A photograph of a water treatment facility. In the foreground, there is a large, circular, shallow pond with a metal structure extending into the water. In the middle ground, a long, white metal bridge with a truss structure spans across the pond. In the background, there are several tall, black light poles and a range of snow-capped mountains under a clear blue sky with some light clouds.

Inland Empire Utilities Agency *

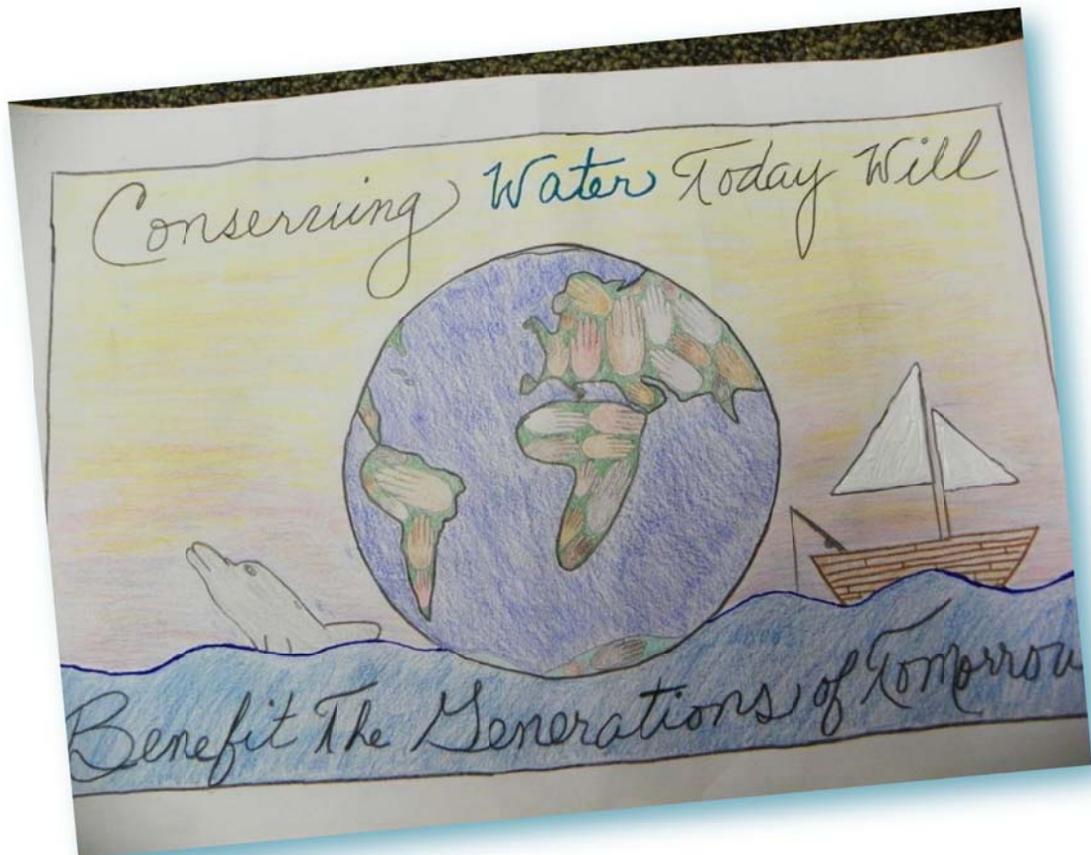
***Comprehensive
Annual Financial Report***

**Fiscal Year Ended
June 30, 2012**

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

• **** A Municipal Water District***

Chino, California

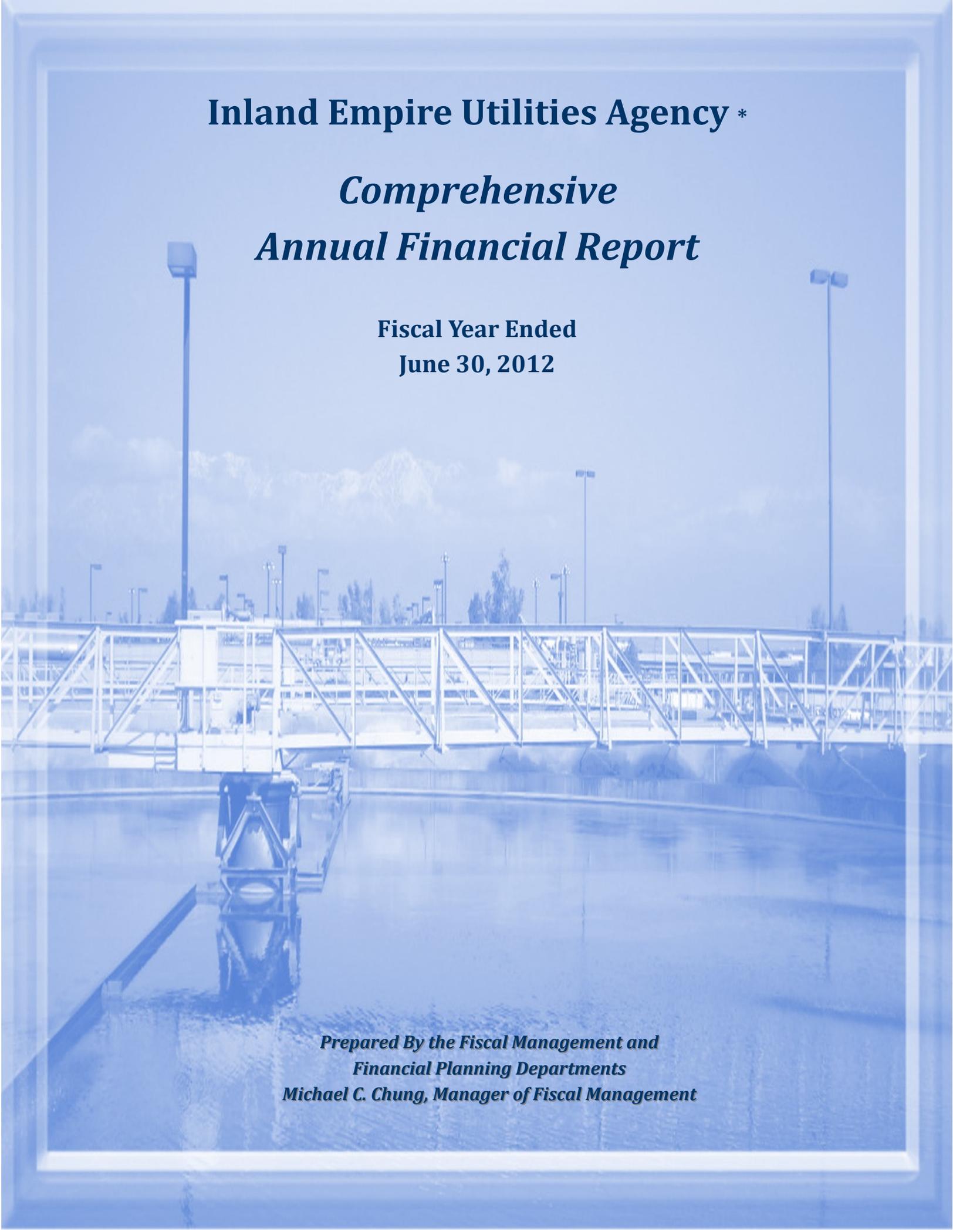


Artist: Rebecca Peterson, Tenth Grade

Don Antonio Lugo School - Chino

First Place Winner - Ninth - Twelfth Grade Category

Inland Empire Utilities Water District



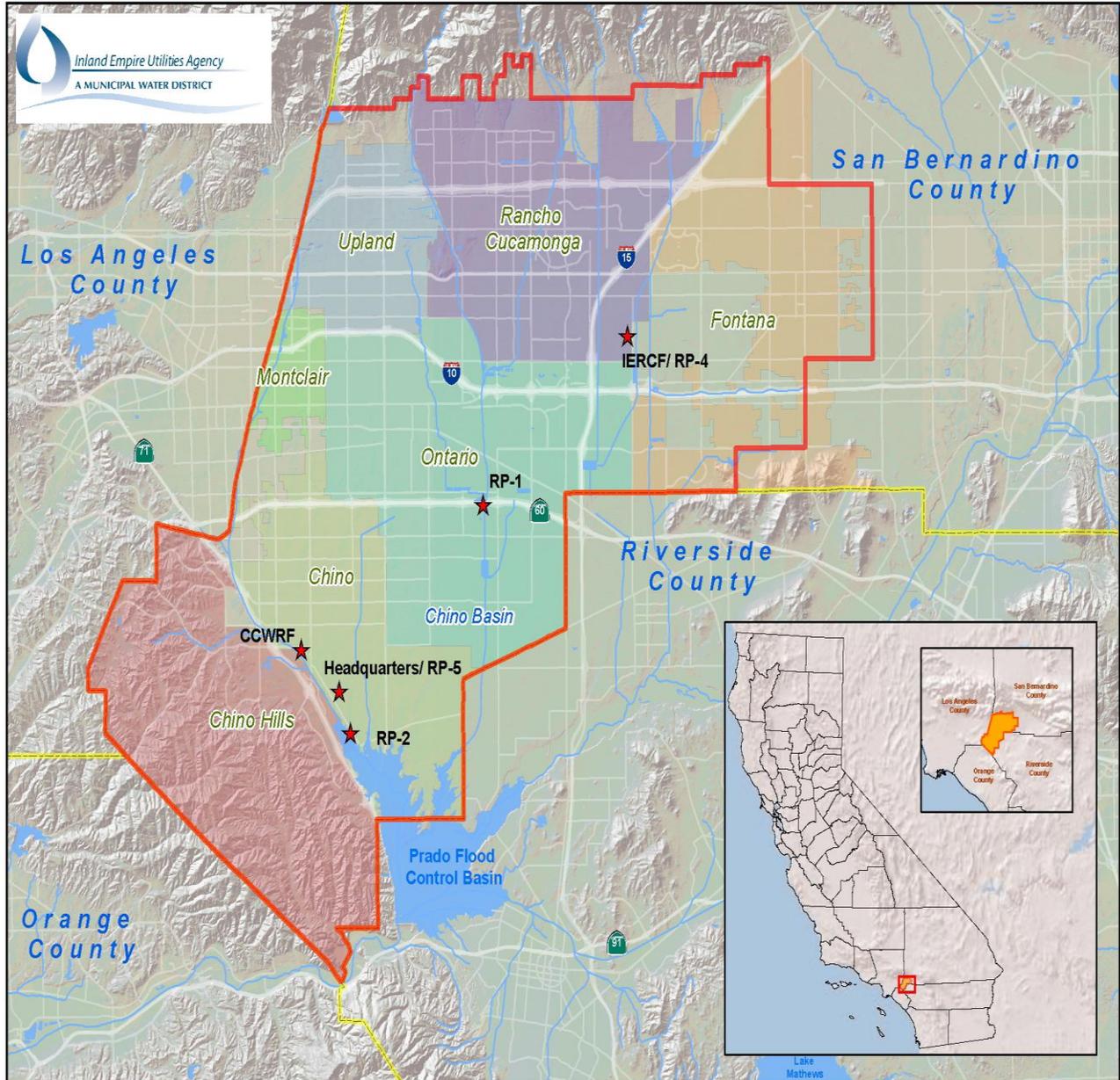
Inland Empire Utilities Agency *

***Comprehensive
Annual Financial Report***

**Fiscal Year Ended
June 30, 2012**

***Prepared By the Fiscal Management and
Financial Planning Departments
Michael C. Chung, Manager of 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
in partnership with the communities we serve.*

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.*



Water & Wastewater
Treatment & Supply



Recycled Water
Supply & Distribution



Groundwater
Recharge



Renewable Energy
Generation



Compost Production

Agency Value

*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

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2012

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December 19, 2012

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, 2012.

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, 2012, 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, 2012 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.

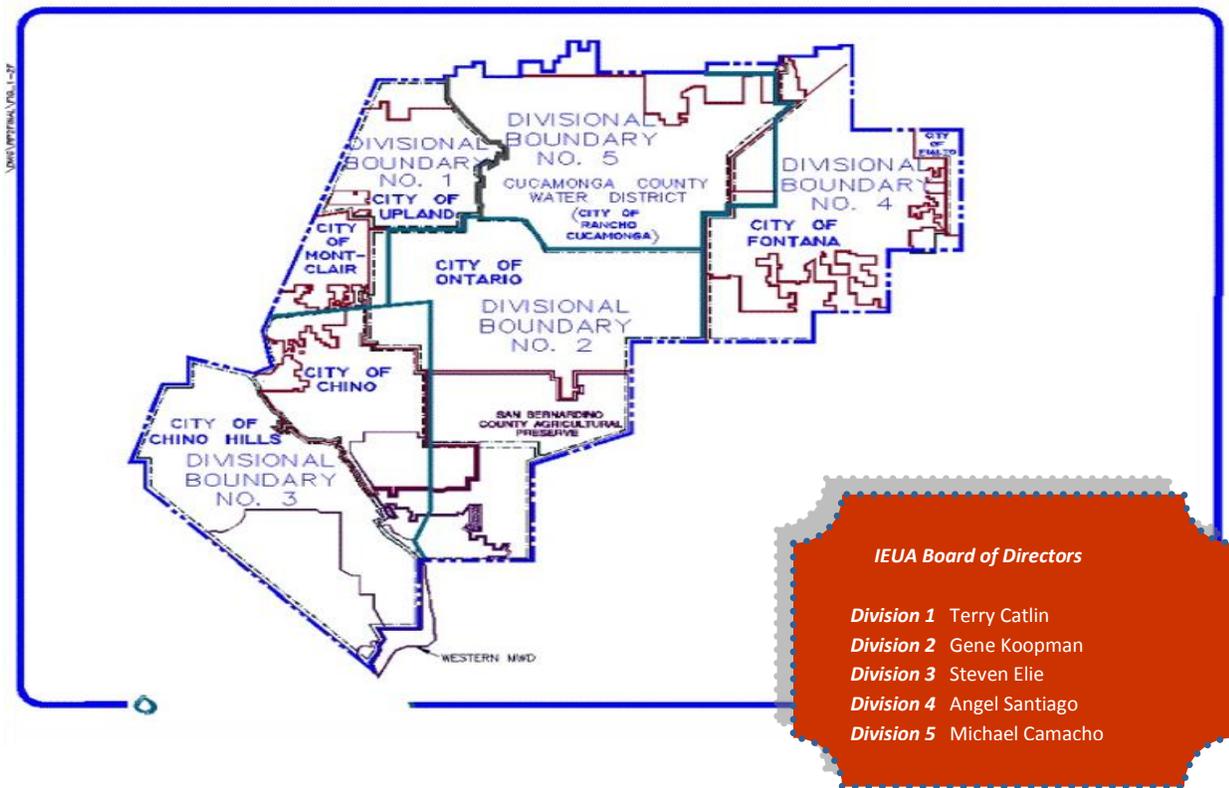
The independent audit of the financial statements of the Agency was part of a broader, federally mandated "Single Audit" designed to meet the special needs of the federal grantor agencies. The standards governing the Single Audit engagements require the independent auditor to report not only the fair 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.

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, the Agency's electorate voted to annex to the Metropolitan Water District of Southern California in 1951. 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.

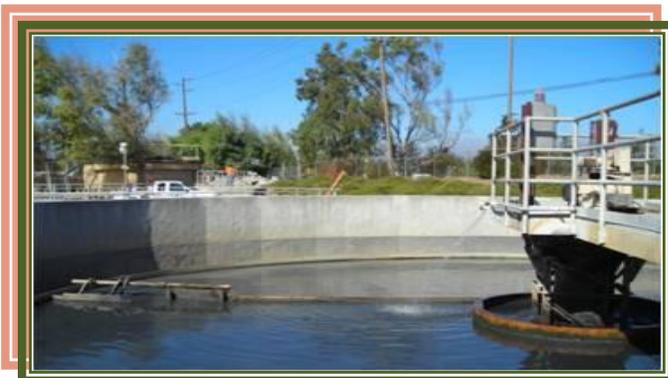
The Agency currently operates five water recycling plants.

◆ **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 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.

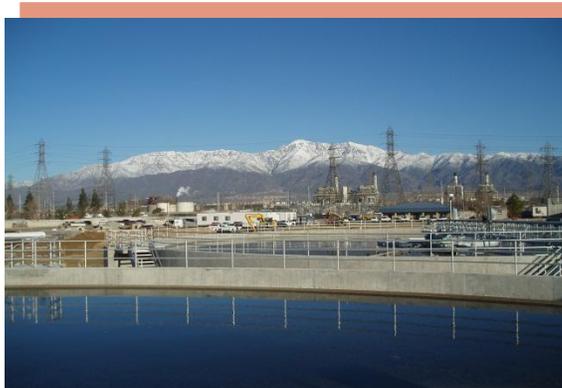


INLAND EMPIRE UTILITIES AGENCY PROFILE (continued):

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).

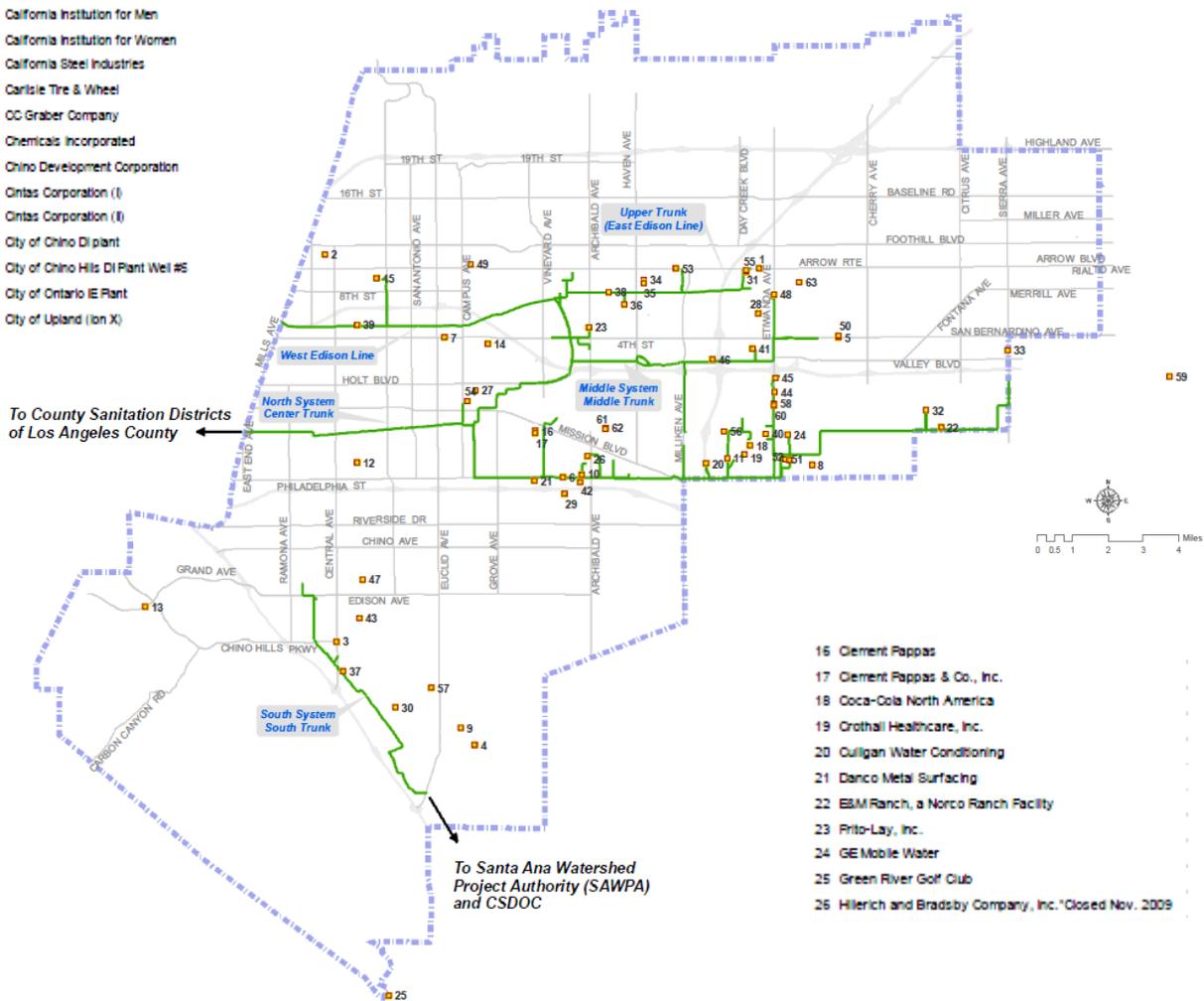
INLAND EMPIRE UTILITIES AGENCY PROFILE (continued):

Up to the Present (continued):

As of June 30, 2012, approximately 62 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 (Arrowhead) 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 16 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 Di Plant
- 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 Bradby Company, Inc. *Closed Nov. 2009

- 27 ICL Performance Products
- 28 ERCA
- 29 EJA Biosolids Filtrate
- 30 EJA-RP-5 (RED) *Closed May 2009
- 31 Industrial Wire Products (dca 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 Island, 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 Regional Plant No. 5.

