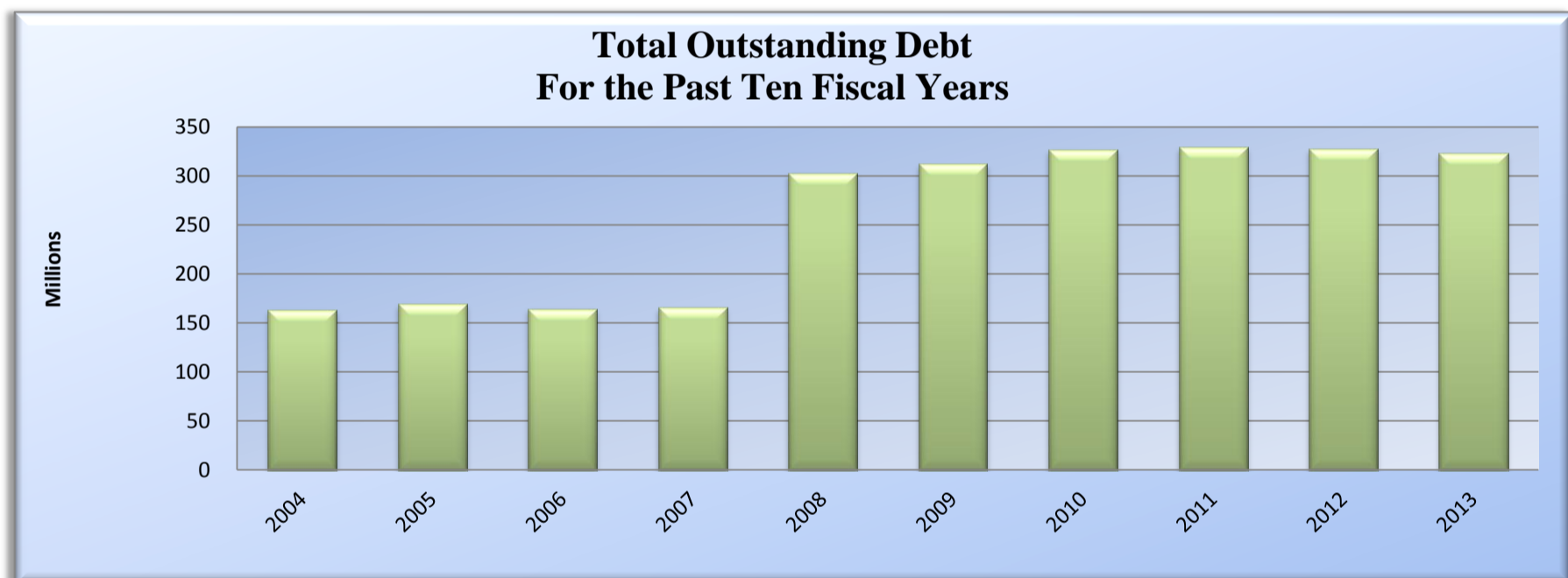


INLAND EMPIRE UTILITIES AGENCY

Ratios of Outstanding Debt For the Past Ten Fiscal Years

The following table and chart reflect the Agency's outstanding debt ratio's and percentage of personal income per capita for the past ten fiscal years.

| Fiscal Year Ended | Revenue Bonds (2) | State of California Loans (2) | CSDLAC Note (2) | SAWPA Note (2) | City of Fontana(2) | Total Outstanding Debt (2) | Per Capita (1) | Percentage of Personal Income(1) |
|-------------------|-------------------|-------------------------------|-----------------|----------------|--------------------|----------------------------|----------------|----------------------------------|
| 2004 | 153,967,142 | 6,534,146 | 0 | 2,483,504 | 0 | 162,984,792 | 85 | 0.326% |
| 2005 | 152,957,336 | 14,079,679 | 0 | 2,365,327 | 0 | 169,402,342 | 86 | 0.332% |
| 2006 | 147,608,907 | 14,547,366 | 0 | 2,225,451 | 0 | 164,381,724 | 83 | 0.264% |
| 2007 | 143,140,252 | 20,490,644 | 0 | 2,107,273 | 0 | 165,738,169 | 83 | 0.262% |
| 2008 | 271,851,506 | 28,984,381 | 0 | 1,966,522 | 0 | 302,802,409 | 150 | 0.486% |
| 2009 | 266,575,303 | 43,887,866 | 0 | 1,817,326 | 0 | 312,280,495 | 154 | 0.503% |
| 2010 | 259,825,394 | 56,246,235 | 0 | 1,659,178 | 8,899,580 | 326,630,387 | 160 | 0.528% |
| 2011 | 247,096,595 | 72,620,998 | 0 | 1,491,542 | 8,417,002 | 329,626,137 | 160 | 0.530% |
| 2012 | 240,428,398 | 77,865,387 | 0 | 1,313,848 | 7,934,424 | 327,542,057 | 157 | 0.513% |
| 2013 | 236,017,294 | 78,764,115 | 0 | 1,125,493 | 7,451,846 | 323,358,748 | 154 | 0.495% |



(1) Statistical information derived from San Bernardino County demographics at wikipedia, city-data and quickfacts.