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

This Solar Power Field includes solar cells installed at several IEUA facilities, including RP-5 (as pictured here at the RP-5 Project Dedication).

Just behind IEUA's headquarters is a 1-Mega Watt (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.

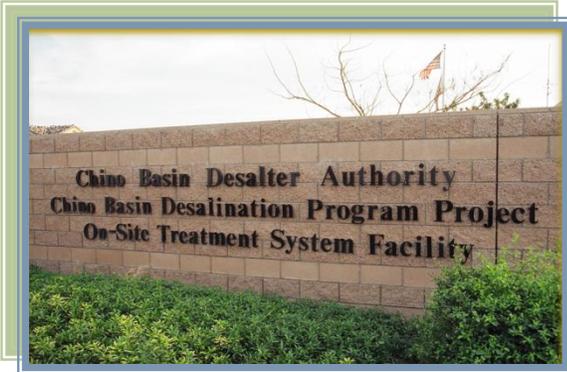


IEUA's solar field is said to be one of the largest solar power installations by a public agency.

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).

The Agency replaced its existing outdoor facility with the nation's largest indoor biosolids composting facility, constructed by the IERCA. 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. The previous composting site was sold to a local developer.

ECONOMIC CONDITION AND OUTLOOK¹

Facing a stagnant economy, the Agency remained vigilant in dealing with the many challenges and pressure that it faced through FY2011/12. Our Agency is located in the largest county in the nation in terms of total land area. The county has a population of about 2 million people, with over 590,000 wage and salary jobs. The per capita income is around \$30,000 and average salary per worker is \$51,000. During the current economic downturn, the county is experiencing the slowest growth rate on record. We expect slow growth for the next few years in all industry sectors. One notable sector is Farm Production which is principally dairy products. It is forecasted to decline in through 2016. The unemployment rate is expected to linger around the double digit mark until late 2014.

ECONOMIC CONDITION AND OUTLOOK (continued):

- ◆ **Housing Market** - The Inland Empire (IE) new homes market remains weak. The IE accounts for a 40% market share of the entire Southern California housing market. Starts and closings in the IE housing economy stalled with only 795 homes closed, down 5% from the 4th quarter of 2011. Single-family inventory totaled 3,139 units at the end of the first quarter of 2012, a decrease of 4% from the prior quarter. As construction continues to show sluggish growth, the Agency is cautiously optimistic in its planning for capital expansion of its existing facilities. While property values throughout the county continue to struggle for recovery, we expect it to have a negative impact on our property tax receipts.
- ◆ **Employment** - The February 2012 IE employment forecast indicates a gain of 16,300 jobs (1.5%) to 1,157,200, after adding just 3,700 jobs during 2011. The turnaround will be modest because the area's traditional competitive advantages (undeveloped land, modestly priced labor) that have powered its blue collar sectors continue to exist, but are dampened by the legacy of the mortgage crisis. Health care remains a bright spot due to the needs of the area's population growth. The area's unemployment rate of 12.5% is projected to drop to 11.5%, partially through local expansion and partly from jobs taken by commuters working in coastal counties. Meanwhile, like the rest of California, the area is being adversely affected by public sector job losses. With these influences impacting its economic base, the population serving portions of the inland economy have begun to modestly grow as well.
- ◆ **Manufacturing** - 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. However, that appears unlikely.
- ◆ **Inland Empire Economic Base** - In 2012, the IE's population serving sectors like retailing should begin recovering, as money is re-spent locally by people involved in sectors like manufacturing, logistics, and medical care. However, growth will be muted because of the lack of energy in construction and the tight budgeting issues faced by local governments and school systems.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

While the economy in our region continues to struggle, the Agency was able to hold up fairly well in total revenues collected. The continuous effort of our cost containment plan has generated good results both in O&M and Capital expenditures. The majority of Capital investment remained in both the Regional Wastewater Capital Improvement and Recycled Water programs.

Major Initiatives for FY 2011/2012

Although non-essential capital spending has continued to be deferred as part of the Agency's cost containment strategy, the following major Board-approved program initiatives which were supported by business case analyses, environmental documentation, and identified, approved funding sources were implemented:

¹Sources: John Housing April 2012 Economic Outlook

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Initiatives for FY 2011/2012 (continued):

◆ ***Agency-wide Asset Management Program***

Developed for the regional wastewater system in 2005 by Metcalf and Eddy, and for the non-reclaimable waste system in 2006 by PBS&J, and is modified each year in the Ten Year Capital Improvement Plan (TYCIP) to reflect work completed, current priorities and current condition assessment as determined by engineering and operations staff;

◆ ***Ground Water Recharge Program Support***

Proactively support GWR and Operations through enhanced source control activities including public education programs, such as No Drugs Down the Drain, Fats, Oil, and Greased, and Don't Flush Trouble (items such as wipes, etc.);



◆ ***Recharge Master Plan***

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;

◆ ***Salinity Management Action Plan –
Regionalization of NRW System to Maximize Salt Export***



Key commitments in the plan include construction of Chino Desalters, recycled water quality management through industrial waste control, optimum use of the NRW, reducing the use of water softeners to decrease saline flows into the regional water recycling plants, ion-exchange plants, and groundwater monitoring programs; and

◆ ***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 2011/2012 (continued):

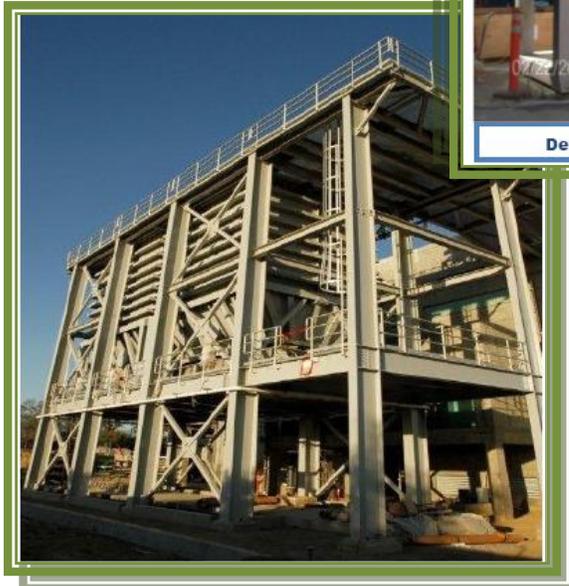
Total capital expenditures came to \$30 million. Some of the major projects in 2011/2012 were as follows:

◆ ***RP-1 – Dewatering Facility Expansion;***



◀ ***Dewatering Project***

Expansion of the dewatering facilities by replacing the existing filter belt presses with a more efficient and cost effective dewatering system, and automatic condensate pumps for seven digester condensate collection vaults.



◀ ***Dewatering Building at RP-1***

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Initiatives for FY 2011/2012 (continued):

◆ ***Carbon Canyon Aeration Basin Air Duct Replacement***

Projects at Carbon Canyon include corrosion protection for the head space portion of the primary clarification diversion structure, slip lining with a new stainless steel pipeline of the existing 30-inch and 16-inch galvanized steel air ducting from the blower building to the aeration basin, and rain protection for the CCWRF 12 kV. Switchgear.



Aeration Basin Air Duct Replacement at Carbon

◆ ***Turner Basin Turnout:***



The Turner Basins are capable of receiving up to 10 cubic feet per second of recycled water flow for ground water recharge. The basin improvement projects will enable the full recharge capacity of the basins.

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Initiatives for FY 2011/2012 (continued):

◆ **Recycled Water Projects:**

The Recycled Water Projects involve construction of 24,500 linear feet (lf) of 24-inch steel pipe and 7,700 lf of 30-inch steel pipe through the cities of Ontario, Upland, and the Cucamonga Valley Water District's service area. The projects include construction of a 3 million gallon reservoir, a pumping station that consists of three 450 hp. pumps which will pump water from the 1299 Pressure Zone to the 1630 Zone Reservoir.

1630 West Recycled Water Reservoir



Tank Ring Foundation Rebar



Compaction of Tank Foundation Bedding

1630 W. Reservoir



Installation of Eastside Shoring



MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Initiatives for FY 2011/2012 (continued):

◆ **Recycled Water Projects (continued):**

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.

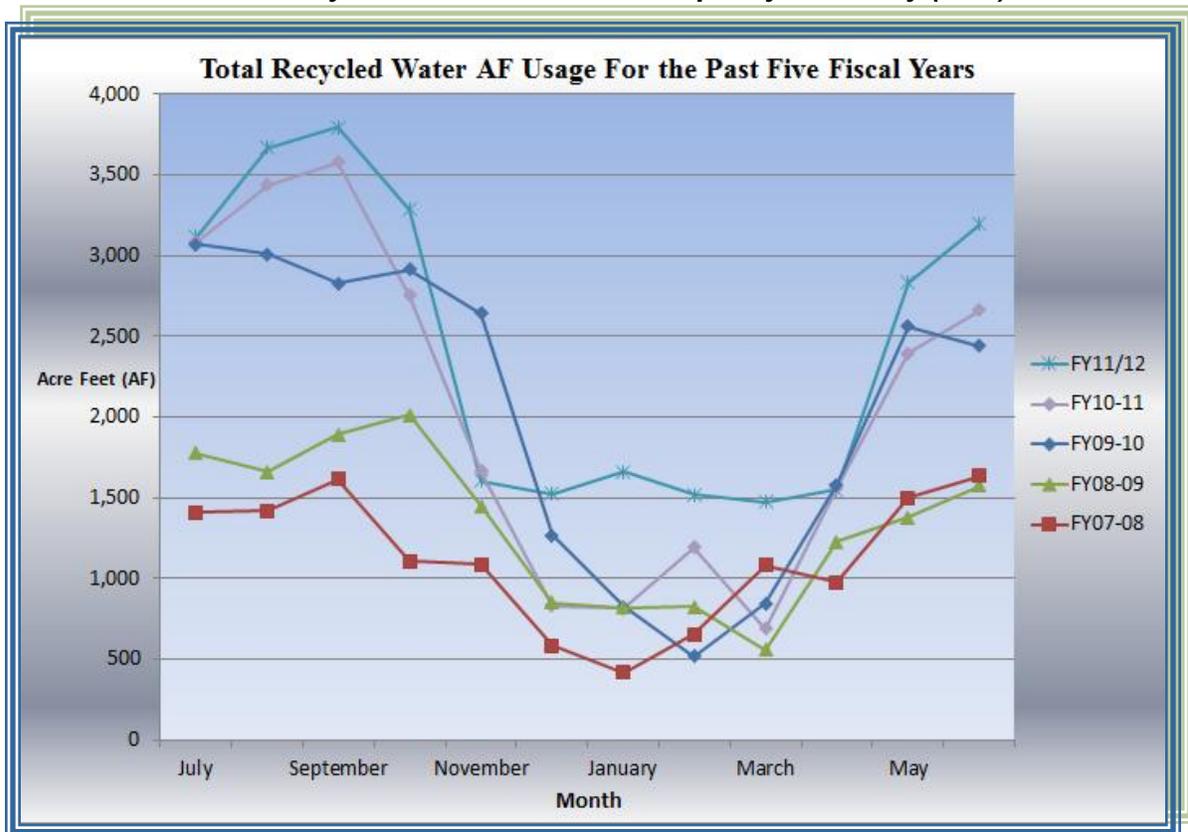
| Type | Existing | | | | Projected | | |
|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
| Direct Use | 15,454 | 17,299 | 16,656 | 20,605 | 19,000 | 20,000 | 22,000 |
| GW Recharge | 2,684 | 7,208 | 8,028 | 8,634 | 14,000 | 14,000 | 14,000 |
| Total | 18,138 | 24,507 | 24,684 | 29,239 | 33,000 | 34,000 | 36,000 |

IEUA and its member agencies are committed to the recycled water program, and have been working diligently to implement new customer connections.

As of June 30, 2012 the Agency has completed a significant portion of the Recycled Water Business Plan and increased recycled water meter connections by 69 during fiscal year 2011/12.

- Total Member Agency Connected Meters to-date – 662
- Total Member Agency Recycled Water Demand to-date – 43,283 AF

Annual Recycled Water Connected Capacity Summary (AFY)



MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Initiatives for FY 2011/2012 (continued):

◆ **NRW System Upgrades:**

NRW Pipeline Cleaning



The project encompasses the cleaning of the Northern NRWS pipelines. This is part of the cleaning 10 miles/year initiative. The project budget provides funds for the cleaning, profiling, point repairs, disposal of solids removed, and the reassessment of inaccessible areas by Closed Circuit Television.

IEUA's sewer collection system inspections are conducted using the latest color CCTV cameras using POSM® software for video capture, fault observations and annotations, and pipe plots. Trimble® GPS units are used to collect information about manholes and pipelines.

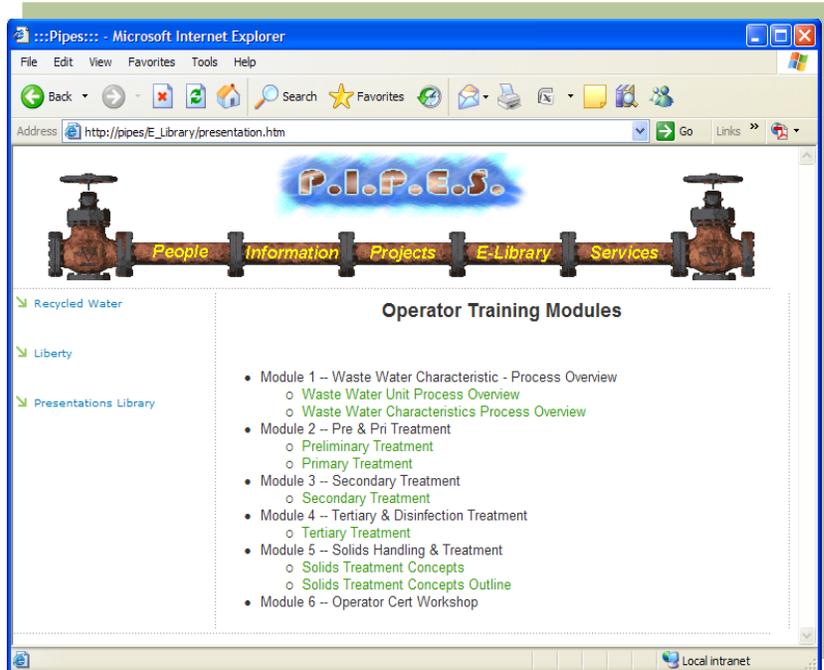


A specially designed truck accommodates all the equipment and appurtenances for CCTV. The locally stored CCTV data is transferred into IEUA's main server and burned into digital media, such as DVD. The information collected is then analyzed for pipeline condition assessment.

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Initiatives for FY 2011/2012 (continued):

◆ **NRW System Upgrades:**



The Agency is developing a virtual training program for new staff, which will include SOPs for line cleaning, combination jet/vacuum truck operation, sewer grit removal and dumping, valve operation at pump stations and other related tasks.

The Agency understands that training is essential for proper maintenance activities. IEUA encourages all of its staff to stay in touch with today's technology and the latest innovations as they relate to the collection system industry through continuing education, conferences, seminars and workshops provided by reputable organizations and manufacturers. In addition, there is also mandatory training for the Agency's Collection System operators



IEUA staff currently participates in the California Water Environment Association certification program for Collection System Maintenance, Grades I through IV. IEUA provides on-going in-house technical, safety and other training for its staff under the Technical Enhancement and Management Succession (TEAMS), a multi-level, multi-phase training and development system to fit the already demanding work life of each IEUA staff member.

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Initiatives for FY 2011/2012 (continued):

◆ **RP-4 Windpower:**

The Agency's 1.0 MW wind turbine is located inside its RP-4 water recycling facility on Sixth Street in Rancho Cucamonga.



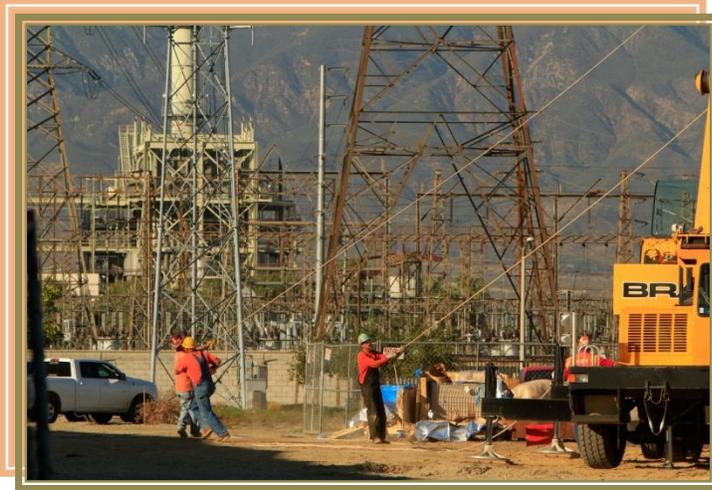
All project phases (design, construction and startup) were handled by Foundation Wind Power via a 20 year Power Purchase Agreement (PPA).



MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

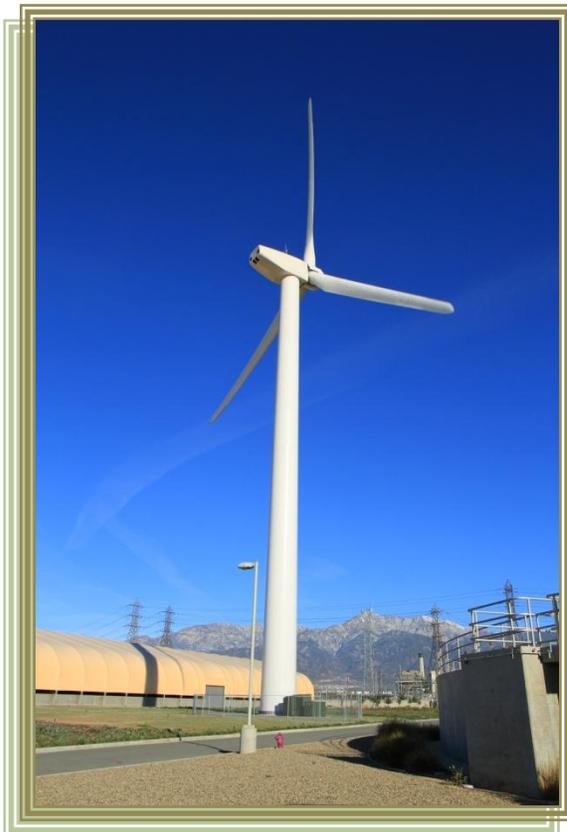
Major Initiatives for FY 2011/2012 (continued):

◆ ***RP-4 Windpower (continued):***



Foundation Wind Power will handle the operation and maintenance of the facility throughout the term of the agreement.

The expected energy output is approximately 2,190,000 kWh/year. The wind turbine will be the backbone for an on-site generation system. It will produce zero emissions, and have only a small carbon footprint.



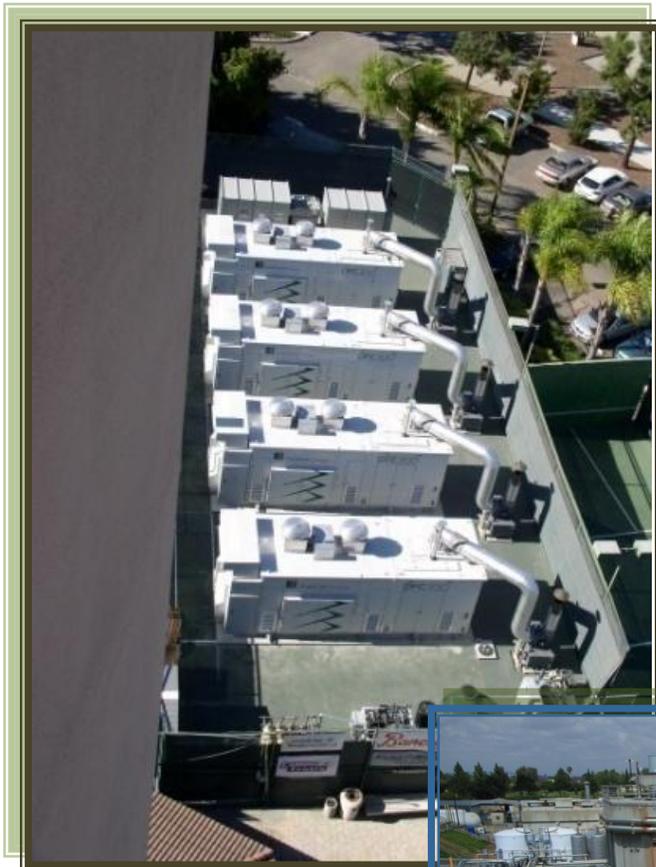
The RP-4 Wind Turbine Project was completed December, 2011.

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Initiatives for FY 2011/2012 (continued):

◆ **RP-1 Fuel Cell:**

The Agency is adding fuel cells to its renewable energy portfolio. The fuel cell is designed to generate 19,272 MWhr per year, which the Agency will then purchase at a price as set out in the PPA. Of this amount, 9,460 MWhr per year replaces the amount formerly produced by a co-generation engine, and the balance of 9,812 MWhr per year will replace the electricity currently purchased from the grid.



High temperature Fuel Cells (HTFC) operate on a variety of hydrocarbon fuels: Natural gas, and Anaerobic digester gas.

Ideal for co-generation, fuel cells operate at higher electrical efficiency than conventional power generation devices of the same size.



MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Initiatives for FY 2011/2012 (continued):

◆ **RP-1 Fuel Cell (continued):**



The installation of the renewable energy projects such as the fuel cell at RP-1 and RP-4 wind turbine through a PPA offers along with environmental benefits, greater stabilization of electricity costs with little or no capital outlay by the Agency and associated debt services.

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Accomplishments for FY 2011/2012

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 contracts in the amount of \$14,000,000 for Title XVI projects funded by American Recovery and Reinvestment Act (ARRA.) The ARRA grants funded the Northeast and Northwest Area recycled water facilities.

The construction of the Northeast Area projects was completed in FY 2011/2012 for \$5,900,000. During FY 2011/12, the construction of the Northwest Area projects have continued with completion expected in September 2012. Grant staff has invoiced \$3,538,959 on the Northwest Project this Fiscal year.

The Agency received an award of \$585,831 for the Federal Emergency Management Agency (FEMA) Winter Storm 2010 Disaster. In FY 2011/2012 IEUA has invoiced 100% of the funding for this project.

USBR awarded a grant contract to IEUA to administer a \$1,551,095 for the Chino Basin Desalter Authority (CDA). The grant will provide funding for the CDA Wellfield Development project.

◆ **State and Local Grants:**

The State Water Resources Control Board (SWRCB) grant of \$4,000,000 for the Southern Recycled Water Projects has been invoiced for \$521,739 in FY 2011/2012.

The SWRCB also provided ARRA funds for the Chino Creek and Greater Prado Basin Clean-up projects. In FY 2011/2012 the Agency has invoiced \$856,820 for these projects.

The California Department of Public Health (CDPH) issued a \$51,000,000 Letter of Commitment (LOC) to IEUA for the CDA Phase III expansion project. The LOC was issued in June 2012 and 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.

◆ **State Revolving Fund (SRF) Loans:**

The Agency received national recognition when chosen by the U.S. Environmental Protection Agency to be featured in a video. The video displayed the Agency's use of the Clean Water SRF program funding, through the Green Project Reserve (GPR). The GPR, helps achieve innovative solutions to wastewater infrastructure needs through projects that address green infrastructure, water efficiency, and energy efficiency.

IEUA was awarded The Southern Area Recycled Water Facilities Clean Water SRF Loan for \$20,608,638. In FY 2011/2012 \$4,252,493 has been invoiced. The projects are scheduled to begin construction in October 2012.

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Accomplishments for FY 2011/2012 (continued):

Funding Developments (continued):

◆ **State Revolving Fund (SRF) Loans (continued)**

The RP-1 Dewatering Facility Expansion Project received a substantial amount of the \$27,434,811 American Recovery Reinvestment Act (ARRA) funding. In FY 2011/2012 IEUA has collected \$6,258,220 in loan reimbursements for this project. The project is expected to be completed in December 2012.

**Inland Empire Utilities Agency
 Grant/Loan Summary
 As of June 30, 2012**

| Funding Agency | Project Name | Award Amount | Cumulative Invoiced (Through 06/30/11) | Invoiced In FY 11/12 (07/01/11 - 6/30/12) | 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 | 7,890,000 | 2,905,334 | 3,538,959 | 1,445,707 |
| | California Water Wise Landscape | 30,000 | 30,000 | - | - |
| | Turner Basin Improvement Project | 406,712 | - | 52,323 | 354,389 |
| FEMA/Cal-EMA | FEMA Winter Storm 2010 Disaster | 585,831 | - | 583,960 | 1,871 |
| Active Federal Grants | | \$ 21,720,997 | \$ 15,743,788 | \$ 4,175,242 | \$ 1,801,967 |
| 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 | 1,241,573 | 241,069 | 167,492 |
| | Landscape Water Audit Program | 194,476 | 189,136 | 5,282 | 58 |
| | 2008 Urban Drought Program | 1,000,000 | 1,000,000 | - | - |
| Department of Parks & Recreation (DPR) | Water Discovery Field Trip & Bus | 207,900 | 11,100 | 17,716 | 179,084 |
| | Earth Day program | 38,500 | 11,339 | 15,414 | 11,747 |
| Metropolitan Water District (MWD) | Water Softener Salinity Reduction | 95,000 | 95,000 | - | - |
| WaterReuse Foundation | Research for Potable Reuse and Aquifer Storage Projects | 479,995 | 425,616 | 52,295 | 2,083 |
| State Water Resources Control Board (SWRCB) | Chino Creek Master Plan | 601,362 | 601,136 | - | 226 |
| | Chino Creek Cleanup (ARRA) | 1,471,491 | 678,248 | 719,452 | 73,792 |
| | 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 | 71,276 | 137,368 | 89,600 |
| | Magnolia Channel Project | 181,275 | 181,275 | - | (0) |
| | Magnolia Channel Restart (ARRA) | 773,045 | 773,045 | - | 0 |
| Active State & Local Grant | | \$ 30,809,812 | \$ 25,097,130 | \$ 1,710,335 | \$ 4,002,347 |
| Total Active Federal, State & Local Grant | | \$ 52,530,809 | \$ 40,840,919 | \$ 5,885,577 | \$ 5,804,313 |
| 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 | 19,389,754 | 6,258,220 | 1,786,837 |
| | Southern Area Recycled Water | 20,608,638 | - | 4,252,493 | 16,356,145 |
| | New Main Operations Laboratory | 14,830,000 | - | - | 14,830,000 |
| Sub-total Active SRF Loans | | \$ 80,789,602 | \$ 35,449,255 | \$ 10,510,713 | \$ 34,829,634 |
| CHINO DESALTER AUTHORITY (CDA) GRANTS | | | | | |
| United States Bureau of Reclamation (USBR) | CDA Wellfield (Wells 1, 2, 3) | 1,551,095 | - | 387,430 | 1,163,665 |
| Department of Water Resources (DWR) | CDA II Desalter Expansion | 2,800,000 | 2,800,000 | - | - |
| Sub-total Active CDA Grants | | \$ 4,351,095 | \$ 2,800,000 | \$ 387,430 | \$ 1,163,665 |
| GRAND TOTAL ACTIVE GRANTS & LOANS | | \$ 137,671,506 | \$ 79,090,173 | \$ 16,783,720 | \$ 41,797,613 |
| Active Grants & Loans | | \$ 137,671,506 | \$ 79,090,173 | \$ 16,783,720 | \$ 41,797,613 |
| Closed grants and SRF loans | | \$ 172,130,033 | | | |
| Total Active and Closed Grants & Loans since 2002 | | \$ 309,801,539 | | | |

*Includes FY 2011/2012 Accrued Grant/Loan Revenue

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Accomplishments for FY 2011/2012 (continued):

Funding Developments (continued):

USBR Northwest Area Recycled Water Projects

◆ ***1630 West Reservoir Project***



◀ ***Installation of a 30-inch Pipe
Leading to the 1630
West Reservoir***

◆ ***1630 West Pump Station Project***

➤ ***Motor Control Center for
Vertical Turbine Pumps***



MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Accomplishments for FY 2011/2012 (continued):

Funding Developments (continued):

USBR Northwest Area Recycled Water Projects

◆ ***1630 West Pump Station Project***

➤ ***Pump Station Flow Control
And Check Valves***



◆ ***1630 West Recycled Water Pipeline Segment B***



◀ ***Installation of a 24-inch Main
Line Pipeline in the
City of Upland***

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Accomplishments for FY 2011/2012 (continued):

Funding Developments (continued):

◆ ***RP-1 Dewatering Expansion Project***



◀ ***Charles P Crowley Company
Start-Up and Testing Staff***

➤ ***Operator Control Room***



MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Accomplishments for FY 2011/2012 (continued):

Funding Developments (continued):

◆ ***CDA Phase III Chino Basin Desalter Expansion Project***

➤ ***Nitrate Removal
Ion Exchange Vessels***



◀ ***316 SST Product Transfer Pumps***

Funding for these projects has been provided in full or in part through agreements with the State Water Resources Control Board 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)

FUTURE YEARS

Several major factors that continue to impact the Agency, its member agencies and key stakeholders 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.

Water conservation is another key component of the Agency's integrated water management strategy. 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. 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. 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 2012/2013 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

FUTURE YEARS (continued):

is essential to proactively track and effect proposed changes in order to mitigate the impact to the Agency.

The revision of Rule 1110.2 by South Coast Air Quality Management District 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. This bill requires implementation of programs starting in 2012 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. Mitigating imported energy costs over time by maximizing use of self-generated and renewable energy power continues to be a critical component of the Agency's commitment to cost containment. The *Going Gridless by 2020* Initiative was formally adopted by the IEUA Board in February 2012. Consistent with the 2008 Energy Management Strategy, the Agency's "Go Gridless by 2020" initiative 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.

Two bills approved by the Governor in 2011 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. 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.

FUTURE YEARS (continued):

The weak and anemic economic recovery continues to shape the Agency's Ten-Year Capital Improvement Plan (TYCIP). Since the onset of the 2008 economic downturn, the Agency has deferred over \$200 million in non-essential capital projects and shifted the focus of its Capital Improvement Program (CIP) from "expansion" to "refurbishment and rehabilitation" of its existing facilities.

Aside from the completion of the Regional Recycled Water Distribution System needs, the only other major construction project included in the Agency's FY 2012/2013 – 2021/2022 TYCIP is the long overdue replacement of the laboratory facility which is slated for FY 2015/2016.

Like most private and public sector employers, the Agency needs to plan for the demographic shift in its workforce as older workers choose to retire. Automating business processes, such as the procure-to-pay to take advantage of web based vendor catalogues and services; integrating all of our information technologies e.g., Human Capital Management and Payroll with SAP business software packages to improve overall performance; and, decentralizing certain tasks are examples of how the Agency is preparing for this major transition in its workforce.

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, deferred increasing rates in FY 2011/2012. Once again, shortfalls in overall revenues were covered by reserves during the fiscal year. However, continuing declining revenues, diminished fund balances, and the downward trend of the Agency's total debt coverage ratio (DCR) made it necessary to consider rate increases effective July 1, 2012.

Setting a historic precedent, on February 1, 2012 the IEUA Board approved multi-year rate increases for fiscal years (FYs) 2012/2013 through 2014/2015 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 2008/2009.

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 2013/2014 and 2014/2015, 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 2012 Long

FUTURE YEARS (continued):

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.

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.

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

The following highlights some of the significant objectives the Agency will continue to undertake in the future years.

- ◆ Maintain a vacancy factor of 5% or better;



FUTURE YEARS (continued):

Vision (continued):

- ◆ Utilize key performance indicators to more efficiently monitor chemical and energy consumption;
- ◆ Cross-train staff and leverage enhanced technology to streamline business processes and more efficiently address succession planning;
- ◆ Continue to Implement renewable energy (solar, wind and fuel cell technology) in support of the going Gridless by 2020 initiative;
- ◆ Compete for and secure federal and state grants to support major capital projects beneficial to the region;
- ◆ Reduce borrowing costs by securing low interest SRF loans to finance major capital projects and to improve the Agency's credit rating;
- ◆ Invest in capital replacement and repair of critical assets, and implement "run to fail" policies for non-critical assets such as fleet vehicles, computer and operations equipment to reduce capital replacement costs; and,
- ◆ Reduce debt service costs through restructuring of existing debt;
- ◆ Continue to support cost saving measures.

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. 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, 2011. This was the thirteenth 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.

Acknowledgements

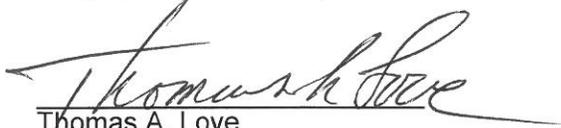
The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the Agency's Fiscal Management Department. We also would like to express our appreciation to the other Agency Departments for their cooperation, assistance and support.

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

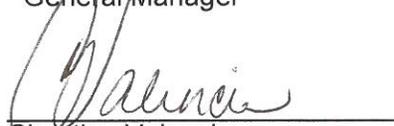
Additionally, we would like to acknowledge the Board of Directors for their continued support of the Agency's goal of sound accountable financial management, and for maintaining the highest standard of professionalism in the management of the Agency's finances. We truly appreciate their unfailing interest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

*December 19, 2012
To the President and Members of
The Board of Inland Empire Utilities Agency*

Respectfully submitted,



Thomas A. Love
General Manager



Christina Valencia
Chief Financial Officer

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, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Davidson

President

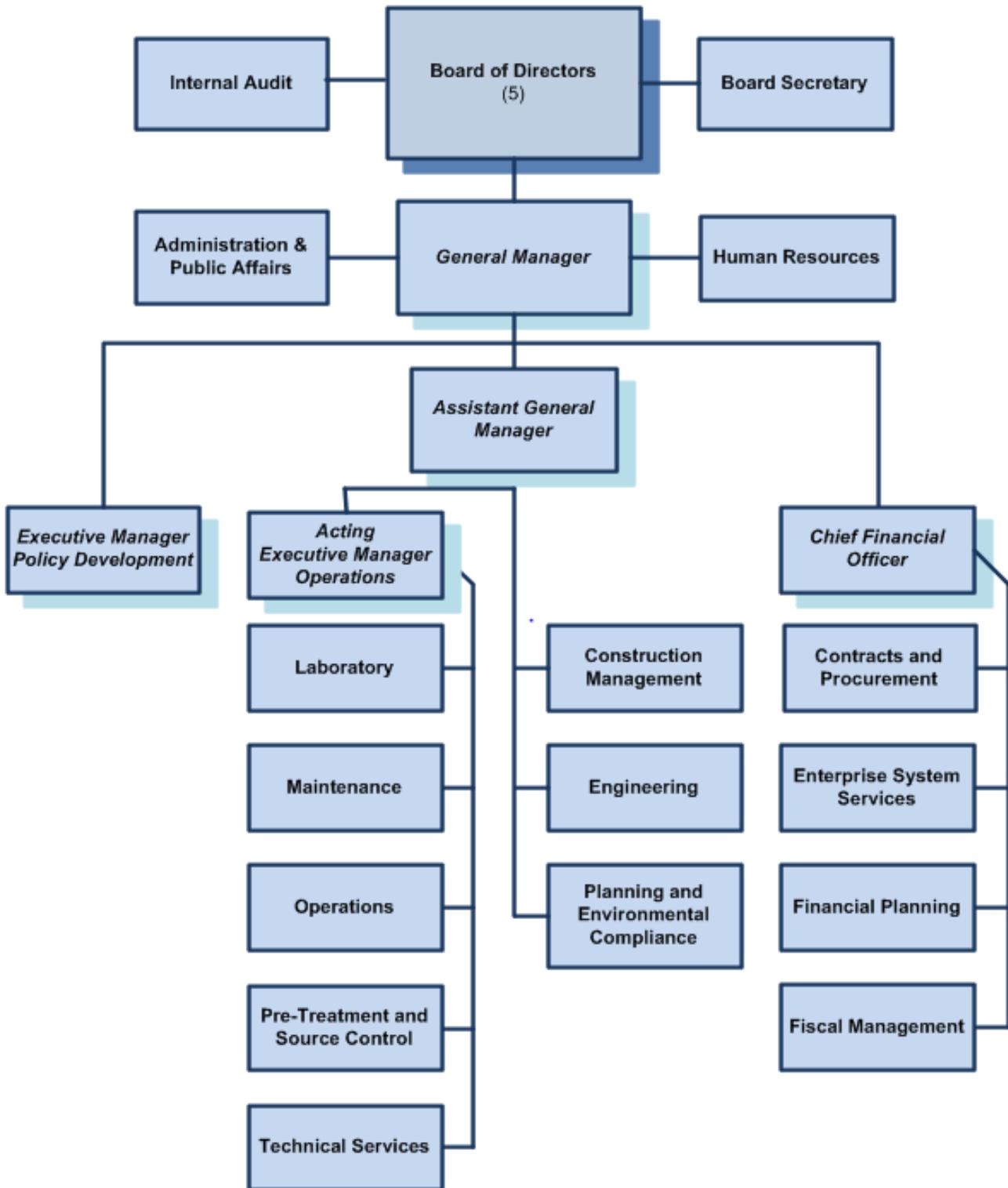
Jeffrey R. Emer

Executive Director

INLAND EMPIRE UTILITIES AGENCY

FY 2011/2012

ORGANIZATIONAL CHART



INLAND EMPIRE UTILITIES AGENCY

Principal Officials

June 30, 2012

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> |
| Angel Santiago | <i>Director</i> |

EXECUTIVE STAFF

| | |
|---------------------------|---|
| Thomas A. Love | <i>General Manager</i> |
| Craig Miller | <i>Assistant General Manager</i> |
| Christina Valencia | <i>Chief Financial Officer</i> |
| Martha Davis | <i>Executive Manager - Policy Development</i> |
| Randy C. Lee | <i>Acting Executive Manager of Operations</i> |

MANAGEMENT STAFF

| | |
|---------------------------|--|
| Chris Berch | <i>Manager - Planning & Environmental Compliance</i> |
| Tina Y. Cheng | <i>Budget Officer</i> |
| Michael C. Chung | <i>Manager - Fiscal Management</i> |
| Gabe J. De Saddi | <i>Manager - Construction Management</i> |
| Parivash Dezham | <i>Manager - Pre-Treatment and Source Control</i> |
| Sondra J. Elrod | <i>Administration & Public Affairs Officer</i> |
| Jack E. Frazier | <i>Manager - Safety</i> |
| Jonathan Glazier | <i>Manager - Enterprise System Services</i> |
| Warren Green | <i>Manager - Safety and Risk Management</i> |
| Nelletje Groenveld | <i>Manager - Laboratories</i> |
| Jason Gu | <i>Grants Officer</i> |
| Gina L. Hillary | <i>Manager - Human Resources</i> |
| Cameron B. Langner | <i>Manager - Contracts and Procurement</i> |
| Craig J. Parker | <i>Manager - Engineering</i> |
| Paddy Mwembu | <i>Manager - Financial Planning</i> |
| Teresa Velarde | <i>Manager - Internal Audit</i> |
| April Woodruff | <i>Board Secretary</i> |
| Ernest Yeboah | <i>Manager - Maintenance</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 2011/12:

First Half FY 2011/12

Finance/Administration

Wanda Kling – Senior Accountant

Engineering/Planning

Joshua Aguilar – Associate Engineer

Operations

Richard Osborn – Collection System Operator

Second Half FY 2011/12

Finance/Administration

*Andrea Carruthers – Community Outreach-
Educational Coordinator I*

Engineering/Planning

Rachel Solis – Construction Management Analyst

Operations

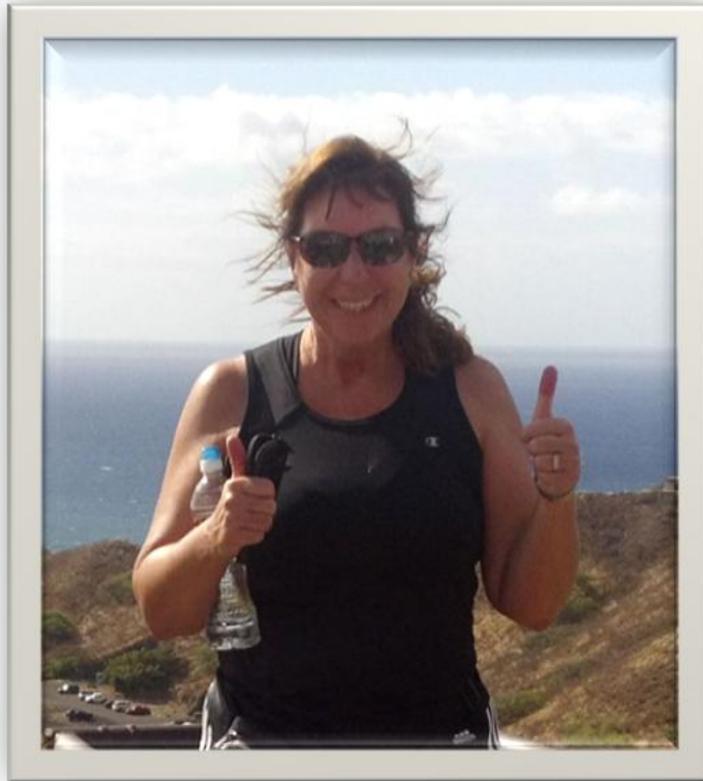
Scott Oakden – Senior Operator V



Employee of the Year

For the FY 2011/12, Wanda Kling, was chosen by the Selection Committee as the Employee of the Year.