(2) Data Source: Inland Empire Utilities Agency - Fiscal Management Department

INLAND EMPIRE UTILITIES AGENCY
Agency System Subordinate Debt Coverage Ratio
For Fiscal Years Ended June 30, 2013
(With Comparative Totals for the Fiscal Year Ended June 2012)

| | <u>2013</u> | <u>2013 Adjusted</u> | <u>2012</u> |
|--|-----------------------|-----------------------|----------------------|
| <u>Revenues:</u> | | | |
| Wastewater System Service Charges | \$ 39,981,119 | \$ 39,981,119 | \$ 35,602,244 |
| Wastewater Capital Connection Fees | 14,614,387 | 14,614,387 | 7,686,126 |
| Property Tax | 47,986,078 | 33,490,920 | 32,694,517 |
| NRW System Service Charges | 7,909,829 | 7,909,829 | 6,249,994 |
| Interest | 755,578 | 755,578 | 882,525 |
| Recycled Water Sales | 7,951,605 | 7,951,605 | 6,009,468 |
| Desalter/Composter Services | 4,640,059 | 4,640,059 | 3,776,581 |
| Other | 1,988,702 | 1,988,702 | 2,920,705 |
| Total Revenues | <u>\$ 125,827,357</u> | <u>\$ 111,332,199</u> | <u>\$ 95,822,160</u> |
| <u>Operation and Maintenance Costs:</u> | | | |
| Wastewater Treatment | \$ 18,910,308 | \$ 18,910,308 | \$ 17,377,464 |
| Administration and General | 22,997,395 | 22,997,395 | 21,398,258 |
| Wastewater Disposal | 8,612,642 | 8,612,642 | 11,316,321 |
| Wastewater Collection | 4,656,679 | 4,656,679 | 5,629,431 |
| Operations and maintenance | 3,195,541 | 3,195,541 | 2,986,686 |
| Desalter/Composter Services | 4,848,111 | 4,848,111 | 3,776,581 |
| Other | 1,873,791 | 1,873,791 | 1,722,151 |
| Total Operation and Maintenance Costs: | <u>\$ 65,094,468</u> | <u>\$ 65,094,468</u> | <u>\$ 64,206,892</u> |
| Revenues Available to Pay Senior Debt Service | <u>\$ 60,732,889</u> | <u>\$ 46,237,731</u> | <u>\$ 31,615,268</u> |
| <u>Senior Obligation Debt Service</u> | | | |
| 1994 Installment Payments | \$ 0 | \$ 0 | \$ 0 |
| 1999 Installment Payments | 0 | 0 | 0 |
| Total Senior Obligation Debt Service | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| Senior Obligation Debt Service Coverage | <u>0</u> | <u>0</u> | <u>0</u> |
| Net Revenues | <u>\$ 60,732,889</u> | <u>\$ 46,237,731</u> | <u>\$ 31,615,268</u> |
| <u>Parity Obligation Debt Service</u> | | | |
| 2005A Installment Purchase Payments | \$ 2,213,213 | \$ 2,213,213 | \$ 2,205,825 |
| 2008A Installment Payments | 6,250,000 | 6,250,000 | 6,250,000 |
| 2008B Installment Payments | 1,737,000 | 1,737,000 | 1,624,171 |
| 2010A Installment Payments | 5,286,650 | 5,286,650 | 5,256,343 |
| Total Parity Obligation Debt Service | <u>\$ 15,486,863</u> | <u>\$ 15,486,863</u> | <u>\$ 15,336,339</u> |
| Parity Obligation Debt Service Coverage | <u>3.92</u> | <u>2.99</u> | <u>2.06</u> |
| Net Revenues | <u>\$ 45,246,026</u> | <u>\$ 30,750,868</u> | <u>\$ 16,278,929</u> |
| <u>Subordinate Obligations</u> | | | |
| State Revolving Fund Loan | \$ 4,660,665 | \$ 4,660,665 | \$ 2,673,187 |
| SAWPA Sari Capacity Purchase | 267,188 | 267,188 | 267,188 |
| City of Fontana | 562,401 | 562,401 | 482,578 |
| Total Subordinate Obligations | <u>\$ 5,490,254</u> | <u>\$ 5,490,254</u> | <u>\$ 3,422,953</u> |
| Other Debt Service Coverage | <u>8.24</u> | <u>5.60</u> | <u>4.76</u> |
| Remaining Net Revenue | <u>\$ 39,755,772</u> | <u>\$ 25,260,614</u> | <u>\$ 12,855,976</u> |
| Revenues available after O&M expenses | <u>\$ 60,732,889</u> | <u>\$ 46,237,731</u> | <u>\$ 31,615,268</u> |
| Total debt service | <u>\$ 20,977,117</u> | <u>\$ 20,977,117</u> | <u>\$ 18,759,292</u> |
| Total debt coverage ratio | <u>2.90</u> | <u>2.20</u> | <u>1.69</u> |

INLAND EMPIRE UTILITIES AGENCY
Agency System Subordinate Debt Coverage Ratio
For Fiscal Years Ended June 30, 2013 (continued)
(With Comparative Totals for the Fiscal Year Ended June 2012)

In July 2003, the Chino Basin Regional Financing Authority issued Variable Rate Revenue Bonds, Series 2002A. This issuance is subordinate to the pledge thereon securing the outstanding 1994 & 1999 Revenue Bonds. In March 2008, the Agency issued the Chino Basin regional Financing Authority issued Variable rate Demand Revenue Refunding Bonds, Series 2008B to refund all of the outstanding 2002A Bonds.

In May 2005, the Chino Basin Regional Financing Authority issued Revenue Bonds, Series 2005A. This issuance is subordinate to the pledge thereon securing the outstanding 1994 & 1999 Revenue Bonds.

In February 2008, the Chino Basin Regional Financing Authority issued Revenue Bonds, Series 2008A. The Bonds were primarily used for improvements to the wastewater recycled water and non-reclaimable wastewater facilities.