IEUA STAR AWARD RECIPIENT
Employee of the Year 2011/2012



Wanda Kling
Senior Accountant

Wanda is reliable and can always be depended on to lend a helping hand. Her most outstanding characteristic is her willingness to take the lead and help other staff members. When asked to support payroll during multiple crucial emergencies, she quickly stepped in to ensure that payroll was processed accurately and on time.

Wanda is very proficient and knowledgeable when dealing with Auditors and complicated accounting issues such as the CAFR, RDA and Property Tax Assessments, and the State Controller's Report. Wanda works tirelessly to research and gather financial information to meet critical deadlines. Her tireless efforts accomplish the tasks required, and keep the Agency compliant with the State's annual financial filing requirements.

Wanda is extremely cooperative and motivates others by example, in addition to always maintaining a quick wit. She does a fantastic job increasing the department's morale with her cheerful and enthusiastic attitude.

Her exceptional performance produces results for the Agency and should be commended. Her dedication, commitment, superior service, and achievements make her the perfect STAR recipient.



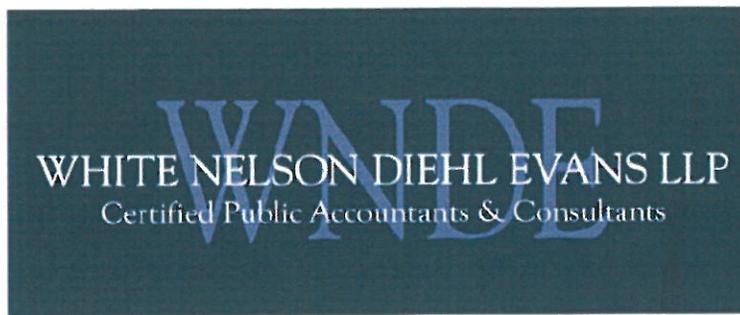


Artist: Melanie Cristofaro,

Duarte High School -

First Place Winner - Ninth - Twelfth Grade Category

Upper San Gabriel Valley Water District



INDEPENDENT AUDITORS' REPORT

Board of Directors
Inland Empire Utilities Agency
Chino, California

We have audited the basic financial statements of the Inland Empire Utilities Agency (the Agency) as of and for the year ended June 30, 2012. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the Agency for the year ended June 30, 2011 and in our report dated November 30, 2011, we expressed an unqualified opinion on these financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Inland Empire Utilities Agency as of June 30, 2012 and the results of its operations and cash flows for the year then ended in conformity 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.

In accordance with Government Auditing Standards, we have also issued our report dated November 26, 2012 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements as a whole. The introductory section, supplementary information and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 taken 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 express no opinion or provide any assurance on them.

White Nelson Dick Evans LLP

Irvine, California
November 26, 2012

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, 2012. 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 \$107,223,440 for Fiscal Year (FY) 2011/2012 reported an increase of \$4,422,524 compared to \$102,800,916 recorded for FY 2010/11. The net increase was primarily due to: 1) \$1,691,471 increase in service charges, mainly due to increase in monthly meter rate for imported water deliveries; 2) \$1,656,668 in recycled water sales, mainly due to increase in recycled water rates and water deliveries; 3) \$2,288,079 in wastewater capital connection fees, mainly due to the construction of medical & hotel facilities in the service area; and 4) \$2,472,310 in other non-operating revenues, mainly due to recovery of prior year's bad debt expense, and refund of sales & use tax. These increases were partially offset by a decrease of \$215,310 in interest income as investment yields continued to drop, \$724,720 in property tax revenue, and \$2,745,974 in capital grants.

Total expenses of \$109,436,718 for FY 2011/2012 were \$2,721,253 higher than the \$106,715,465 reported in FY 2010/2011, including an overall increase in operating expenses of \$2,091,700. The increase in operating expenses was primarily due to: 1) an increase of \$494,484 in operation and maintenance expenses reported at \$3,724,771; 2) \$1,489,547 in administration and general expense reported at \$24,755,293; and 3) \$173,984 in depreciation and amortization reported at \$30,172,892. These increases were partially offset by a cumulative net decrease of \$66,315 in wastewater collection, treatment and disposal costs reported at a combined total of \$34,323,216.

FINANCIAL HIGHLIGHTS

Cash and Investment Management

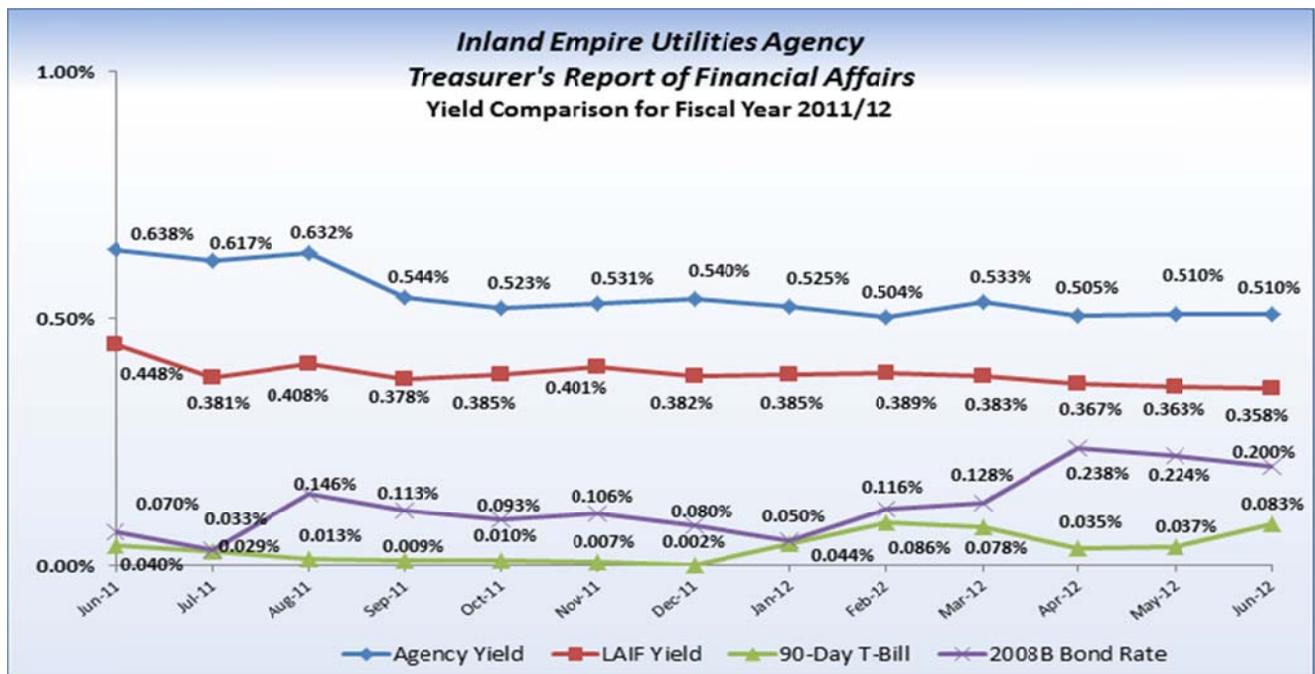
The Agency has a comprehensive cash and investment program subject to California State Code and bond covenants. These regulations are incorporated into the Agency’s Investment Policy and Master Resolution which identify the authorized investment types and any restrictions. Consistent with the State of 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, 2012, 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

The continued economic recession is evident in the drastically low interest yields realized during FY 2011/2012, with the average yield of the Agency’s overall portfolio declining from .617% in July 2011 to .510% by June 30, 2012.

Despite some signs of an anemic national economic recovery, California and the Inland Empire region in particular, continues to struggle with local economists forecasting its recovery to lag the national recovery by at least two to three years.

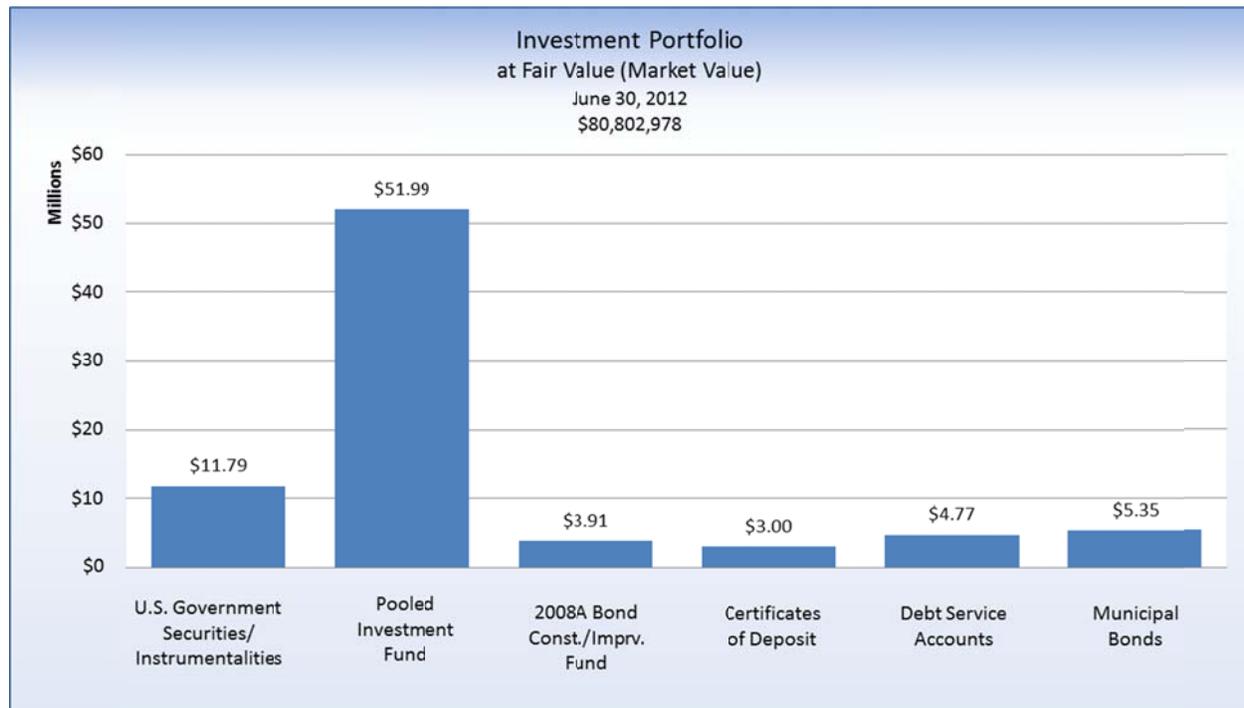
Total interest income for FY 2011/2012 of \$963,196 dropped 18% as compared as to \$1,178,506 in FY 2010/2011.



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, 2012 and 2011 were \$80,802,978 and \$86,631,053 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).

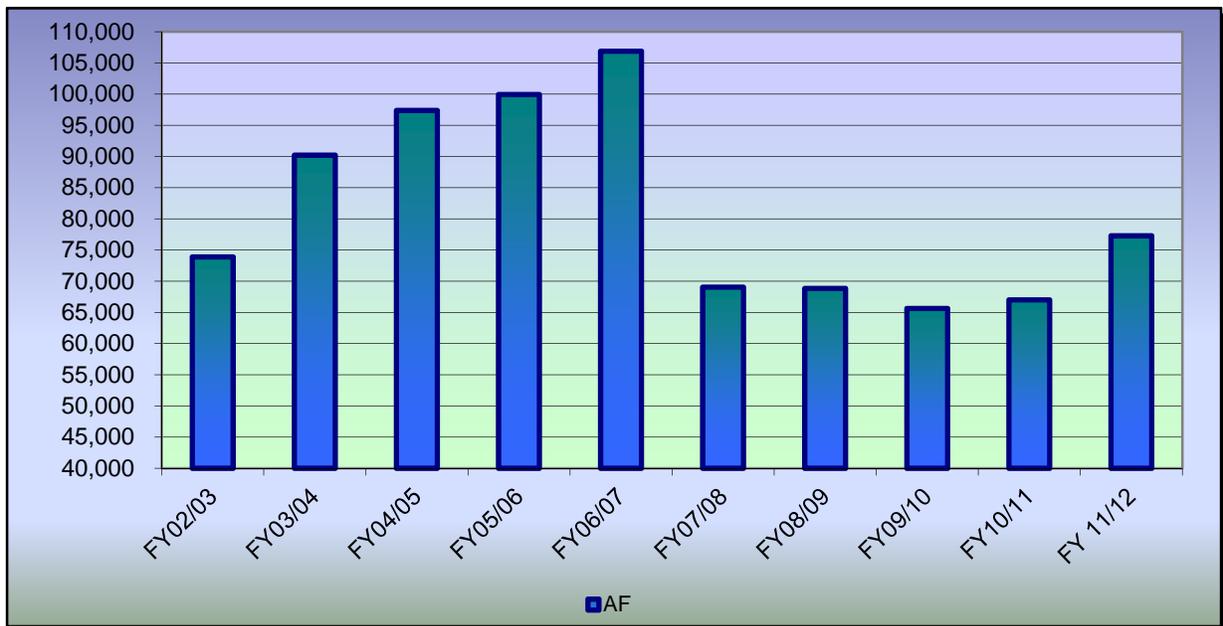
All operations and maintenance expenses related to the Chino I Desalter operations, including labor incurred by the Agency, are recorded in the Agency's Administrative Service Fund. These expenses are billed to the CDA monthly. In FY 2011/2012, the total amount billed and reimbursed was \$1,257,623 and reported as non-operating revenue.

FINANCIAL HIGHLIGHTS (continued):

Imported Water Deliveries

Imported water deliveries for FY 2011/2012 were 77,276 acre feet (AF), including replenishment deliveries of 24,029 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 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.

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



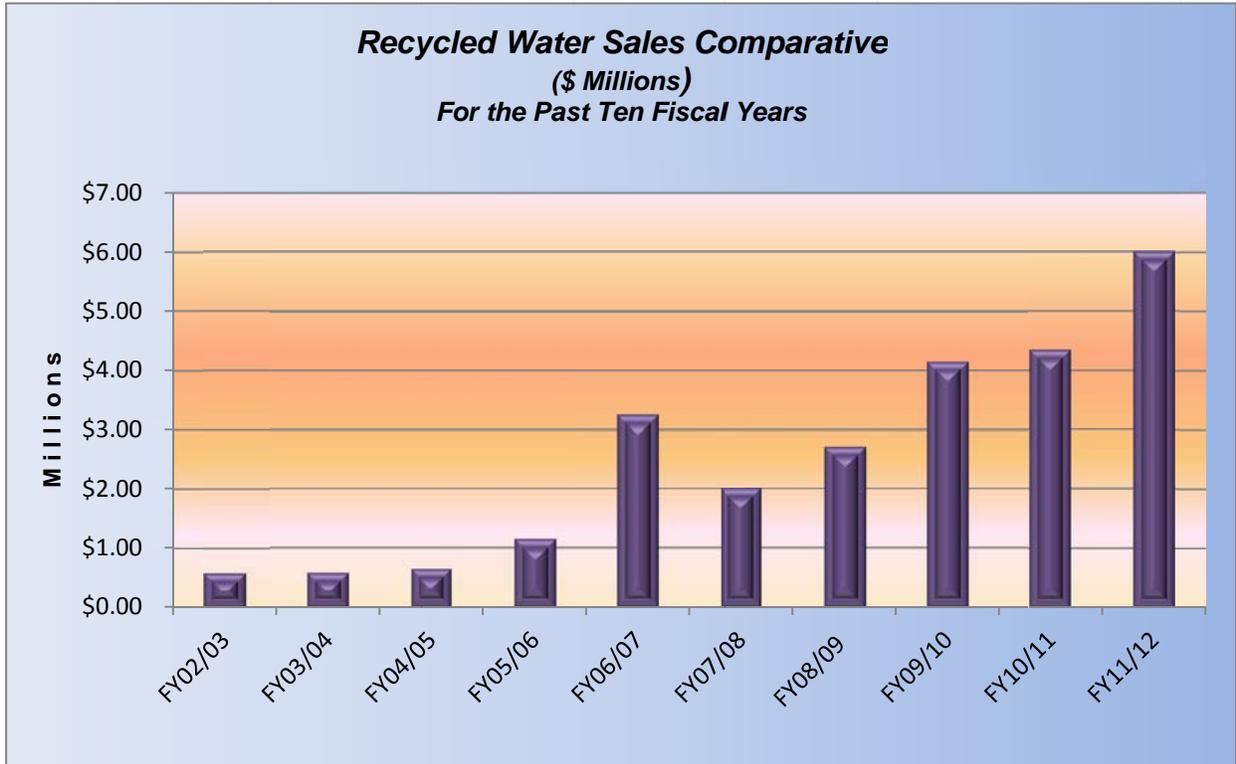
The total operating revenue was \$4,258,189 compared to \$3,231,584 the prior fiscal year. The increase was primarily due to an increase in the monthly meter rate for imported water deliveries (effective July 2011) of 35%, from \$1.075 cents to \$1.455 cents per unit, or from \$2.4 million to \$3.3 million. This revenue is used to meet the Readiness to Serve (RTS) obligation from Metropolitan Water District of Southern California (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 increased 19% as a result of higher imported water deliveries, primarily driven by replenishment deliveries of 24,029 AF.

The total operating expenses increased from \$3,436,592 in FY 2010/2011 to \$4,100,487 in FY2011/2012. The increase was primarily due to higher RTS "pass through" fees from MWD. Total net asset balance at June 30, 2012, increased \$743,079, to \$3,074,374 in FY 2011/2012, mainly due to the reimbursement for the school retrofit program jointly administered by Fontana Water Company and IEUA.

FINANCIAL HIGHLIGHTS (continued):

Recycled Water Sales

Total recycled water sales increased by \$1,656,668 to \$6,009,468 in FY 2011/2012, compared to \$4,352,800 in FY 2010/2011.



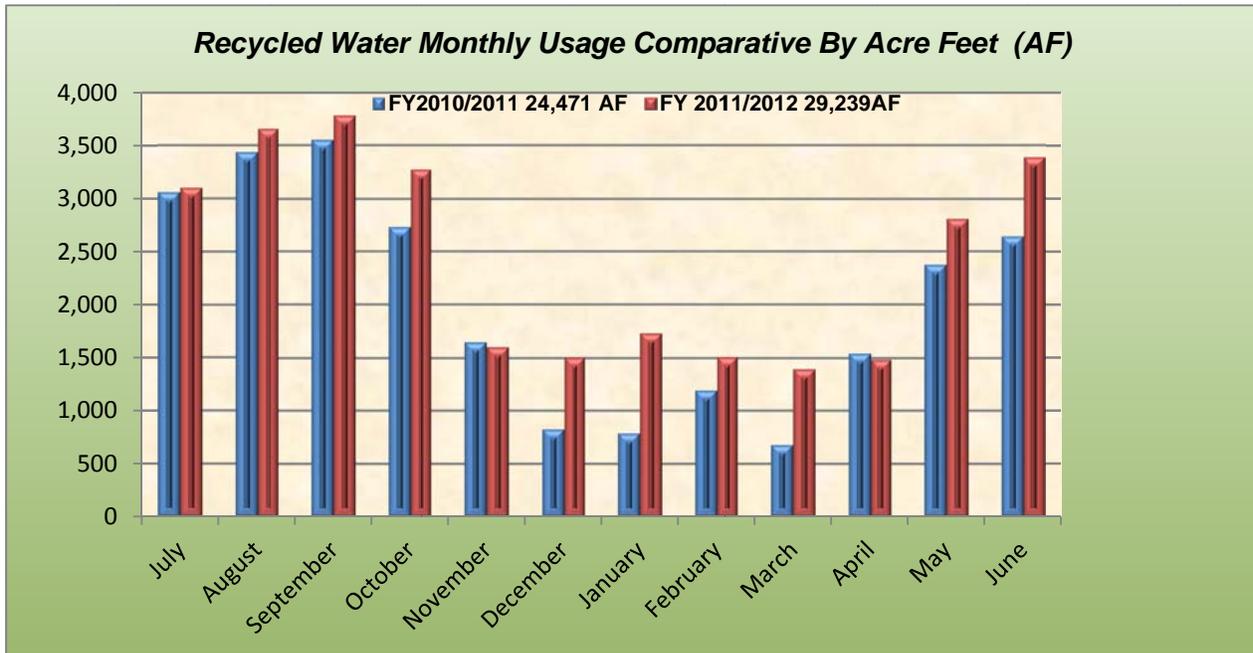
The 38% increase in revenues was primarily driven by a 19% increase in sales and by a 21% increase in recycled water rates for direct deliveries from \$95 to \$115 per AF (acre foot). Additionally, there was a 26% increase in the groundwater surcharge rate from \$115 to \$145 per AF. Included in total operating revenues was \$2,079,000 for the MWD rebate of \$154 per AF for recycled water sales above 3,500 AF and up to 17,000 AF. The MWD rebate was slightly higher than the \$2,026,086 received in FY 2010/2011. Grants receipts totaled \$2,826,279 in support of the Regional Recycled Water Expansion capital program. Total operating expenses increased by \$1,671,523, or 23%, to \$8,968,786, including \$3,904,315 of depreciation expense.