In July 2010, the Chino Basin Regional Financing Authority issued Refunding Revenue Bonds, Series 2010A. The Bonds were primarily used to refund the outstanding Chino Basin Regional Financing Authority Revenue Bond Series 1994.

For FY 2012/2013 Debt Coverage Ratio includes an adjusted ratio that reduces property tax revenue to factor in for one time revenue in amount of \$14,495,158, related to the dissolution of redevelopment agencies approved by the State of California in February 2012.

In addition, the Agency wastewater funds are required to maintain operating reserves sufficient to cover four (4) months of budgeted operating and maintenance expenses.

- The amended budget FY 2012/2013 for operating and maintenance expenses for four months was \$25,753,667.
- As of the Fiscal Year Ended June 30, 2013, the Agency had designated debt service reserves of \$3,910,987, which has been included in Net Investment in Capital Assets.

INLAND EMPIRE UTILITIES AGENCY
Computation of Direct and Overlapping Bonded Debt
As of June 30, 2013

2012/2013 Assessed Valuation: \$81,080,894,617 (after deducting \$26,235,285,297 Redevelopment Incremental Valuation)

| <u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u> | <u>% Applicable (1)</u> | <u>Debt 6/30/13</u> |
|--|--------------------------------|-----------------------------------|
| Metropolitan Water District | 3.863% | \$ 6,377,234 |
| Chaffey Community College District | 98.759 | 164,002,502 |
| San Bernardino Community College District | 0.682 | 3,077,728 |
| Chino Valley Unified School District | 100. | 135,284,999 |
| Colton Joint Unified School District | 1.058 | 1,924,042 |
| Fontana Unified School District | 91.473 | 207,447,194 |
| Rialto Unified School District | 4.815 | 3,581,056 |
| Upland Unified School District | 99.784 | 88,741,059 |
| Chaffey Union High School District | 99.826 | 181,987,789 |
| Alta Loma School District | 99.807 | 15,409,485 |
| Central School District | 100. | 19,603,478 |
| Mountain View School District & School Facilities Improvement District No. | 100. | 13,739,416 |
| Ontario-Montclair School District | 100. | 50,974,903 |
| Inland Empire Utilities Agency | 100. | 0 (2) |
| City of Chino Community Facilities Districts | 100. | 129,470,000 |
| City of Chino Hills Community Facilities Districts | 100. | 50,005,000 |
| Etiwanda School District Community Facilities Districts | 100. | 98,935,000 |
| Upland Unified School District Community Facilities District No. 99-1 | 100. | 4,347,000 |
| City of Fontana Community Facilities Districts | 4.930-100. | 61,517,522 |
| Mountain View School District Community Facilities District | 100. | 1,710,000 |
| San Bernardino County Community Facilities Districts No. 2002-1 | 100. | 22,595,000 |
| City of Ontario Community Facilities District | 100. | 8,455,000 |
| City of Rancho Cucamonga Community Facilities Districts | 100. | 90,890,000 |
| City of Upland Community Facilities Districts | 100. | 41,895,000 |
| City of Chino Hills 1915 Act Bonds | 100. | 2,965,000 |
| City of Ontario 1915 Act Bonds | 100. | 9,900,000 |
| City of Rancho Cucamonga 1915 Act Bonds | 100. | 1,745,000 |
| TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT | | <u>\$1,416,580,407</u> |
| <u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u> | | |
| San Bernardino County General Fund Obligations | 49.589% | \$ 284,578,874 |
| San Bernardino County Pension Obligations | 49.589 | 257,736,454 |
| San Bernardino County Flood Control General Fund Obligations | 49.589 | 51,922,162 |
| Chaffey Community College District Certificates of Participation | 98.759 | 11,915,931 |
| Chino Valley Unified School District Certificates of Participation | 100. | 20,995,000 |
| Colton Joint Unified School District Certificates of Participation | 1.058 | 46,422 |
| Fontana Unified School District Certificates of Participation | 91.473 | 44,524,483 |
| Rialto Unified School District Certificates of Participation | 4.815 | 329,346 |
| Upland Unified School District Certificate of Participation | 99.784 | 573,758 |
| Cucamonga School District Certificate of Participation | 100. | 10,320,000 |
| City of Chino Hills Certificates of Participation | 100. | 18,335,000 |
| City of Fontana Certificates of Participation | 82.487 | 45,223,498 |
| City of Montclair General Fund Obligations | 100. | 26,975,000 |
| City of Ontario General Fund Obligations | 100. | 39,995,000 |
| Other City General Fund Obligations | 7.649&100. | 1,157,535 |
| West Valley Vector Control District Certificates of Participation | 100. | 3,295,000 |
| TOTAL NET OVERLAPPING GENERAL FUND | | <u>\$ 817,923,463</u> |
| <u>OVERLAPPING TAX INCREMENT DEBT:</u> | | |
| | 9.635-100. | <u>\$ 972,458,304</u> |
| NET COMBINED TOTAL DEBT | | <u>\$3,206,962,174</u> (8) |

INLAND EMPIRE UTILITIES AGENCY
Computation of Direct and Overlapping Bonded Debt *(continued)*
As of June 30, 2013

Ratios to 2012-13 Assessed Valuation:

| | |
|---|-------|
| Direct Debt | 0.00% |
| Total Direct and Overlapping Tax and Assessment Debt..... | 1.75% |

Ratios to Adjusted Assessed Valuation:

| | |
|---|-------|
| Combined Direct Debt..... | 3.96% |
| <u>State School Building Aid Repayable As Of 6/30/12:</u> | \$0 |

Source: California Municipal Statistics, Inc.

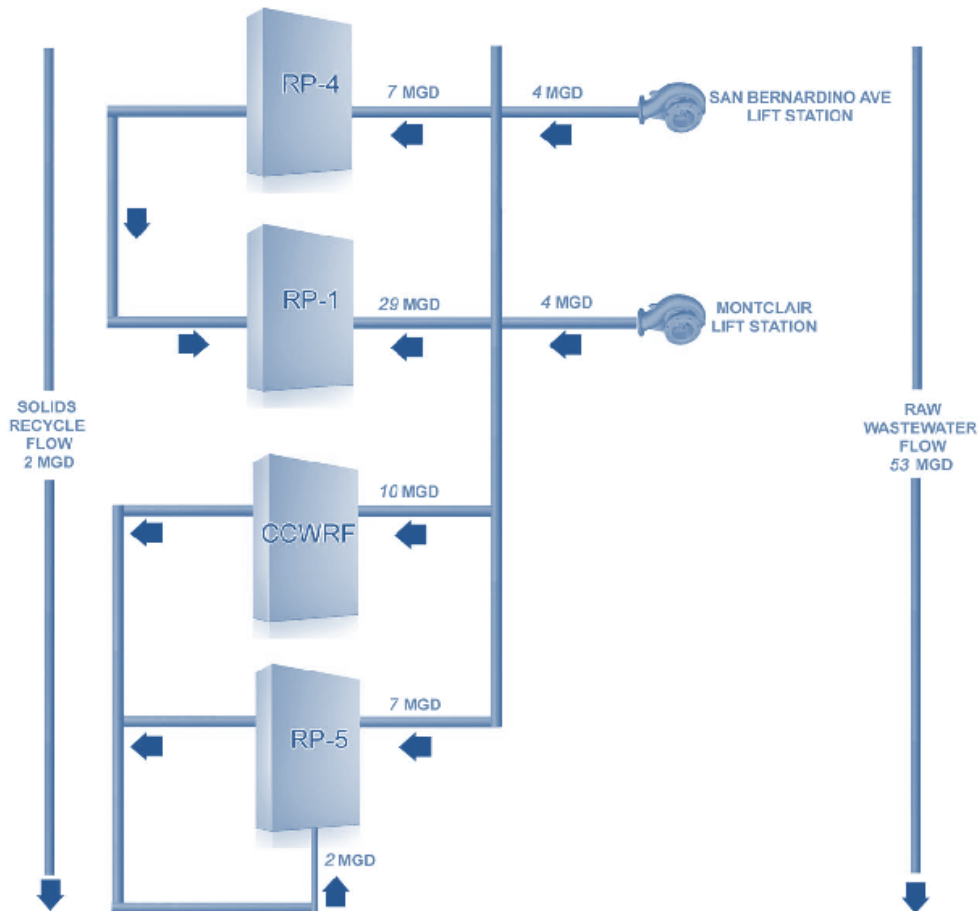
Footnotes:

- (1) Percentage of overlapping agency's assessed valuation located within boundaries of the agency.
- (2) Excludes revenue issues.
- (3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax Allocation Bonds and non-bonded capital lease obligations.

INLAND EMPIRE UTILITIES AGENCY
Operating Indicators - Wastewater Facilities
Design Capacity and Average Flow
As of June 30, 2013

Currently, the Agency operates four wastewater treatment plants: Regional Plant No. 1 (RP-1) is located in the City of Ontario, Carbon Canyon Water Recycling Facility (CCWRF) is located in the City of Chino, Regional Plant No. 4 (RP-4) is located in the northeast service area in the City of Rancho Cucamonga and Regional Plant No. 5 (RP-5) located in the unincorporated area of the City of Chino.