Total net assets at June 30, 2012 were \$68,499,804, an increase of \$2,481,682 is primarily due to grant funding.

FINANCIAL HIGHLIGHTS (continued):

Recycled Water Sales (continued):

A total of 29,239 AF were registered for direct and recharged recycled water deliveries, compared to 24,471 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.



FINANCIAL HIGHLIGHTS (continued):

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 \$76,768,895 in FY 2011/2012, an increase of \$4,696,122, or 7% over the last fiscal year.

Revenues by Category – Regional Wastewater Program
For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

| Revenue Category | FY 2011/2012 | | FY 2010/2011 | | Increase/<Decrease> from FY 2010/2011 | |
|------------------------------|---------------------|---------------|---------------------|---------------|---------------------------------------|-------------|
| | AMOUNT | % OF TOTAL | AMOUNT | % OF TOTAL | AMOUNT | % OF CHANGE |
| Service Charges | \$35,602,244 | 46.0% | \$34,771,736 | 48.0% | \$830,508 | 2.0% |
| Property Tax Revenue | 28,397,482 | 37.0% | 28,061,808 | 39.0% | 335,674 | 1.0% |
| Wastewater Connection Fees | 7,686,126 | 10.0% | 5,398,047 | 8.0% | 2,288,079 | 42.0% |
| Other Non-operating Revenues | 4,478,139 | 6.0% | 3,205,151 | 4.0% | 1,272,988 | 40.0% |
| Interest Income | 604,904 | 1.0% | 636,031 | 1.0% | (31,127) | (5.0)% |
| Total Revenues | \$76,768,895 | 100.0% | \$72,072,773 | 100.0% | \$4,696,122 | 7.0% |

The Agency's FY 2011/2012 service charges were \$35,602,244, 2% higher, compared to FY 2010/2011 total of \$34,771,736. Although EDU rates remained unchanged between FY 2010/11, and FY 2011/2012 the increase in EDUs is a result of a slight improvement in the local economy.

Property tax receipts allocated to the Regional Wastewater Program increased from \$28,061,808 in FY 2010/2011 to \$28,397,482 in FY 2011/2012, reporting a 1% increase. Beginning in FY 2009/10 and continuing through FY 2013/14, the Recycled Water program (WC fund) was allocated a portion of the property tax receipts from RO fund to support debt service costs. During FY 2011/2012, this temporary property tax receipt allocation was reduced from 8% to 5% rendering a higher allocation of \$1.6 million to the RO Fund.

New EDU Connection fees reported by the contracting agencies in FY 2011/2012 were 1,614 units compared to 1,116 units reported in FY 2010/2011, an increase of approximately 498 units at \$4,766 per unit, accounted for the increase of \$2.4 million in revenues. The increase is mainly due to 291 new EDU connections from City of Upland for the expansion of the San Antonio Hospital and 383 new EDU connections from City of Ontario for the completion of the Embassy Suites Hotel (87) and new Kaiser Hospital (296).

Other Non-Operating Revenues were \$4,478,139 in FY 2011/2012 compared to \$3,205,151 in FY2010/2011. The increase is primarily due to the recovery of prior year bad debt expense of \$738,000, \$267,000 lease revenue from Environ and IERCA, \$221,000 Magnolia Channel Improvement contribution from City of Chino, and \$153,000 in use tax refund.

Interest income slightly decreased from \$636,031 in FY 2010/2011 to \$604,904 in FY 2011/2012 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, 2012
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

| Expense Category | FY 2011/2012 | | FY 2010/2011 | | Increase/<Decrease> from FY 2010/2011 | |
|-----------------------------|---------------------|---------------|---------------------|---------------|--|-------------|
| | AMOUNT | % OF TOTAL | AMOUNT | % OF TOTAL | AMOUNT | % OF CHANGE |
| Wastewater Collection | \$2,013,577 | 2.0% | \$2,734,134 | 3.0% | (\$720,557) | (26.0)% |
| Wastewater Treatment | 17,377,464 | 22.0% | 17,208,487 | 22.0% | 168,977 | 1.0% |
| Wastewater Disposal | 11,316,321 | 14.0% | 10,663,787 | 14.0% | 652,534 | 6.0% |
| Administration & General | 15,365,378 | 19.0% | 15,356,434 | 19.0% | 8,944 | 0.0% |
| Depreciation & Amortization | 21,638,428 | 27.0% | 21,987,327 | 28.0% | (348,899) | (2.0)% |
| Interest on long-term debt | 6,251,496 | 8.0% | 6,247,226 | 8.0% | 4,270 | 0.0% |
| Other nonoperating Exp | 6,298,933 | 8.0% | 4,671,253 | 6.0% | 1,627,680 | 35.0% |
| Total Expenses | \$80,261,597 | 100.0% | \$78,868,648 | 100.0% | \$1,392,949 | 2.0% |

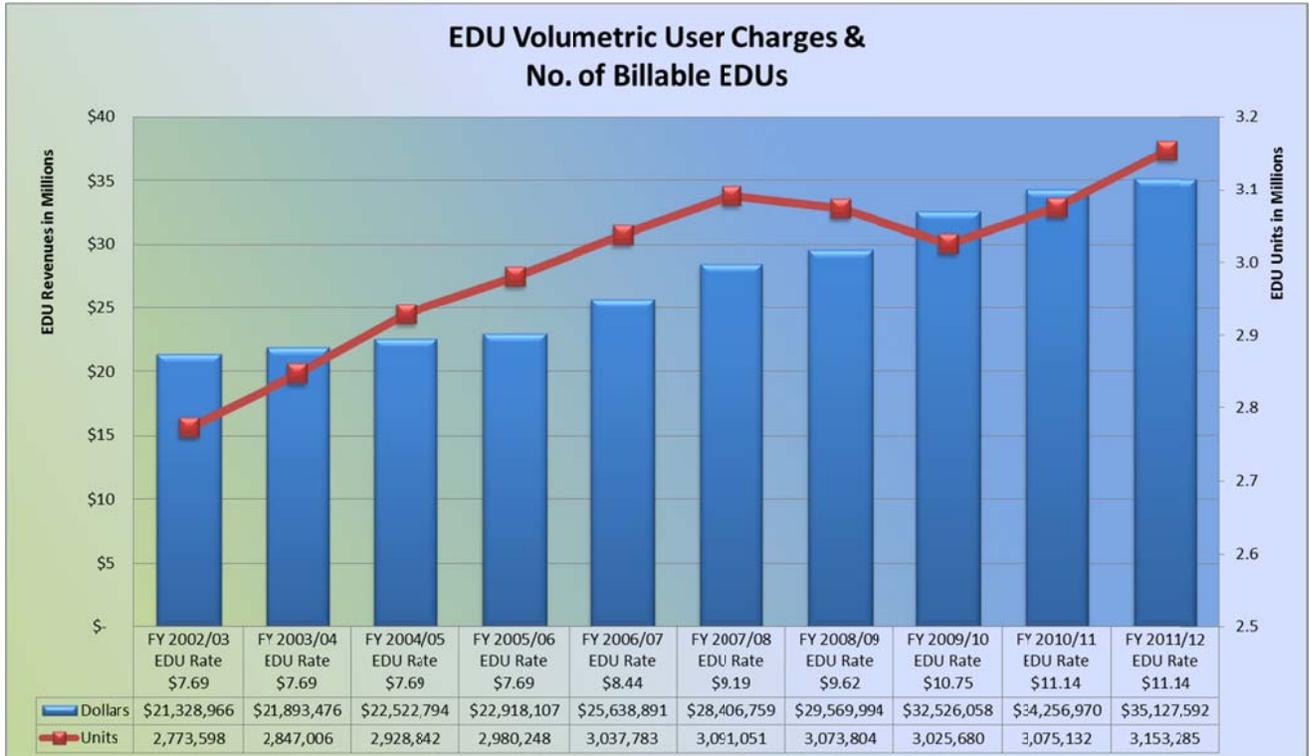
Total expenses for FY 2011/2012 were \$80.2 million or 2% over compared to FY 2010/2011 actual of \$78.9 million. Total wastewater collection, treatment and disposal costs slightly decreased by \$100,954 from \$30,606,408 in FY 2010/2011 to \$30,707,362 in FY 2011/2012. The favorable variance was primarily the result of lower utilities, chemicals and operating fees expenses.

Total non-operating expenses of \$6.3 million represent a 35% increase compared to FY 2010/2011 actual of \$4.7 million. The increase 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 \$2.9 million in the 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 not meeting this criterion are classified as O&M expenses.

FINANCIAL HIGHLIGHTS (continued):

Regional Wastewater Program Activities (continued):

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



FINANCIAL HIGHLIGHTS (continued):

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 maximizing the use of the NRW system, 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 owned and 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.

Pass through rates are adopted yearly 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, user charges include administrative charges and a monthly capital improvement program (CIP) charge to cover the operational costs associated with the NRWS program.

Total service charges in FY 2011/2012, for North and South systems decreased \$165,642 to \$6,606,995 compared to \$6,772,637 reported in FY 2010/2011. The drop in revenues is primarily driven by a decrease in South system excessive strength charges of 27%. Monthly capacity fees decreased 36% for customers in the North System, from \$193 to \$123 per unit. By contrast, South System customer's capacity fees increased 19%, from \$205 to \$244. The net decrease in service charges was mainly offset by revenue earned from the lease of 63 capacity units to Genon West LP for a total of \$598,775. As a result of the completion and capitalization of capital assets, depreciation expenses increased 29% contributing to the 2% increase in operating expenses, for a total of \$6,529,727 in FY 2011/2012. At June 30, 2012, total net assets were \$51,661,872 for a decrease of \$112,331 over the prior fiscal year.

A total of 60 users were connected to the NRW System (North and South) during FY 2011/2012, with a total flow of 1,311 million gallons.

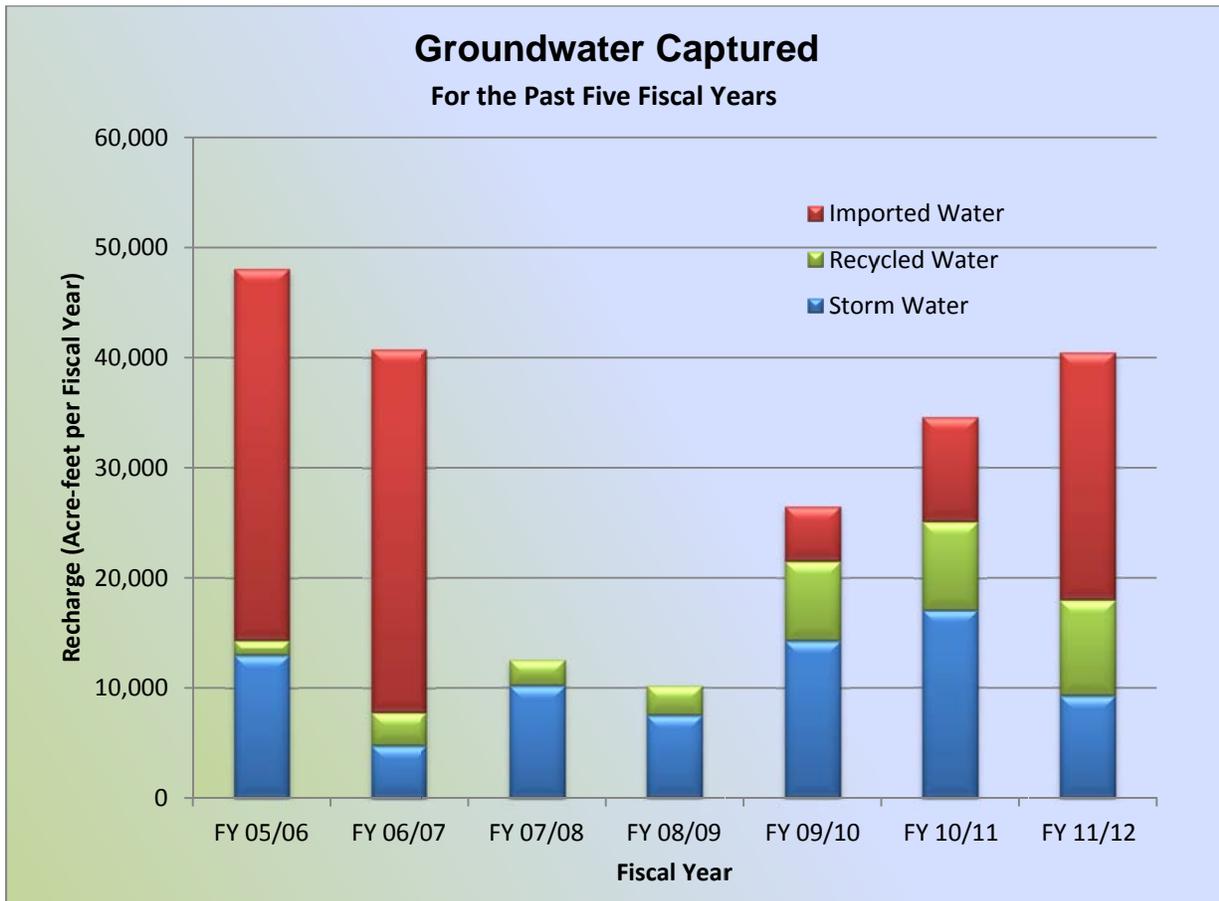
Recharge Water Fund

The Recharge Water Fund records the activities related to the operation and maintenance of the eighteen 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 2011/2012 were \$2,309,834 compared to \$1,876,287 in FY 2010/2011, resulting in an increase of \$433,547. The increase was due to: 1) operation expenses related to repairs of the San Sevaine Channel and various damaged basins; and 2) higher depreciation expense resulting from the completion and capitalization of various capital projects. Capital grant receipts of \$388,846 in FY 2011/12 also reported an increase of \$373,956 compared to the prior fiscal year due to funds awarded by the FEMA for the repair of the damaged recharge basins. At June 30, 2012 total net assets were \$34,149,559, a decrease of \$587,124 over the prior fiscal year.



FINANCIAL HIGHLIGHTS (continued):

Revenues

Combined revenues and contributions for the fiscal year totaled \$107,223,440, an increase of \$4,422,524, compared to the prior fiscal year. The following table presents a comparison of revenues by category for fiscal years 2011/2012 and 2010/2011.

Combined Revenues by Category - All Funds
For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

| Revenue & Contributions Category | FY 2011/2012 | | FY 2010/2011 | | Increase/<Decrease> from FY 2010/2011 | |
|---|----------------------|---------------|----------------------|---------------|---------------------------------------|-------------|
| | AMOUNT | % OF TOTAL | AMOUNT | % OF TOTAL | AMOUNT | % OF CHANGE |
| Service Charges | \$46,467,428 | 43.0% | \$44,775,957 | 44.0% | \$1,691,471 | 4.0% |
| Recycled Water Sales | 6,009,468 | 6.0% | 4,352,800 | 4.0% | 1,656,668 | 38.0% |
| Interest Income | 963,196 | 1.0% | 1,178,506 | 1.0% | (215,310) | (18.0)% |
| Property Tax Revenue | 32,694,517 | 30.0% | 33,419,237 | 33.0% | (724,720) | (2.0)% |
| Wastewater Connection Fees | 7,686,126 | 7.0% | 5,398,047 | 5.0% | 2,288,079 | 42.0% |
| Other Non-operating Revenues | 8,562,035 | 8.0% | 6,089,725 | 6.0% | 2,472,310 | 41.0% |
| Capital Grants | 4,840,670 | 5.0% | 7,586,644 | 7.0% | (2,745,974) | (36.0)% |
| Total Revenues & Contributions | \$107,223,440 | 100.0% | \$102,800,916 | 100.0% | \$4,422,524 | 4.0% |

Service Charges

Increase is primarily due to increase of approximately 498 EDU connections in FY 2011/2012.

Wastewater Connection Fees

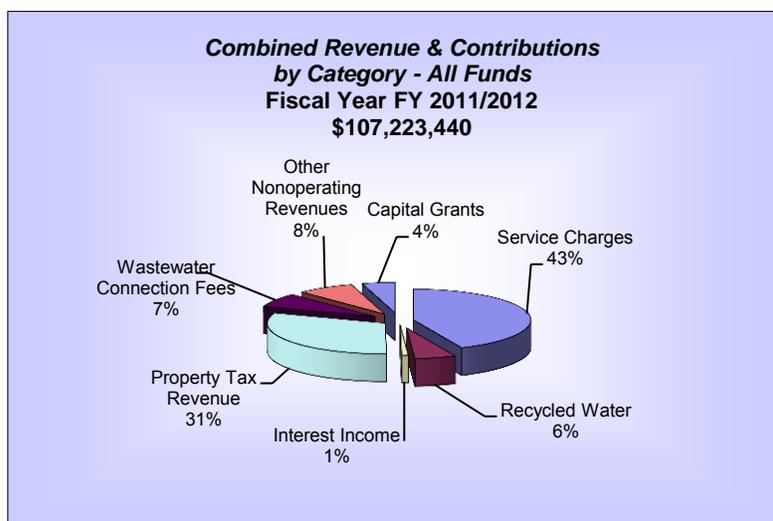
Increase is primarily due to the construction of medical and hotel facilities in the service area

Other Non-Operating Revenues

Increase due to the recovery of prior year bad debt expense, lease of RP-5 Solids Handling Facility and refund of sales & use tax

Capital Grants

Decrease is due to construction and engineering delays resulting in reduced capital construction costs.



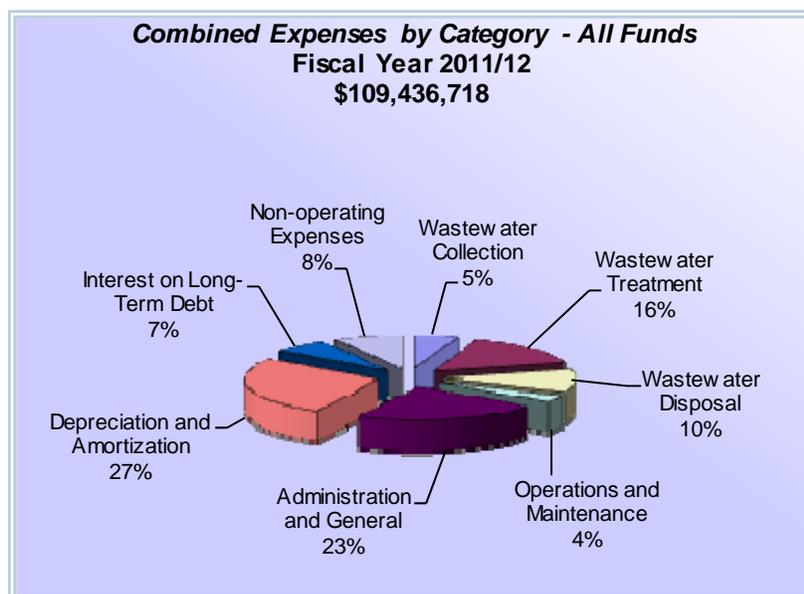
FINANCIAL HIGHLIGHTS (continued):

Expenses

Combined expenses for the fiscal year totaled \$109,436,718, an increase of \$2,721,253, over the prior fiscal year. The following table presents a comparison of expenses by category for fiscal years FY 2011/2012 and FY 2010/2011.

Combined Expenses by Category - All Funds
For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

| Expense Category | FY 2011/2012 | | FY 2010/2011 | | Increase/<Decrease> from FY 2010/2011 | |
|-------------------------------|----------------------|---------------|----------------------|---------------|---------------------------------------|-------------|
| | AMOUNT | % OF TOTAL | AMOUNT | % OF TOTAL | AMOUNT | % OF CHANGE |
| Wastewater Collection | \$5,629,431 | 5.1% | \$6,517,257 | 6.1% | \$(887,826) | (13.6)% |
| Wastewater Treatment | 17,377,464 | 15.9% | 17,208,487 | 16.1% | 168,977 | 1.0% |
| Wastewater Disposal | 11,316,321 | 10.4% | 10,663,787 | 10.0% | 652,534 | 6.1% |
| Operations and Maintenance | 3,724,771 | 3.4% | 3,230,287 | 3.0% | 494,484 | 15.3% |
| Administration and General | 24,755,293 | 22.6% | 23,265,746 | 21.8% | 1,489,547 | 6.4% |
| Depreciation and Amortization | 30,172,892 | 27.6% | 29,998,908 | 28.1% | 173,984 | 0.6% |
| Interest on Long-Term Debt | 7,446,536 | 6.8% | 8,057,543 | 7.6% | (611,007) | (7.6)% |
| Non-operating Expenses | 9,014,010 | 8.2% | 7,773,450 | 7.3% | 1,240,560 | 16.0% |
| Total Expenses | \$109,436,718 | 100.0% | \$106,715,465 | 100.0% | \$2,721,253 | 2.6% |



Wastewater Collection
 Decrease due to lower allocation of costs and reduction in pass-through service rates for high strength flows charged by SAWPA.