IEUA Wastewater Flows

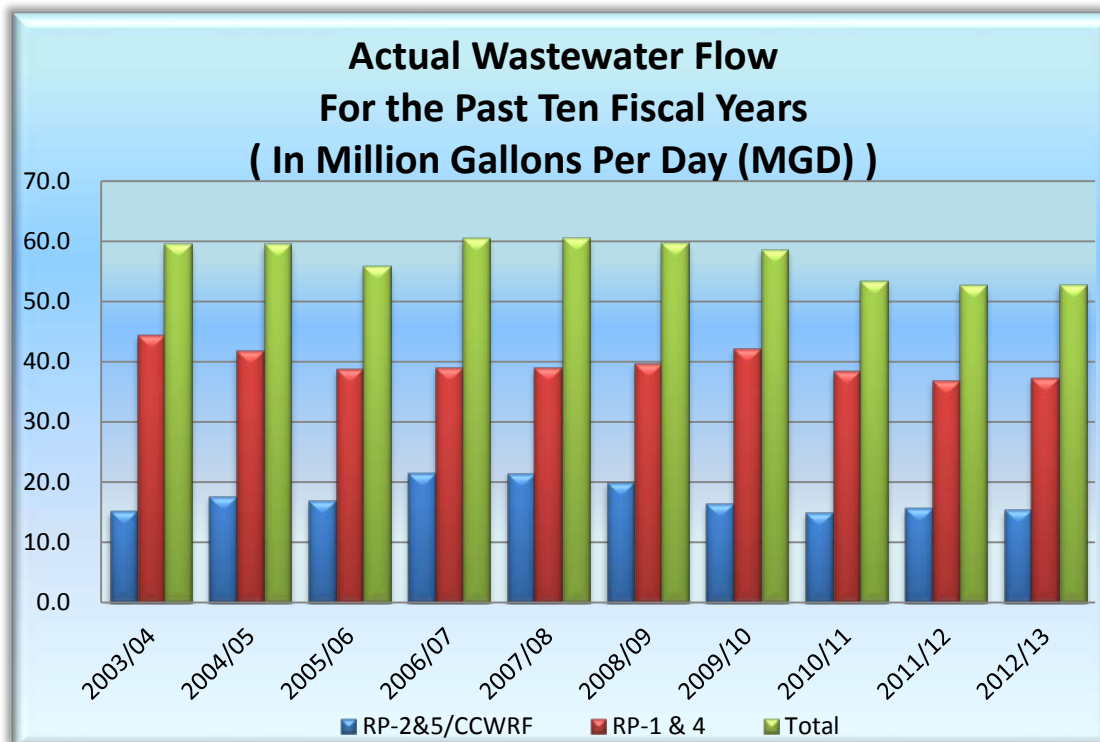


The following table presents the current design capacities and flows of the Agency's wastewater treatment as of June 30, 2013:

| Facility | Design Capacity (MGD) | Average Flow (MGD) | Average Flow as % of Design Capacity |
|--------------|-----------------------|--------------------|--------------------------------------|
| RP-1 | 44.0 | 27.3 | 62.0% |
| RP-4 | 14.0 | 10.0 | 71.4 |
| RP-5 | 15.0 | 8.4 | 56.0 |
| CCWRF | 11.4 | 7.1 | 61.3 |
| Total | 84.4 | 52.8 | 62.6% |

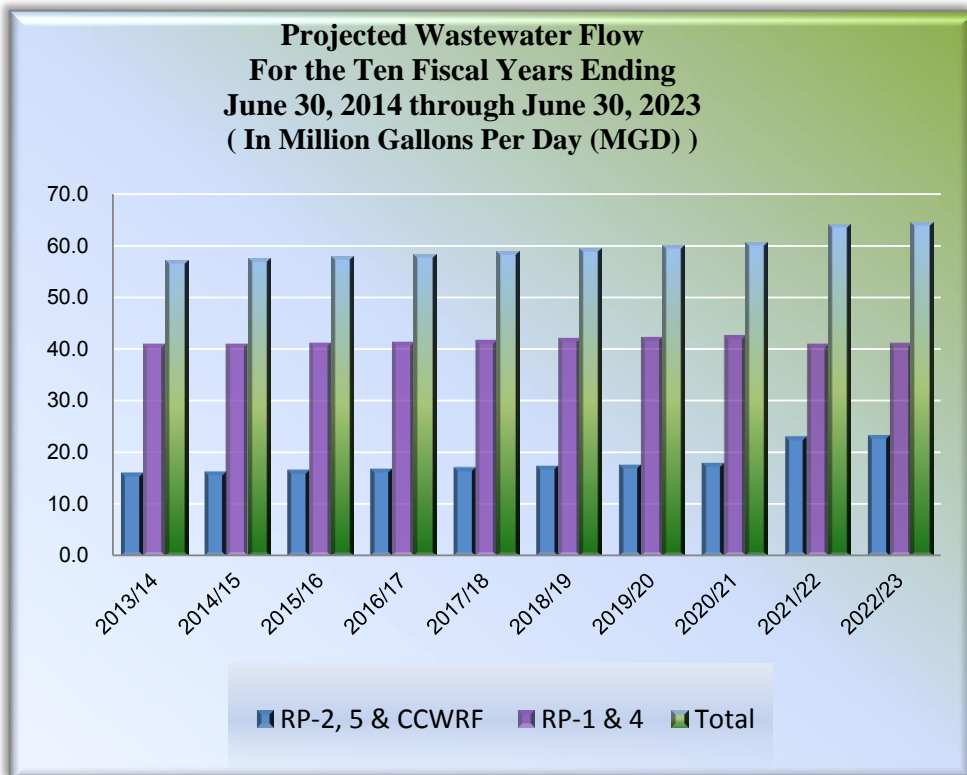
INLAND EMPIRE UTILITIES AGENCY
Operating Indicators - Actual Wastewater Flow
For the Past Ten Fiscal Years
(In Million Gallons Per Day (MGD))

| Fiscal Year | RP-1 & 4 (MGD) | RP-2&5/CCWRF (MGD) | Total (MGD) |
|-------------|----------------|--------------------|-------------|
| 2003/04 | 44.4 | 15.2 | 59.6 |
| 2004/05 | 41.9 | 17.7 | 59.6 |
| 2005/06 | 38.8 | 17.0 | 55.8 |
| 2006/07 | 39.1 | 21.4 | 60.5 |
| 2007/08 | 39.1 | 21.5 | 60.6 |
| 2008/09 | 39.8 | 20.0 | 59.8 |
| 2009/10 | 42.3 | 16.4 | 58.7 |
| 2010/11 | 38.4 | 14.9 | 53.3 |
| 2011/12 | 37.0 | 15.6 | 52.6 |
| 2012/13 | 37.3 | 15.5 | 52.8 |



INLAND EMPIRE UTILITIES AGENCY
Operating Indicator - Projected Wastewater Flow
For the Ten Fiscal Years Ending June 30, 2014 through June 30, 2023*
(In Million Gallons Per Day (MGD))

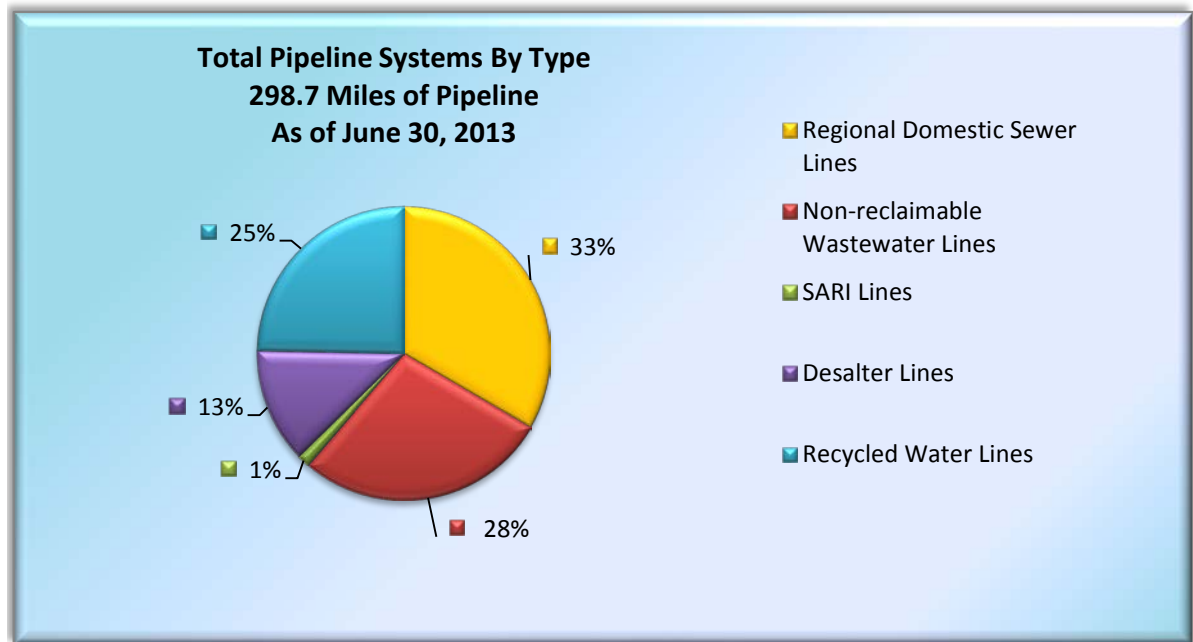
| Fiscal Year | RP-1 & 4 (MGD) | RP-2, 5 & CCWRF (MGD) | Total (MGD) |
|-------------|----------------|-----------------------|-------------|
| 2013/14 | 41.0 | 16.1 | 57.1 |
| 2014/15 | 41.1 | 16.4 | 57.5 |
| 2015/16 | 41.3 | 16.7 | 58.0 |
| 2016/17 | 41.5 | 16.9 | 58.4 |
| 2017/18 | 41.8 | 17.2 | 59.0 |
| 2018/19 | 42.1 | 17.5 | 59.6 |
| 2019/20 | 42.4 | 17.7 | 60.1 |
| 2020/21 | 42.7 | 18.1 | 60.8 |
| 2021/22 | 41.0 | 23.1 | 64.1 |
| 2022/23 | 41.2 | 23.4 | 64.6 |



* Source: Statistics were Provided by Planning and Water Resources Dept..

INLAND EMPIRE UTILITIES AGENCY
Operating and Capacity Indicators - Pipeline Systems By Type
As of June 30, 2013

| Pipeline Types | Miles of Pipeline | Percentage of Pipelines |
|--|-------------------|-------------------------|
| Regional Domestic Sewer Lines | 99.7 | 33% |
| Non-reclaimable Wastewater Lines | 83.2 | 28% |
| SARI Lines | 4.3 | 1% |
| Desalter Lines | 37.8 | 13% |
| Recycled Water Lines | 73.7 | 25% |
| Total Miles of Pipeline By Type | 298.7 | 100% |



Source: IEUA Engineering Dept.
 No data available prior to most recent information.

INLAND EMPIRE UTILITIES AGENCY
Operating Indicators - FY 2012/13 Staffing Allocations
As of June 30, 2013

Total staffing positions by Program: 267

FTE

| | |
|--|--------------|
| Regional Wastewater Operations | 168.5 |
| Regional Wastewater Capital Programs | 27.2 |
| Recycled Water Programs | 15.5 |
| Inland Empire Regional Composting Authority Operations | 24.7 |
| Non-reclaimable Wastewater System Programs | 12.4 |
| Chino Basin Desalter Operations & Capital Programs | 10.1 |
| Recharge Water Programs | 3.1 |
| Water Related Activities & Conservation Programs | 3.9 |
| General Administration | 1.6 |
| Total Staffing in FTE * | 267.0 |