Operations and Maintenance
 Increase due to higher electrical usage, primarily driven by increased delivery of recycled water and shut down of co-generation engine of RP-1.

Non-operating Expenses
 The increase is a result of reclassification of completed projects from capital to O&M.

Interest on Long-Term Debt
 Increase in amount of interest applied to capital projects financed by debt resulted in a decrease in interest expense.

FINANCIAL HIGHLIGHTS (continued):

Changes in Financial Conditions of the Agency

Combined Net Assets-All Funds
For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

| | FY 2011/2012 | FY 2010/2011 | Increase/<Decrease> from FY 2010/2011 | |
|--|----------------------|----------------------|--|---------------|
| Assets | | | | |
| Current assets | \$118,133,355 | \$117,166,100 | \$967,255 | 0.8% |
| Restricted assets | 27,941,512 | 37,208,855 | (9,267,343) | (24.9)% |
| Capital assets | 674,687,108 | 672,170,172 | 2,516,936 | 0.4% |
| Other assets | 75,993,492 | 79,403,388 | (3,409,896) | (4.3)% |
| Total Assets | 896,755,467 | 905,948,515 | (9,193,048) | (1.0)% |
| Liabilities | | | | |
| Current liabilities | 36,479,302 | 41,357,657 | (4,878,355) | (11.8)% |
| Non-current liabilities | 344,034,029 | 346,135,444 | (2,101,415) | (0.6)% |
| Total liabilities | 380,513,331 | 387,493,101 | (6,979,770) | (1.8)% |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | 365,279,301 | 372,277,242 | (6,997,941) | (1.9)% |
| Restricted | 42,798,485 | 50,378,110 | (7,579,625) | (15.0)% |
| Unrestricted | 108,164,350 | 95,800,062 | 12,364,288 | 12.9% |
| TOTAL NET ASSETS | \$516,242,136 | \$518,455,414 | (\$2,213,278) | (0.4)% |

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

- ◆ The decrease in Restricted Assets of \$9.3 million is primarily due to a reduction of \$12.7 million in Assets Held with Trustee/Fiscal Agent, including the withdrawal of \$12.3 million from the 2008A bond proceeds to fund capital projects. The reduction is partially offset by an increase of \$3.2 million in Wastewater Capital Connection deposits held by Contracting Agencies.
- ◆ A reduction of \$5.7 million in Accounts Payable was a primary contributor to the decrease in Current Liabilities; heavier rainfall during the year resulted in reduced water purchase from Metropolitan Water District, resulting in low accruals at year end.

FINANCIAL HIGHLIGHTS (continued):

Changes in Financial Conditions of the Agency (continued):

Combined Schedule of Revenues, Expenses and Changes in Fund Net Assets - All Funds

For the Fiscal Year Ended June 30, 2012

(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

| Item Category | FY 2011/2012 | | FY 2010/2011 | | Increase/<Decrease> from FY 2010/2011 | |
|-------------------------------------|----------------------|---------------|----------------------|---------------|--|---------------|
| | Amount | % of Total | Amount | % of Total | Amount | % of Change |
| Total Revenue | \$102,382,770 | 19.8% | \$95,214,272 | 18.4% | \$7,168,498 | 7.5% |
| Total Expenses | 109,436,718 | 21.2% | 106,715,465 | 20.6% | 2,721,253.00 | 2.6% |
| Excess (deficiency) before contrib. | (7,053,948) | (1.4)% | (11,501,193) | (2.2)% | 4,447,245.00 | 38.7% |
| Capital Grants | 4,840,670 | 0.8% | 7,586,644 | 1.4% | (2,745,974.00) | (36.2)% |
| Change in Net Assets | (2,213,278) | (0.4)% | (3,914,549) | (0.8)% | 1,701,271.00 | 43.5% |
| Beginning Net Assets | 518,455,414 | 100.4% | 522,369,963 | 100.8% | (3,914,549.00) | (0.7)% |
| Ending Net Assets | \$516,242,136 | 100.0% | \$518,455,414 | 100.0% | \$(2,213,278) | (0.4)% |

Capital Assets

Net of accumulated depreciation and amortization, the Agency had total capital assets of \$674,687,108 in FY 2011/2012, compared to \$672,170,172 in FY 2010/2011. The \$2.5 million increase is primarily due to completion of various capital projects during the year.

Capital Asset Summary - All Funds

For the Fiscal Year Ended June 30, 2012

(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

| Asset Category | 2011/12 | 2010/11 | Increase/<Decrease> from FY 2010/11 | % of Change |
|--|----------------------|----------------------|--|-------------|
| Land | \$13,979,349 | \$14,141,374 | (\$162,025) | (1.2)% |
| Land Improvements | 18,999,681 | 13,083,361 | 5,916,320 | 45.2% |
| Structures and Improvements | 618,671,212 | 573,211,399 | 45,459,813 | 7.9% |
| Equipment | 135,812,862 | 120,876,068 | 14,936,794 | 12.4% |
| Water Rights | 52,908,074 | 50,207,816 | 2,700,258 | 5.4% |
| Computer Software | 7,889,850 | 7,808,949 | 80,901 | 1.0% |
| Jobs in Progress | 117,371,918 | 153,790,673 | (36,418,755) | (23.7)% |
| Sub-total | 965,632,946 | 933,119,640 | 32,513,306 | 3.5% |
| LESS: Accumulated Depreciation & Amortization | (290,945,838) | (260,949,468) | (29,996,370) | 11.5% |
| Net Capital Assets | \$674,687,108 | \$672,170,172 | \$2,516,936 | 0.4% |

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

FINANCIAL HIGHLIGHTS (continued):

Debt Management

At June 30, 2012, the Agency had four bond debt issues outstanding. Excluding interest and deferred premium and after adjustment of deferred bond costs & discount the outstanding issues are:

| Bond Issue | Principal | Premium (Discount) | Outstanding on 06/30/12 |
|-----------------------------------|----------------------|--------------------|-------------------------|
| 2005 A Revenue Bonds | \$19,035,000 | (\$686,446) | \$18,348,554 |
| 2008A Revenue Bonds | 125,000,000 | 4,372,840 | 129,372,840 |
| 2008B Variable Rate Revenue Bonds | 49,235,000 | (69,573) | 49,165,427 |
| 2010A Refunding Revenue Bonds | 42,060,000 | 1,481,577 | 43,541,577 |
| | \$235,330,000 | \$5,098,398 | \$240,428,398 |

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

Included in Notes and Loans Payable at June 30, 2012, are: 1) A note from the Santa Ana Watershed Project Authority (SAWPA) pertaining to the purchases of pipeline capacity, with an outstanding principal balance of \$1,313,848; 2) Various State Revolving Financing loans from the State Water Resources Control Board (SWRCB), for a total principal amount of \$77,865,387; and 3) A loan in the principal amount of \$7,934,424 from the City of Fontana for the Agency's cost share of the San Bernardino Regional Lift Station and Force Main capital project.

In June 2012, 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.

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, 2012, 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 Assets – the statement denotes the increase/(decrease) of net assets of the Agency.
- 2) Statement of Revenues, Expenses and Changes in Fund Net Assets – 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 Assets****June 30, 2012**

(With Comparative Totals for June 30, 2011)

| ASSETS | Enterprise Funds | |
|---|------------------------|--------------------|
| | Regional Wastewater | Recycled Water |
| Current assets | | |
| Cash and investments (note 3) | \$42,353,227 | \$ 11,811,214 |
| Accounts receivable | 7,568,863 | 4,302,969 |
| Interest receivable | 221,484 | 25,451 |
| Taxes receivable | 2,365,188 | 136,632 |
| Other receivables | 2,516,204 | 348,626 |
| Inventory | 0 | 0 |
| Prepaid items | 1,200 | 13,500 |
| Total current assets | <u>55,026,166</u> | <u>16,638,392</u> |
| Noncurrent assets | | |
| Restricted assets (note 3) | | |
| Deposits held by governmental agencies | 16,632,592 | 0 |
| Assets held for 401(a) plan (note 4) | 0 | 0 |
| Assets held with trustee/fiscal agent | 4,930,567 | 4,026,901 |
| Total restricted assets | <u>21,563,159</u> | <u>4,026,901</u> |
| Capital assets (note 7) | | |
| Land | 13,958,520 | 0 |
| Jobs in progress | 65,691,689 | 48,523,805 |
| Capital assets, net of accumulated depreciation | 335,028,533 | 99,068,292 |
| Intangible assets, net of accumulated amortization | 5,761,290 | 282,154 |
| Total capital assets | <u>420,440,032</u> | <u>147,874,251</u> |
| Other assets | | |
| Long-term investments (note 11) | 46,452,575 | 0 |
| Long-term receivables (note 10) | 5,170,468 | 1,280,784 |
| Advances to other funds (note 14) | 3,000,000 | 0 |
| Deferred costs | 3,041,883 | 1,846,576 |
| Total other assets | <u>57,664,926</u> | <u>3,127,360</u> |
| Total noncurrent assets | <u>499,668,117</u> | <u>155,028,512</u> |
| Total assets | <u>554,694,283</u> | <u>171,666,904</u> |

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

| Non-Major | Totals | |
|--------------------|--------------------|--------------------|
| | 2012 | 2011 |
| \$33,408,140 | \$87,572,581 | \$81,341,233 |
| 10,568,523 | 22,440,355 | 27,416,074 |
| 454,382 | 701,317 | 647,390 |
| 218,874 | 2,720,694 | 5,485,301 |
| 221,503 | 3,086,333 | 320,255 |
| 1,498,644 | 1,498,644 | 1,559,877 |
| 98,731 | 113,431 | 395,970 |
| <u>46,468,797</u> | <u>118,133,355</u> | <u>117,166,100</u> |
| 0 | 16,632,592 | 13,446,467 |
| 1,452,719 | 1,452,719 | 1,161,798 |
| 898,733 | 9,856,201 | 22,600,590 |
| <u>2,351,452</u> | <u>27,941,512</u> | <u>37,208,855</u> |
| 20,829 | 13,979,349 | 14,141,374 |
| 3,156,424 | 117,371,918 | 153,790,673 |
| 71,283,734 | 505,380,559 | 466,906,374 |
| <u>31,911,838</u> | <u>37,955,282</u> | <u>37,331,751</u> |
| <u>106,372,825</u> | <u>674,687,108</u> | <u>672,170,172</u> |
| 0 | 46,452,575 | 47,171,104 |
| 56,164 | 6,507,416 | 8,898,484 |
| 15,000,000 | 18,000,000 | 18,000,000 |
| 145,042 | 5,033,501 | 5,333,800 |
| <u>15,201,206</u> | <u>75,993,492</u> | <u>79,403,388</u> |
| <u>123,925,483</u> | <u>778,622,112</u> | <u>788,782,415</u> |
| <u>170,394,280</u> | <u>896,755,467</u> | <u>905,948,515</u> |

(continued)

INLAND EMPIRE UTILITIES AGENCY
Statement of Net Assets (Continued from previous page)
June 30, 2012

(With Comparative Totals for June 30, 2011)

| | Enterprise Fund Types | |
|---|------------------------|---------------------|
| | Regional Wastewater | Recycled Water |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$3,299,546 | \$721,699 |
| Accrued liabilities | 242,849 | 23,874 |
| Compensated absences (note 1) | 0 | 0 |
| Retentions payable | 237,341 | 518,685 |
| Notes payable, due within one year (note 12) | 1,763,503 | 2,704,473 |
| Long-term debt, due within one year (note 12) | 6,087,288 | 0 |
| Interest payable | 1,640,697 | 898,329 |
| Retention deposits and escrows | 966,399 | 214,904 |
| Total current liabilities | <u>14,237,623</u> | <u>5,081,964</u> |
| Noncurrent liabilities | | |
| Compensated absences (note 1) | 0 | 0 |
| Long-term debt, due in more than one year (note 12) | 179,974,700 | 30,312,057 |
| Notes payable, due in more than one year (note 12) | 32,567,066 | 49,183,823 |
| Liability for 401(a) plan (note 4) | 0 | 0 |
| Advances from other funds (note 14) | 0 | 18,000,000 |
| Other noncurrent liabilities | 0 | 589,256 |
| Net OPEB liability (note 1d.) | 0 | 0 |
| Total noncurrent liabilities | <u>212,541,766</u> | <u>98,085,136</u> |
| Total liabilities | <u>226,779,389</u> | <u>103,167,100</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | <u>213,472,603</u> | <u>69,485,893</u> |
| Restricted for: | | |
| Capital construction | 16,685,774 | 3,811,997 |
| Debt service | 0 | 0 |
| SRF Loan debt service | 1,333,729 | 3,363,901 |
| Bond operating contingency requirement | 15,357,581 | 0 |
| Total restricted | <u>33,377,084</u> | <u>7,175,898</u> |
| Unrestricted | <u>81,065,207</u> | <u>(8,161,987)</u> |
| Total net assets | <u>\$327,914,894</u> | <u>\$68,499,804</u> |

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

| Non-Major | Totals | |
|----------------------|----------------------|----------------------|
| | 2012 | 2011 |
| \$8,061,948 | \$12,083,193 | \$18,656,854 |
| 6,105,722 | 6,372,445 | 5,519,698 |
| 2,237,898 | 2,237,898 | 1,960,081 |
| 2,500 | 758,526 | 632,976 |
| 125,570 | 4,593,546 | 3,333,459 |
| 562,712 | 6,650,000 | 6,395,000 |
| 61,759 | 2,600,785 | 2,528,748 |
| 1,606 | 1,182,909 | 2,330,841 |
| <u>17,159,715</u> | <u>36,479,302</u> | <u>41,357,657</u> |
| 1,838,412 | 1,838,412 | 1,587,592 |
| 23,491,641 | 233,778,398 | 240,701,595 |
| 769,224 | 82,520,113 | 79,196,083 |
| 1,452,719 | 1,452,719 | 1,161,798 |
| 0 | 18,000,000 | 18,000,000 |
| 0 | 589,256 | 714,925 |
| 5,855,131 | 5,855,131 | 4,773,451 |
| <u>33,407,127</u> | <u>344,034,029</u> | <u>346,135,444</u> |
| <u>50,566,842</u> | <u>380,513,331</u> | <u>387,493,101</u> |
| <u>82,320,806</u> | <u>365,279,302</u> | <u>372,277,242</u> |
| 41,453 | 20,539,224 | 28,909,466 |
| 0 | 0 | 0 |
| 0 | 4,697,630 | 4,540,386 |
| 2,204,050 | 17,561,631 | 16,928,258 |
| <u>2,245,503</u> | <u>42,798,485</u> | <u>50,378,110</u> |
| <u>35,261,129</u> | <u>108,164,349</u> | <u>95,800,062</u> |
| <u>\$119,827,438</u> | <u>\$516,242,136</u> | <u>\$518,455,414</u> |

INLAND EMPIRE UTILITIES AGENCY
Statement of Revenues, Expenses, and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for June 30, 2011)

| | Enterprise Fund Types | |
|--|------------------------|--------------------|
| | Regional Wastewater | Recycled Water |
| OPERATING REVENUES | | |
| Service charges | \$ 35,602,244 | \$0 |
| Recycled water sales | 0 | 6,009,468 |
| Total operating revenues | <u>35,602,244</u> | <u>6,009,468</u> |
| OPERATING EXPENSES | | |
| Wastewater collection | 2,013,577 | 0 |
| Wastewater treatment | 17,377,464 | 0 |
| Wastewater disposal | 11,316,321 | 0 |
| Operations and maintenance | 0 | 2,986,686 |
| Administration and general | 15,365,378 | 2,077,785 |
| Depreciation and amortization | <u>21,638,428</u> | <u>3,904,315</u> |
| Total operating expenses | <u>67,711,168</u> | <u>8,968,786</u> |
| Operating income (loss) | <u>(32,108,924)</u> | <u>(2,959,318)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 604,904 | 112,466 |
| Property tax revenue | 28,397,482 | 1,646,650 |
| Wastewater capital connection fees | 7,686,126 | 0 |
| Other nonoperating revenues | 4,478,139 | 1,129,353 |
| Interest on long-term debt | (6,251,496) | (970,462) |
| Other nonoperating expenses | <u>(6,298,933)</u> | <u>(811,930)</u> |
| Total nonoperating revenues (expenses) | <u>28,616,222</u> | <u>1,106,077</u> |
| Income (loss) before capital contributions and transfers | <u>(3,492,702)</u> | <u>(1,853,241)</u> |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | |
| Transfers in (note 15) | 0 | 1,764,375 |
| Transfers out (note 15) | (2,530,461) | (255,731) |
| Capital grants | <u>907,647</u> | <u>2,826,279</u> |
| Change in net assets | <u>(5,115,516)</u> | <u>2,481,682</u> |
| Total net assets - beginning | <u>333,030,410</u> | <u>66,018,122</u> |
| Total net assets - ending | <u>327,914,894</u> | <u>68,499,804</u> |

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

| Non-Major | Totals | |
|--------------------|---------------------|---------------------|
| | 2012 | 2011 |
| \$ 10,865,184 | \$ 46,467,428 | \$ 44,775,957 |
| 0 | 6,009,468 | 4,352,800 |
| <u>10,865,184</u> | <u>52,476,896</u> | <u>49,128,757</u> |
| 3,615,854 | 5,629,431 | 6,517,257 |
| 0 | 17,377,464 | 17,208,487 |
| 0 | 11,316,321 | 10,663,787 |
| 738,085 | 3,724,771 | 3,230,287 |
| 7,312,130 | 24,755,293 | 23,265,746 |
| <u>4,630,149</u> | <u>30,172,892</u> | <u>29,998,908</u> |
| <u>16,296,218</u> | <u>92,976,172</u> | <u>90,884,472</u> |
| <u>(5,431,034)</u> | <u>(40,499,276)</u> | <u>(41,755,715)</u> |
| 245,826 | 963,196 | 1,178,506 |
| 2,650,385 | 32,694,517 | 33,419,237 |
| 0 | 7,686,126 | 5,398,047 |
| 2,954,543 | 8,562,035 | 6,089,725 |
| (224,578) | (7,446,536) | (8,057,543) |
| <u>(1,903,147)</u> | <u>(9,014,010)</u> | <u>(7,773,450)</u> |
| <u>3,723,029</u> | <u>33,445,328</u> | <u>30,254,522</u> |
| <u>(1,708,005)</u> | <u>(7,053,948)</u> | <u>(11,501,193)</u> |
| 1,340,865 | 3,105,240 | 3,152,623 |
| (319,048) | (3,105,240) | (3,152,623) |
| <u>1,106,744</u> | <u>4,840,670</u> | <u>7,586,644</u> |
| <u>420,556</u> | <u>(2,213,278)</u> | <u>(3,914,549)</u> |
| <u>119,406,882</u> | <u>518,455,414</u> | <u>522,369,963</u> |
| <u>119,827,438</u> | <u>516,242,136</u> | <u>518,455,414</u> |

INLAND EMPIRE UTILITIES AGENCY**Statement of Cash Flows****For the Fiscal Year ended June 30, 2012**

(With Comparative Totals for June 30, 2011)

| | Enterprise Funds | |
|--|------------------------|-------------------|
| | Regional Wastewater | Recycled Water |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$33,858,579 | \$6,796,687 |
| Cash received from interfund services provided | 0 | 0 |
| Cash payments to suppliers for goods and services | (21,859,262) | (4,569,861) |
| Cash payments to employees for services | (8,645,546) | (718,891) |
| Cash payments for interfund services used | (17,426,926) | (2,195,883) |
| Net cash provided by (used for) operating activities | (14,073,155) | (687,948) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Transfers in | 0 | 1,764,375 |
| Transfers out | (2,530,461) | (255,731) |
| Contract reimbursement from others | 4,478,138 | 1,129,353 |
| Tax revenues | 30,743,667 | 1,844,448 |
| Issuance of long-term receivable | 0 | 0 |
| Collection of long-term receivable | 2,362,696 | 1,526 |
| Cash paid to others | (6,280,656) | (836,705) |
| Advances from other funds | 0 | 0 |
| Advances to other funds | 0 | 0 |
| Net cash provided by (used for) noncapital financing activities | 28,773,384 | 3,647,266 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets | (13,244,556) | (13,987,159) |
| Proceeds from State Revolving Funds | 4,243,355 | 0 |
| Calls on deposits held by members | 7,686,126 | 0 |
| Capital grants received | 907,647 | 2,826,279 |
| Proceeds from bond refunding | 0 | 0 |
| Payment to refunding bond escrow agent | 0 | 0 |
| Bond issuance costs | 0 | 0 |
| Principal paid on capital debt | (5,416,744) | (38,182) |
| Interest paid on capital debt | (6,049,982) | (783,027) |
| Payments on State Revolving Funds | 0 | (217,106) |
| Bond administration fees | (18,277) | 0 |
| Contractor deposits collected | 0 | 0 |
| Refund of contractor deposits | (851,011) | (173,339) |
| Net cash provided by (used for) capital and related financing activities | (12,743,442) | (12,372,534) |