Source: IEUA FY 2012/13 Adopted Budget, IEUA June 2013 Position Control Report

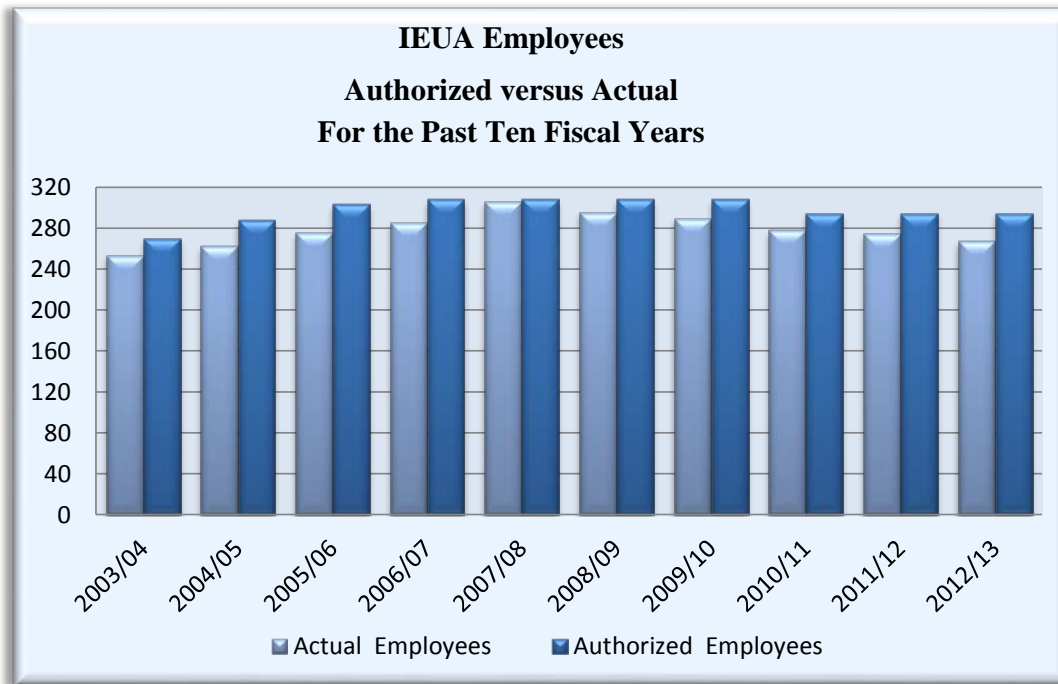
Authorized employees = 295, Actual FTE = 267

**FTE- Full Time Equivalent*

INLAND EMPIRE UTILITIES AGENCY
Operating Indicators - Budgeted Positions versus Staffing Actuals
For the Past Ten Fiscal Years

| Fiscal Year | Actual Employees | Authorized Employees |
|-------------|------------------|----------------------|
| 2003/04 | 254 | 270 |
| 2004/05 | 262 | 288 |
| 2005/06 | 276 | 303 |
| 2006/07 | 286 | 308 |
| 2007/08 | 306 | 308 |
| 2008/09 | 296 | 308 |
| 2009/10 | 290 | 308 |
| 2010/11 | 278 | 295 |
| 2011/12 | 275 | 295 |
| 2012/13 | 267 | 295 |

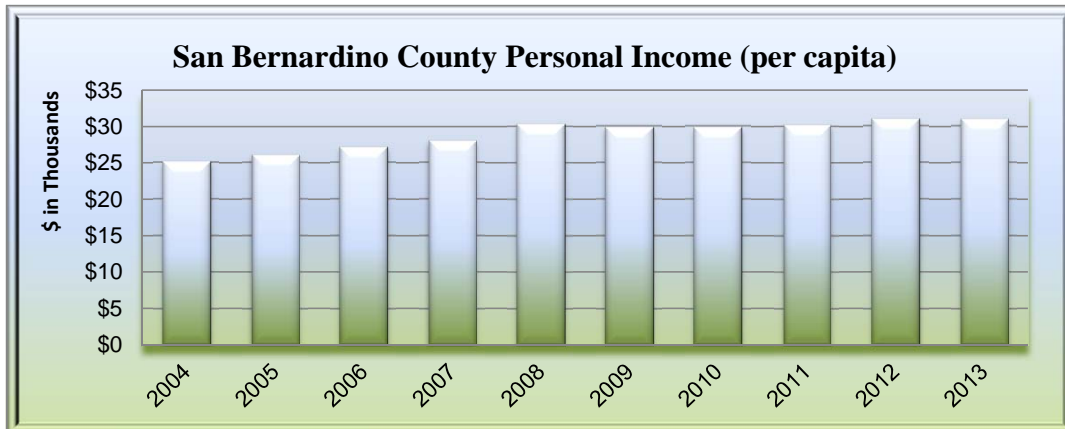
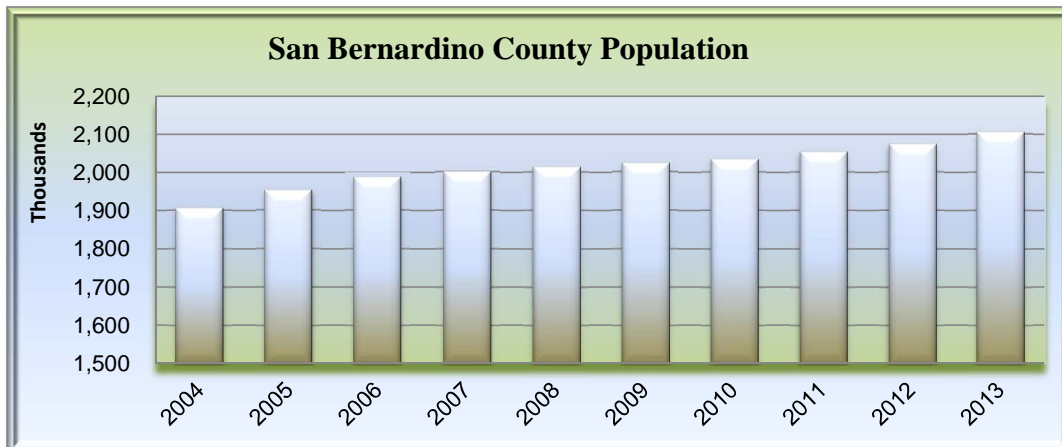
*Actual Employee Count is an annual weighted average



The chart and table above reflect the number of authorized positions versus actual employees by fiscal year for the past ten fiscal years.

INLAND EMPIRE UTILITIES AGENCY
Demographic and Economic Statistics
For the Past Ten Fiscal Years

| San Bernardino County (1) | | | |
|----------------------------------|-------------------|---|---|
| Year | Population | Personal Income (billions) | Personal Income (per capita) |
| 2004 | 1,907,138 | 47.9 | 25,128 |
| 2005 | 1,953,229 | 50.9 | 26,068 |
| 2006 | 1,987,505 | 53.9 | 27,134 |
| 2007 | 2,002,208 | 56.1 | 28,024 |
| 2008 | 2,015,355 | 60.9 | 30,363 |
| 2009 | 2,024,760 | 59.7 | 29,859 |
| 2010 | 2,035,210 | 60.8 | 29,848 |
| 2011 | 2,053,974 | 63.6 | 30,245 |
| 2012 | 2,074,668 | 67.3 | 31,007 |
| 2013 | 2,106,217 | 68.1 | 30,990 |



Footnotes:

- (1) The Agency has chosen to use the County data since it believes that the County data is representative of the conditions and experience of the Agency.
- (2) Data for Year 2013 has been estimated.

INLAND EMPIRE UTILITIES AGENCY

Demographic and Economic Statistics

Area's Largest Public and Private Employers

| Firm | Location | Number of Employees |
|--------------------------------------|----------|---------------------|
| Ontario International Airport | Ontario | 7,510 |
| Kaiser Medical Center | Fontana | 6,000 |
| Fontana Unified School District | Fontana | 3,953 |
| Chino Valley Unified School District | Chino | 3,200 |
| California Institution for Men | Chino | 2,327 |
| San Antonio Community Hospital | Upland | 1,900 |
| Chaffey Community College District | Rancho | 1,385 |
| North American Medical Management | Ontario | 1,304 |
| City of Ontario | Ontario | 1,075 |
| California Steel Industries, Inc. | Fontana | 956 |

Sources: San Bernardino Area Chamber of Commerce, City's websites and financial documents



City of Ontario



San Antonio Community Hospital



Fontana Medical Center



Ontario International Airport

Footnote: No data available prior to most recent information.

Corporate Information

Inland Empire Utilities Agency

Mailing Address:

Post Office Box 9020

Chino Hills, CA 91709

❖ **GENERAL COUNSEL**

**Jean Cihigoyenette
Cihigoyenette, Grossberg
and Clouse**

❖ **LABOR COUNSEL**

**Liebert Cassidy Whitmore
Los Angeles, California**

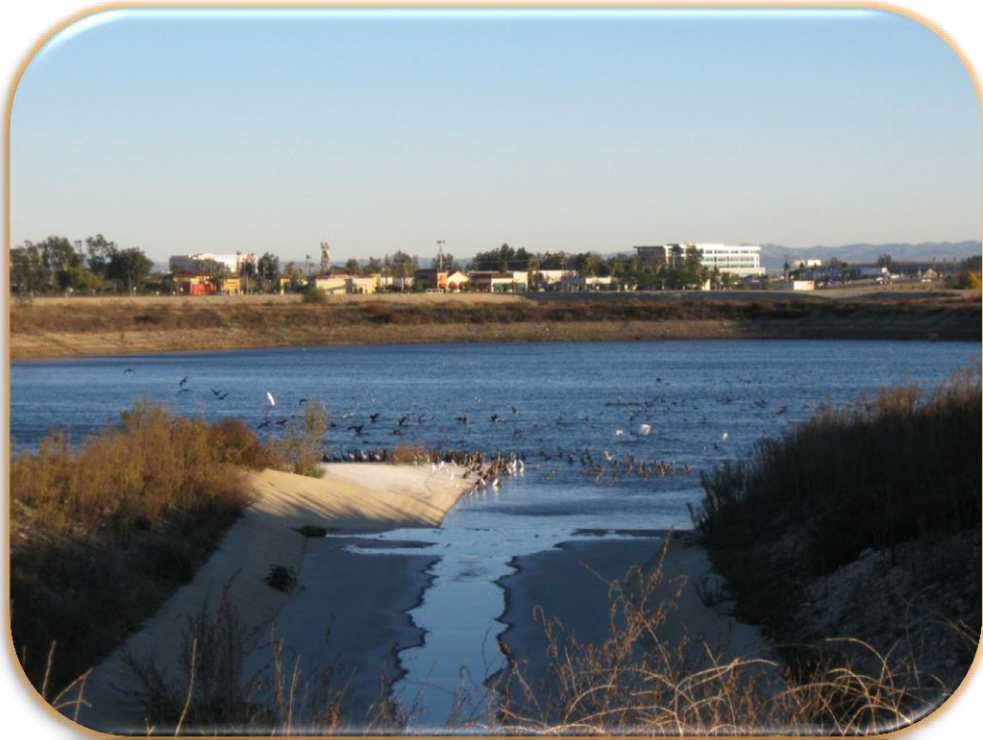
❖ **AUDITOR**

**White Nelson Diehl Evans , LLP
2875 Michelle Drive, Suite 300
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**Special Thanks to
the IEUA Employees Who Contributed
Photographs, Articles, and their Expertise for this
Comprehensive Annual Financial Report**

Turner Basin No. 1





Inland Empire Utilities Agency

A MUNICIPAL WATER DISTRICT



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