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

| Non-Major | Totals | |
|--------------------|---------------------|---------------------|
| | 2012 | 2011 |
| \$14,073,600 | \$54,728,866 | \$63,196,563 |
| 21,979,072 | 21,979,072 | 22,241,696 |
| (12,442,022) | (38,871,145) | (29,425,989) |
| (19,074,832) | (28,439,269) | (28,420,087) |
| (1,507,811) | (21,130,620) | (21,350,661) |
| <u>3,028,007</u> | <u>(11,733,096)</u> | <u>6,241,522</u> |
| 1,340,865 | 3,105,240 | 3,152,623 |
| (319,048) | (3,105,240) | (3,152,623) |
| 2,915,891 | 8,523,382 | 6,208,072 |
| 2,871,015 | 35,459,130 | 32,544,568 |
| 0 | 0 | (2,315,667) |
| 26,845 | 2,391,067 | 240,825 |
| (1,747,333) | (8,864,694) | (7,592,630) |
| 0 | 0 | 3,700,000 |
| 0 | 0 | (3,700,000) |
| <u>5,088,235</u> | <u>37,508,885</u> | <u>29,085,168</u> |
| (4,952,681) | (32,184,396) | (44,433,382) |
| 0 | 4,243,355 | 16,374,763 |
| 0 | 7,686,126 | 5,398,047 |
| 1,106,744 | 4,840,670 | 7,586,644 |
| 0 | 0 | 48,984,727 |
| 0 | 0 | (55,290,402) |
| 0 | 0 | (254,041) |
| (655,403) | (6,110,329) | (6,819,298) |
| (379,038) | (7,212,047) | (8,480,305) |
| 0 | (217,106) | 0 |
| 6,051 | (12,226) | (49,700) |
| 0 | 0 | 387,113 |
| 363 | (1,023,987) | 51,439 |
| <u>(4,873,964)</u> | <u>(29,989,940)</u> | <u>(36,544,395)</u> |

(Continued)

INLAND EMPIRE UTILITIES AGENCY
Statement of Cash Flows (Continued from previous page)
For the Fiscal Year ended June 30, 2012
(With Comparative Totals for June 30, 2011)

| | <u>Enterprise Funds</u> | |
|--|------------------------------|----------------------------|
| | <u>Regional</u> | <u>Recycled</u> |
| | <u>Wastewater</u> | <u>Water</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest on investments | \$591,784 | \$110,228 |
| Sale of investments | <u>0</u> | <u>0</u> |
| Net cash provided by (used for) investing activities | <u>591,784</u> | <u>110,228</u> |
| Net increase (decrease) in cash and cash equivalents | <u>2,548,571</u> | <u>(9,302,988)</u> |
| Cash and cash equivalents - beginning | <u>61,367,815</u> | <u>25,141,103</u> |
| Cash and cash equivalents - ending | <u><u>\$63,916,386</u></u> | <u><u>\$15,838,115</u></u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | | |
| Operating income (loss) | (\$32,108,924) | (\$2,959,318) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities | | |
| Depreciation and amortization | 21,638,428 | 3,904,315 |
| Changes in assets and liabilities | | |
| (Increase) decrease in | | |
| Accounts receivable | 748,955 | 921,074 |
| Other receivables | 0 | 0 |
| Short-term receivable | (2,492,621) | (133,854) |
| Inventory | 0 | 0 |
| Prepaid items | 0 | 10,000 |
| Deferred costs | 0 | 0 |
| Increase (decrease) in | | |
| Accounts payable | (556,207) | (2,322,958) |
| Accrued liabilities | (1,302,786) | 18,463 |
| Other liabilities | 0 | (125,670) |
| Compensated absences | <u>0</u> | <u>0</u> |
| Net cash provided by (used for) operating activities | <u><u>(\$14,073,155)</u></u> | <u><u>(\$687,948)</u></u> |

| <u>Non-Major</u> | <u>Totals</u> | |
|---------------------|-----------------------|----------------------|
| | <u>2012</u> | <u>2011</u> |
| \$207,259 | \$909,271 | \$1,120,152 |
| <u>(22,036)</u> | <u>(22,036)</u> | <u>(126,289)</u> |
| 185,223 | 887,235 | 993,863 |
| <u>3,427,501</u> | <u>(3,326,916)</u> | <u>(223,842)</u> |
| 30,879,372 | 117,388,290 | 117,612,132 |
| <u>\$34,306,873</u> | <u>\$114,061,374</u> | <u>\$117,388,290</u> |
| | | |
| (\$5,431,034) | (\$40,499,276) | (\$41,755,715) |
| | | |
| 4,630,149 | 30,172,892 | 29,998,907 |
| | | |
| 3,348,026 | 5,018,055 | 11,232,607 |
| (21,497) | (21,497) | 113,294 |
| (118,113) | (2,744,588) | 2,720,549 |
| 61,233 | 61,233 | 198,899 |
| 272,539 | 282,539 | (66,744) |
| 758 | 758 | 0 |
| | | |
| (3,461,440) | (6,340,605) | 2,131,898 |
| 2,137,070 | 852,747 | 917,835 |
| 1,081,679 | 956,009 | 1,046,762 |
| <u>528,637</u> | <u>528,637</u> | <u>(296,770)</u> |
| | | |
| <u>\$3,028,007</u> | <u>(\$11,733,096)</u> | <u>\$6,241,522</u> |

(Continued)

INLAND EMPIRE UTILITIES AGENCY
Statement of Cash Flows - (Continued from previous page)
For the Fiscal Year Ended June 30, 2012
 (With Comparative Totals for June 30, 2011)

| | Enterprise Funds | |
|--|------------------|--------------|
| | Regional | Recycled |
| | Wastewater | Water |
| RECONCILIATION OF CASH & CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS: | | |
| Cash and short-term investments | \$42,353,227 | \$11,811,214 |
| Restricted assets | 21,563,159 | 4,026,901 |
| Cash & cash equivalents at end of year | \$63,916,386 | \$15,838,115 |

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

| <u>Non-Major</u> | <u>Totals</u> | |
|---------------------|----------------------|----------------------|
| | <u>2012</u> | <u>2011</u> |
| \$33,408,140 | \$87,572,581 | \$81,341,233 |
| 898,733 | 26,488,793 | 36,047,057 |
| <u>\$34,306,873</u> | <u>\$114,061,374</u> | <u>\$117,388,290</u> |



Artist: Sean Wang,

Dana Middle School -

Third Place Winner - Sixth - Eighth Grade Category

Upper San Gabriel Valley Water District

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

June 30, 2012

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NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

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 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, 2012, the Agency's staff is led by the Board-appointed General Manager, Assistant 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 274 were filled as of June 30, 2012. 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, liabilities, net assets equity, 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 and all liabilities (whether current or non-current) associated with their activity are included on their statement of net assets. Their reported fund equity (net total assets) is segregated into invested in capital assets (net of related debt), restricted assets, and unrestricted assets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

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.

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.

Recycled Water Fund

The Recycled Water (WC) Fund records the revenues and expenses associated with the

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

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

Recycled Water Fund (continued)

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 revenue; 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, Liabilities and Net Assets or Equity

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, 2012, 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.

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

d. Assets, Liabilities and Net Assets or Equity (continued):

Interest Income Allocation Method

Interest income earned on pooled cash and investments is allocated monthly 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 in two installments on December 10 and April 10. Any unpaid amounts at the end of the fiscal year are recorded as accounts receivable. The County bills and collects the property taxes and subsequently remits the amount due to the Agency in installments during the year. The Agency accrues those taxes which are received from the County within sixty days after fiscal year end. 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) 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, 2012. When an account is determined to be uncollectible, they are 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

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

d. Assets, Liabilities and Net Assets or Equity (continued):

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.

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 | ----- |
| 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, 2012, total interest of \$2,627,640 was capitalized on jobs in process related to the 2008A Revenue Bonds proceeds, and is comprised of \$1,028,223 recorded in the Regional Wastewater Capital Improvement Fund, \$1,175,175 in the Recycled Water Fund, \$214,859 recorded in the Non-Reclaimable Wastewater Fund and \$209,383 in the Regional Wastewater Operations and Maintenance.

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.

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

d. Assets, Liabilities and Net Assets or Equity (continued):

Capital Assets (continued):

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 | 5 - 10 years |
| | Improvements | 15 years |
| | Interceptors, buildings and plants | 5 - 50 years |
| | Intangible Capacity Rights | 40 years |
| | Computer Software | 10 years |

Compensated Absences

In accordance with GASB Code Section C60, 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, 2011 the accumulated vacation leave payable was \$1,886,023 with additions and deletions during the year of \$366,173 and \$331,127 respectively, resulting in an ending balance at June 30, 2012 of \$1,921,069. There was a net increase of \$35,046 over the previous fiscal year. The sick and compensatory leave balance at July 1, 2011 was \$1,661,650 with additions and deletions during the year of \$1,549,846 and \$1,056,255 respectively, resulting in an ending balance at June 30, 2012 of \$2,155,241. There was a net increase of \$493,591 over the previous fiscal year. Total compensated absences have been recorded in the Administrative Service Fund as a combined total of \$4,076,310 payable in future years. The current year liability is estimated to be \$2,237,898.

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

d. Assets, Liabilities and Net Assets or Equity (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 October 1, 2011. 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 25-year period.

As of June 30, 2012, no decision has been made to fund the actuarially calculated OPEB liability.

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

d. Assets, Liabilities and Net Assets or Equity (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 2011/12.

| Valuation as on October 1, 2011 | FY11/12 |
|---|--------------------|
| Annual Required Contribution (ARC) | \$1,478,148 |
| Interest on net OPEB Obligation | \$214,805 |
| Adjustment to ARC | (229,662) |
| Annual OPEB Costs | \$1,463,291 |
| IEUA Contributions | (381,611) |
| Percentage Contributed | 26% |
| Increase or Decrease in Net OPEB | \$1,081,680 |
| Net OPEB Obligation – Beginning of Year | \$4,773,451 |
| Net OPEB Obligation – End of Year | \$ 5,855,131 |
| Annual Covered Payroll | \$23,518,699 |

Three-year trend information for OPEB

| Fiscal Year Ending | Annual OPEB Cost | Percentage of OPEB Contributed | Net OPEB Obligation |
|---------------------------|-------------------------|---------------------------------------|----------------------------|
| 6/30/2010 | \$1,525,238 | 19% | \$3,757,349 |
| 6/30/2011 | \$1,363,512 | 24% | \$4,773,451 |
| 6/30/2012 | \$1,463,291 | 24% | \$5,855,131 |

Funded Status and Funding Progress

As of October 1, 2011, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$14,520,001 and the actuarial value of assets was \$0, resulting in unfunded actuarial accrued liabilities (UAAL) of \$14,520,001. The covered payroll (annual payroll of active employees covered by the plan) was \$23,924,612, and the ratio of the UAAL to the covered payrolls was 60.7%.

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

d. Assets, Liabilities and Net Assets or Equity (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 October 1, 2011 valuation were:

Discount Rate – a 4.5% discount was used to calculate the present value of future benefit payments. Normal costs increase by 5.5% 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> |
|----------------|-------------|
| 2013 | 7.3% |
| 2014 | 7.0% |
| 2015 | 6.7% |
| 2016 | 6.4% |
| 2017 | 6.1% |
| 2018 | 5.8% |
| 2019 and after | 5.5% |

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, Liabilities and Net Assets or Equity (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 assets. Certain Bond premium discounts, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

The fund financial statements also recognize certain bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenses.

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.

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, 2012 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, 2012 are classified in the accompanying financial statement as follows:

| | |
|---|----------------------|
| Statement of net assets: | |
| Cash and investments | \$87,572,581 |
| Cash and investments held by fiscal agent | 26,488,793 |
| Total cash and investments | \$114,061,374 |

| | |
|--|----------------------|
| Cash and investments as of June 30, 2012 consist of the following: | |
| Cash on hand (Petty Cash) | \$2,250 |
| Deposits with financial institutions | 16,623,554 |
| Deposits held by other governmental agencies | 16,632,592 |
| Investments | 80,802,978 |
| Total cash and investments | \$114,061,374 |

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 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. Construction contract retentions are included in Jobs in Progress within the Capital Asset category on the Statement of Net Assets.

(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 | 20% | 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 | None | 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 |
| Local Agency Investment Fund | None | N/A | None | None |
| Local Agency Investment Pools | 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.

California Asset Management Program (CAMP)

The Agency is a voluntary participant in the California Asset Management Program (CAMP), an investment pool managed by Public Financial Management, Inc. CAMP was established under provisions of the California Joint Exercise of Powers Act. 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 fair value provided by CAMP for the entire CAMP portfolio (in relation to the amortized cost of the portfolio). The balance available for withdrawal is based on the accounting records maintained by CAMP, which are recorded on an amortized cost basis.

Deposits

At June 30, 2012, the carrying amount of the Agency's deposits was \$16,623,554 and the bank balance was \$17,652,269. The \$1,028,715 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. 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.

(3) Cash and Investments (continued):

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.

Certain debt issuances of the Agency permit debt proceeds to be invested in money market funds. CAMP is a joint powers authority that invests in securities comparable to the securities that are held by money market funds. For purposes of compliance with its debt requirements, the Agency considers CAMP to qualify as a permitted investment.

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, 2012 for each investment type:

| Investment Type | Minimum Legal Rating | Rating as of June 30, 2012 | | | | |
|--------------------------|----------------------|----------------------------|---------------------|--------------------|--------------------|---------------------|
| | | AAA | A – AA+ | B – B+ | Unrated | |
| U.S. Agency Securities | \$7,402,530 | AAA | \$7,402,530 | \$0 | \$0 | \$0 |
| Medium Term Notes | 4,386,176 | A | 0 | 3,378,626 | 1,007,550 | 0 |
| State Municipal Bonds | 5,350,564 | A | 0 | 4,352,344 | 0 | 998,220 |
| Certificates of Deposit | 3,000,000 | N/A | 0 | 0 | 0 | 3,000,000 |
| LAIF | 48,489,502 | N/A | 0 | 0 | 0 | 48,489,502 |
| Cal Trust | 3,500,913 | N/A | 0 | 0 | 0 | 3,500,913 |
| Held by Bond Trustee: | | | | | | |
| Money Market Mutual Fund | 486,613 | N/A | 0 | 0 | 0 | 486,613 |
| U.S. Agency Securities | 2,114,526 | AAA | 2,114,526 | 0 | 0 | 0 |
| U.S. Treasuries | 2,165,523 | AAA | 2,165,523 | 0 | 0 | 0 |
| CAMP Investment Pool | 3,906,631 | AAA | 3,906,631 | 0 | 0 | 0 |
| Total | \$80,802,978 | | \$15,589,210 | \$7,730,970 | \$1,007,550 | \$56,475,248 |

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. Investments in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represent 5% or more of the total Agency's investments are as follows:

| <u>Issuer</u> | <u>Investment Type</u> | <u>Reported Amount</u> |
|------------------------|-------------------------------|-------------------------------|
| Fannie Mae | Bonds and Discount Notes | \$ 3,402,150 |
| Citizens Business Bank | Certificate of Deposit | 3,000,000 |

(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, 2012, 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.

(3) Cash and Investments (continued):

Interest Rate Risk (continued)

As of June 30, 2012, 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 | \$1,001,130 | \$6,401,400 | \$0 | \$7,402,530 |
| Medium Term Notes | 3,028,210 | 0 | 1,357,966 | 0 | 4,386,176 |
| State Municipal Bonds | 998,220 | 509,689 | 3,842,655 | 0 | 5,350,564 |
| Certificates of Deposit | 3,000,000 | 0 | 0 | 0 | 3,000,000 |
| State Investment Pool | 48,489,502 | 0 | 0 | 0 | 48,489,502 |
| Cal Trust | 3,500,913 | 0 | 0 | 0 | 3,500,913 |
| Held by Bond Trustee: | | | | | |
| Money Market Mutual Fund | 486,613 | 0 | 0 | 0 | 486,613 |
| U.S. Agency Securities | 0 | 2,114,526 | 0 | 0 | 2,114,526 |
| U.S. Treasuries | 0 | 2,165,523 | 0 | 0 | 2,165,523 |
| CAMP Investment Pool | 3,906,631 | 0 | 0 | 0 | 3,906,631 |
| Total | \$63,410,089 | \$5,790,868 | \$11,602,021 | \$0 | \$80,802,978 |

(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 \$50,000 for 2012. 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

(4) Deferred Compensation Plan (continued)

Compensation Plan must be reported in the financial statements. The reported balances were \$1,452,719 and \$1,161,798 at fiscal years ended June 30, 2012 and 2011, 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.

Funding Policy

Effective October 2, 2011, Agency employees hired before January 1, 2012 shall contribute 2% of their annual 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 covered salary 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.

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, 2011 to June 30, 2012 has been determined by an actuarial valuation of the plan as of July 1, 2009.

In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2012, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2011 to June 30, 2012. The Agency's annual pension cost for the fiscal year ended June 30, 2012 was \$4,976,080.

(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 | July 1, 2009 |
| 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 |
|---------------------------|----------------------------------|--------------------------------------|-------------------------------|
| 6/30/2010 | \$4,747,436 | 100% | 0 |
| 6/30/2011 | 4,730,153 | 100% | 0 |
| 6/30/2012 | 4,976,080 | 100% | 0 |

Funded Status and Funding Progress

As of October 1, 2011, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$14,520,001 and the actuarial value of assets was Nil, resulting in unfunded actuarial accrued liabilities (UAAL) of \$14,520,001. The covered payroll (annual payroll of active employees covered by the plan) was \$23,924,612, and the ratio of the UAAL to the covered payrolls was 60.7%.

(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 \$50,000,000 per occurrence coverage limit, subject to a \$25,000 deductible per occurrence. All other claims categories provide coverage up to \$10,000,000 on an annual aggregate basis.
- Boiler and machinery coverage for the replacement cost up to a shared limit of \$500,000, 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, 2012, 2011, and 2010. 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 | |
|--|------------------------------|---------------------|--------------------------|---------------------|
| | FY 2011/2012 | FY 2010/2011 | FY 2011/2012 | FY 2010/2011 |
| Unpaid Claims, beginning of fiscal year | \$328,410 | \$169,449 | \$2,000,000 | \$0 |
| Incurred claims (including IBNRs) | 206,606 | 301,714 | 1,994 | 2,003,217 |
| Claim payments | (135,277) | (142,753) | (1,501,994) | (3,217) |
| Unpaid claims, end of fiscal year | \$399,739 | \$328,410 | \$500,000 | \$2,000,000 |

(7) Changes in Capital Assets

The following is a summary of property, plant and equipment, net jobs in progress and intangible assets at June 30, 2012:

Capital Assets

| Capital assets- | Balance at 6/30/11 | Additions | Transfers & Retirements | Balance at 6/30/12 | Accumulated Depreciation at 6/30/12 | Net Book Value at 6/30/12 |
|---|-----------------------------|----------------------------|------------------------------|-----------------------------|---|---------------------------------|
| Capital assets-not being depreciated: | | | | | | |
| Land | \$14,141,374 | \$0 | \$(162,025) | \$13,979,349 | \$0 | \$13,979,349 |
| Jobs in progress | 153,790,673 | 32,882,302 | (69,301,057) | 117,371,918 | 0 | 117,371,918 |
| Total capital assets, not being depreciated | <u>\$167,932,047</u> | <u>\$32,882,302</u> | <u>\$(69,463,082)</u> | <u>\$131,351,267</u> | <u>\$0</u> | <u>\$131,351,267</u> |
| Capital assets- being depreciated: | | | | | | |
| Interceptors, trunk lines and inter-ties | \$27,809,402 | \$1,319,140 | \$0 | \$29,128,542 | \$(7,534,455) | \$21,594,087 |
| Office facilities | 11,796,886 | 260,384 | 0 | 12,057,270 | (1,991,978) | 10,065,292 |
| Collection, outfall, and transmission lines | 116,795,989 | 3,490,927 | 0 | 120,286,916 | (57,513,124) | 62,773,792 |
| Reservoirs, settling basins, ponds, and chlorination stations | 98,195,919 | 5,415,047 | 0 | 103,610,966 | (18,939,542) | 84,671,424 |
| Recycled water distribution systems | 82,239,171 | 18,546,891 | 0 | 100,786,062 | (9,775,308) | 91,010,754 |
| Treatment plants, pump stations and office buildings | 236,374,032 | 16,427,424 | 0 | 252,801,456 | (103,758,109) | 149,043,347 |
| Equipment | 120,876,068 | 15,143,764 | (206,970) | 135,812,862 | (61,452,622) | 74,360,240 |
| Land improvement | 13,083,361 | 5,916,320 | 0 | 18,999,681 | (7,138,058) | 11,861,623 |
| Total capital assets, being depreciated | <u>\$707,170,828</u> | <u>\$66,519,897</u> | <u>\$(206,970)</u> | <u>\$773,483,755</u> | <u>\$(268,103,196)</u> | <u>\$505,380,559</u> |
| Less accumulated depreciation for: | | | | | | |
| Interceptors, trunk lines and inter-ties | \$(6,879,894) | \$(654,561) | \$0 | \$(7,534,455) | | |
| Office facilities | (1,729,674) | (262,304) | 0 | (1,991,978) | | |
| Collection, outfall, and transmission lines | (53,712,831) | (3,800,293) | 0 | (57,513,124) | | |
| Reservoirs, settling basins, ponds, and chlorination stations | (16,512,512) | (2,427,030) | 0 | (18,939,542) | | |
| Recycled water distribution systems | (7,745,136) | (2,030,172) | 0 | (9,775,308) | | |
| Treatment plants, pump stations and office buildings | (97,068,612) | (6,689,497) | 0 | (103,758,109) | | |
| Equipment | (50,213,876) | (11,415,267) | 176,521 | (61,452,622) | | |
| Land improvement | (6,401,919) | (736,139) | 0 | (7,138,058) | | |
| Total accumulated depreciation | <u>\$(240,264,454)</u> | <u>\$(28,015,263)</u> | <u>\$176,521</u> | <u>\$(268,103,196)</u> | | |
| Total capital assets, being depreciated, net | <u>\$466,906,374</u> | <u>\$38,504,634</u> | <u>\$(30,449)</u> | <u>\$505,380,559</u> | | |
| Total capital assets-Enterprise Funds, net | <u>\$634,838,421</u> | <u>\$71,386,936</u> | <u>\$(69,493,531)</u> | <u>\$636,731,826</u> | | |

(7) Changes in Capital Assets (continued):

Intangible Assets

| Intangible assets- | Balance at 6/30/11 | Additions | Transfers & Retirements | Balance at 6/30/12 | Accumulated Amortization at 6/30/12 | Net Book Value at 6/30/12 |
|---|-----------------------|---------------------|----------------------------|-----------------------|---|---------------------------------|
| Intangible assets-being amortized: | | | | | | |
| Computer Software | \$7,808,949 | \$80,901 | \$0 | \$7,889,850 | (\$3,304,599) | \$4,585,251 |
| Metropolitan Water District connections | 198,891 | 0 | 0 | 198,891 | (165,081) | 33,810 |
| Corps of Engineers-Cucamonga Creek | 43,489 | 0 | 0 | 43,489 | (23,839) | 19,650 |
| San Bernardino County Flood Control- Chino Road Barrier | 48,078 | 0 | 0 | 48,078 | (13,623) | 34,455 |
| County Sanitation Districts of Los Angeles County's facilities and capacity rights | 35,605,819 | 2,700,258 | 0 | 38,306,077 | (13,292,724) | 25,013,353 |
| Santa Ana Watershed Project Authority capacity rights | 12,467,002 | 0 | 0 | 12,467,002 | (5,501,994) | 6,965,008 |
| Organization and master planning | 1,844,537 | 0 | 0 | 1,844,537 | (540,782) | 1,303,755 |
| Total intangible assets being amortized | \$58,016,765 | \$2,781,159 | \$0 | \$60,797,924 | (\$22,842,642) | \$37,955,282 |
| Less accumulated amortization for: | | | | | | |
| Computer Software | (\$2,480,917) | (\$823,682) | \$0 | (\$3,304,599) | | |
| Metropolitan Water District connections | (161,103) | (3,978) | 0 | (165,081) | | |
| Corps of Engineers-Cucamonga Creek berm | (22,969) | (870) | 0 | (23,839) | | |
| San Bernardino County Flood Control- Chino Road Barrier | (12,020) | (1,603) | 0 | (13,623) | | |
| County Sanitation Districts of Los Angeles County's facilities and capacity rights | (12,297,906) | (994,818) | 0 | (13,292,724) | | |
| Santa Ana Watershed Project Authority capacity rights | (5,204,410) | (297,584) | 0 | (5,501,994) | | |
| Organization and master planning | (505,689) | (35,093) | 0 | (540,782) | | |
| Total accumulated amortization | (20,685,014) | (2,157,628) | 0 | (22,842,642) | | |
| Total intangible assets-Enterprise | | | | | | |
| Funds, net | \$37,331,751 | \$623,531 | \$0 | \$37,955,282 | | |
| Total capital assets- Enterprise Funds, net | \$672,170,172 | \$72,010,467 | (\$69,493,531) | \$674,687,108 | | |

The ending balance of accumulated depreciation and amortization for all capital assets has been adjusted to the Statement of Net Assets for 2012 (rounding difference.) For the Fiscal year ended June 30, 2012, depreciation and amortization expense was \$30,172,892.

(7) Changes in Capital Assets (continued):

Jobs in Progress

At the Fiscal Year ended June 30, 2012, 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) | \$15,483,110 |
| RP1 Dewatering Facility Expansion | 27,120,553 |
| RP5 System Facility Upgrade & Improvements | 15,166,044 |
| 1630 W. Recycled Water Pipeline Segment | 10,283,465 |
| RP1 Odor Control - Phase I | 9,573,497 |
| 1299 E Reservoir Conv & 1630 E Pump Station | 8,143,456 |
| 1630 W. Recycled Water Pipeline Segment | 7,195,159 |
| 1630 W. Recycled Water Pipeline Segment | 5,980,732 |
| 1630 W. Recycled Water Pump Station | 4,356,133 |
| 930 W. Reservoir & Pipeline | 3,877,317 |
| Church Street Lateral | 2,441,548 |
| Plant Equipment Improvements | 2,199,213 |
| RP-1 Asset Replacement | 1,609,844 |
| RP1 Facilities Improvements | 1,523,708 |
| Wineville Extension Recycled Water Pipeline | 1,376,336 |
| RP1 Flare \$PR1/RP2 Boiler Replacement | 1,041,803 |
| | <hr/> |
| Total jobs in progress | \$117,371,918 |
| | <hr/> <hr/> |

(8) Construction Commitments

The Agency is committed to several material construction contracts. Total outstanding obligations were \$1,833,344 at June 30, 2012. Some of the more significant contracts are as follows:

There are several projects on-going throughout the Agency's regional recycling water plants, with six major recycled water projects on-going totaling \$833,351; four major projects at the Carbon Canyon Water Recycling facility totaling \$468,869; three major projects on-going at RP-1 totaling \$373,894; one Recharge Facilities Improvement project totaling \$134,261, and several smaller projects at each water recycling facility, with a remaining combined obligation of \$22,969.

The major projects include:

- **EN08018.01** – *1630 W. Reservoir*. This project consists of the design and construction of a three million gallon reservoir (1630 W. Reservoir). The reservoir will be located on a parcel of land at the northwest quadrant of the 19th Street and Sapphire Street in Rancho Cucamonga. In the future another three million gallon recycled water reservoir may be added to this site. This project has an outstanding obligation of \$524,792.
- **EN06015** – *RP-1 Dewatering Facility Expansion* This project will expand the dewatering facilities at RP-1 by replacing the existing filter belt presses with a more efficient and cost effective dewatering system. A storage system for the dewatered cake will also be added to provide a minimum of 48 hours of dewater cake storage. This will allow more flexibility in scheduling of trucks to haul the solids to the composting facility. The project will also replace the belt conveyance system with a dual system to insure reliability and redundancy. This would eliminate potential bottlenecks at this system when handling current and ultimate treatment capacities. This project will only utilize the existing footprint of the building to house the new system upgrade, but a temporary facility will be constructed within the area to maintain dewatering operations during construction. This project has an outstanding obligation of \$315,346.
- **EN11045** – *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 under condition restoration. This project has an outstanding obligation of \$266,223.
- **EN08018.02** – *1630 W. Recycled Water Pipeline Segment C*. This project includes two 24- inch regional pipelines as follows: 1) approximately 2,400 linear feet of 24-inch diameter pipeline will be constructed from the reservoir site along the Flood Control Channel to Baseline Road; 2) approximately 3,500 linear feet of 24-inch diameter pipeline will be constructed from the border of the City of Upland and Cucamonga Valley Water District service areas, to Red Hill Park. This project has an outstanding obligation of \$168,039.
- **EN08013.05** – *Carbon Canyon Aeration Basin Air Ducting Replacement*. The scope of work for this project consists of slip-lining (with a new stainless steel pipeline) the existing 30-inch and 16-inch galvanized steel air ducting, from the blower building to the aeration basin, at the Carbon Canyon facility. This is intended to alleviate the periodic air leakage that has been occurring in the 30-inch galvanized steel air ducting. This project has an outstanding obligation of \$151,990.
- **EN12025**– *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 \$134,261.

(8) Construction Commitments (continued):

- **EN09003.01** – *1630 W. Recycled Water Pipeline Segment B*. This project involves construction of pipeline within the 1630 Pressure Zone West, to serve as an inlet / outlet pipeline to the 1630 Pressure Zone West Reservoir. Specifically, this project involves construction of 13,000 feet of 24-inch diameter pipeline. The pipeline will start at the Memorial Park, and will continue to 16th Street, at the border of the City of Upland and the Cucamonga Valley Water District service area. This project has an outstanding obligation of \$99,254.
- **EN11038** – *RP1 Digester Gas Condensate Pump Improvements*. This project will construct and install automatic condensate sump pumps for seven digester condensate collection vaults. Upon installation, this system will automatically drain these vaults of excessive condensates and accumulated storm water runoff, away from the vaults, and ensure the continued safe operation of these vaults. This project will also prepare final plans, submit construction documents for public bid and award, and provide in-house construction management support. The project has an outstanding obligation of \$35,395.
- **EN11032** – *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 \$28,202.
- **EN07010.04** – *Prado Lake Discharge Control Valve*. The intent of this project is to find and implement an effective means to control flow through Prado Lake Discharge at a maximum of 3 Million gallons per day (MGD). Operations require better control of the Prado Lake Discharge valve to effectively regulate the amount of recycled water being discharged. The Prado Lake Discharge sleeve valve (E.D. Valve) and magnetic flow meter are on a 20-inch line, and cannot effectively control flows in the 3 MGD range. Additionally, the sodium bisulfate (SBS) pumps that inject into the discharge line directly downstream the flow meter, may be oversized and are running at their minimum capacity. There is a failsafe feature that runs a pump at full capacity if the system cannot read the flow properly (normally a very low flow). The SBS pumps will be inspected to identify options to correct this problem. This project has an outstanding obligation of \$26,890.
- **EN07006.04** – *RP-1 Dechlorination / Solids Upgrades*. This project will provide upgrades of the dechlorination system at Tertiary Treatment Plant 1 (TP-1) to accommodate the increased flows from the RP-4 expansion; introduce filtrate treatment systems at RP-1; and perform the gas system modifications to provide capacity for ultimate flow of 60 MGD. This project has an outstanding obligation of \$23,153.
- **EN11041** – *Carbon Canyon Tertiary Filter Media Replacement & Rehabilitation*. This project consists of taking out the filters media and assessing the conditions of the under-drains, metal components and concrete surfaces. Once the repairs / replacements of affected components are completed, the filters media will be replaced. It is anticipated that more extensive maintenance and rehabilitation work will be needed. But the extent remains unknown until the media is pumped out. This project has an outstanding obligation of \$22,454.

(8) Construction Commitments (continued):

- **EN11059** – *RP4 Odor Control Back-up Blower*. This project consists of installation of a new odor control back-up blower and all supporting equipment such as electrical panels, sprinkler system, and required valves. The scope of this project includes the conversion of the existing feed water to the existing sprinkler system and future sprinkler system, located inside the air ducting, from potable water to recycled water. This project has an outstanding obligation of \$10,265.
- **WR08032** – *1630 W. Recycled Water Pump Station*. This project consists of design and construction of a new recycled water pump station. The new pump station will include the installation of three pumps, of approximately 450 horse power (hp). The 1630 W. Pump Station will be designed to have one lead pump, one lag pump, and one stand-by pump held in reserve. Construction will occur at the City of Ontario's Fern Reservoir site, located at the intersection of Eighth Street and Fern Avenue, in the City of Upland. The project has an outstanding obligation of \$9,680.
- **EN11058** – *RP-2 Dewatering Drainage Repair*. During wet weather there is an erosion issue on the northeast side of the RP2 dewatering building. The goal of this project is to analyze the drainage issue, make recommended repairs, and construct any final recommended items. The project has an outstanding obligation of \$9,304.
- **WR11019** – *Prado Dechlorination Station Drainage Repair*. During wet weather there is a flooding issue on the east side of the Prado Dechlorination Station. The goal of this project is to analyze the drainage issue, make recommended repairs, and construct any final recommended items. The project has an outstanding obligation of \$4,696.
- **EN11057** – *Headquarters Perimeter Drainage Improvements*. This project includes dirt fill and compaction, landscaping, and roof drain spouts relocation, to eliminate standing water at building wall perimeters and water seepage under tilt-up walls. The project has an outstanding obligation of \$3,400.

(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, 2012, 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. The first installment will be due on June 30, 2013 and the second on June 30, 2014. As of June 30, 2012, the current portion of the receivable amount \$2,339,250, due in 12 months on June 30, 2013, is recorded in the Regional Wastewater Capital Improvement (RC) Fund.

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, 2012, the receivable amount is \$56,165, 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, 2012, the receivable amount is \$2,831,218 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, 2012, the receivable amount is \$843,205, 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, 2012, the receivable amount is \$215,040 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

(10) Long-Term Receivables (continued):

Chaffey Joint Union High School District (continued):

May 2014. As of June 30, 2012, the receivable amount is \$94,287 and is recorded in the Recycled Water (WC) Fund.

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, 2012, the receivable amount of \$47,372 for the Valley View High School retrofit and \$28,880 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, 2012, the receivable amount is \$52,000 and is recorded in the Recycled Water (WC) Fund.

(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, 2012 is summarized as follows:

| | Fiscal Year Ended | |
|---------------------------------|--------------------|--------------------|
| | 2012 | 2011 |
| Total assets | \$192,136,326 | \$181,103,770 |
| Total liabilities | \$123,953,552 | \$115,484,904 |
| Total net assets | \$68,182,774 | \$65,618,866 |
| Total revenues | \$19,424,885 | \$18,111,314 |
| Total expenses | (16,860,977) | (18,253,295) |
| Net change in net assets | \$2,563,908 | (\$141,981) |

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 of 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, 2012, Desalter 1 and Desalter 2 delivered a total of 24,663 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 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 property. The facility started operation in FY 2006/2007. The operational costs of the JPA are recorded in the Regional Wastewater Operations and Maintenance (RO) Fund.

As of June 30, 2012, the Agency's equity share is \$46,452,575 recorded in the Regional Wastewater Capital Improvement (RC) Fund. There was an additional write-down of \$718,529 (50% of the Agency's equity share) of the JPA's net assets at June 30, 2012; this reduction is recorded in the non-operating expenses on the 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 (IEUA), 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.

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.

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

Santa Ana River Watermaster (continued):

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 | <u>20%</u> |
| 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:

| | Fiscal Year Ended | |
|--|--------------------------|------------------------|
| | 2011 | 2010 |
| Total assets - cash | <u>\$ 13,039</u> | <u>\$ 10,100</u> |
| Fund balance | <u>13,039</u> | <u>10,100</u> |
| Total revenues | \$ 14,000 | \$ 16,800 |
| Total expenses | (11,061) | (10,292) |
| Net increase/(decrease) in equity | <u>\$ 2,939</u> | <u>\$ 6,508</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, 2012:

| | 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) | \$20,360,000 | \$0 | \$1,325,000 | \$19,035,000 | \$1,390,000 | \$17,645,000 |
| 2008A Revenue Bonds | 125,000,000 | 0 | 0 | 125,000,000 | 0 | 125,000,000 |
| 2008B Variable Rate (2002A Refinancing) | 50,795,000 | 0 | 1,560,000 | 49,235,000 | 1,660,000 | 47,575,000 |
| 2010A (1994 Refunding) | 45,570,000 | 0 | 3,510,000 | 42,060,000 | 3,600,000 | 38,460,000 |
| Sub-total | 241,725,000 | 0 | 6,395,000 | 235,330,000 | 6,650,000 | 228,680,000 |
| Deferred Bond Cost | 5,371,595 | 0 | 273,197 | 5,098,398 | | 5,098,398 |
| Total | \$247,096,595 | \$0 | \$6,668,197 | \$240,428,398 | \$6,650,000 | \$233,778,398 |

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, 2012 is comprised of the principal of \$19,035,000, less net unamortized deferred bond costs and discount of (\$686,446) for a net balance of \$18,348,554.

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.
- 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, 2012 is comprised of the

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

Long-term Debt (continued):

2008A Revenue Bonds (continued)

principal of \$125,000,000, plus a deferred premium of \$4,372,840, for a net balance of \$129,372,840.

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 cost 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, 2012 comprised of the principal amount of \$49,235,000, less net unamortized deferred bond costs and discount of (\$69,573), for a net amount of \$49,165,427.

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, 2012 is comprised of the principal amount of \$42,060,000, plus net unamortized deferred bond premium of \$1,481,577, for a net amount of \$43,541,577.

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

Long-term Debt (continued):

Aggregate Long Term Debt

As of June 30, 2012, the aggregate debt service requirements on bonded indebtedness to maturity are summarized as follows:

| Year Ending June 30 | Principal Payments | Interest Payments | Total |
|--|-------------------------------|------------------------------|----------------------|
| 2013 | \$6,650,000 | \$8,828,056 | \$15,478,056 |
| 2014 | 6,870,000 | 8,656,663 | 15,526,663 |
| 2015 | 7,105,000 | 8,470,920 | 15,575,920 |
| 2016 | 7,395,000 | 8,241,747 | 15,636,747 |
| 2017 | 7,670,000 | 8,005,580 | 15,675,580 |
| 2018-2022 | 43,150,000 | 35,764,516 | 78,914,516 |
| 2023-2027 | 28,830,000 | 30,334,892 | 59,164,892 |
| 2028-2032 | 44,195,000 | 24,710,948 | 68,905,948 |
| 2033-2037 | 56,570,000 | 14,078,000 | 70,648,000 |
| 2038-2039 | 26,895,000 | 1,361,625 | 28,256,625 |
| <hr/> | | | |
| Subtotal | 235,330,000 | 148,452,947 | 383,782,947 |
| Less: Bond Defeasance Cost | (2,606,216) | | (2,606,216) |
| Plus: Bond Issuance Cost (Premium and Discount) | 7,704,614 | | 7,704,614 |
| <hr/> | | | |
| Total Debt Service Payable | \$240,428,398 | \$148,452,947 | \$388,881,345 |

All bond debt with variable interest rates use 0.2%, the rate in effect as of 06/30/12.

Debt Covenants

In accordance with bond covenants, 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, 2012. (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, 2012 was as follows:

| | Beginning | | | Ending | Amounts Due Within | Amounts Due After |
|---------------------------|---------------------|--------------------|--------------------|---------------------|--------------------|---------------------|
| | Balance | Additions | Reductions | Balance | One Year | One Year |
| Notes Payable: | | | | | | |
| SARI Pipeline Cap. 1.5mgd | \$1,491,542 | \$0 | \$177,694 | \$1,313,848 | \$188,355 | \$1,125,493 |
| City of Fontana | 8,417,002 | 0 | 482,578 | 7,934,424 | 482,578 | 7,451,846 |
| State Revolving Fund Loan | 72,620,998 | 7,917,576 | 2,673,187 | 77,865,387 | 3,922,613 | 73,942,774 |
| Total Notes Payable | \$82,529,542 | \$7,917,576 | \$3,333,459 | \$87,113,659 | \$4,593,546 | \$82,520,113 |

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 fifteenth installment is due on July 15, 2012. 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, 2012, the future payments for the remaining note payable obligation by year is as follows:

| Year Ending | Principal | Imputed | |
|------------------|--------------------|------------------|--------------------|
| June 30 | Payments | Interest | Total |
| 2013 | \$188,355 | \$78,832 | \$267,187 |
| 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 | <u>\$1,313,848</u> | <u>\$289,278</u> | <u>\$1,603,126</u> |

(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, 2012, the balance is \$10,636,416.
- 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, 2012 is \$12,498,470.
- 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, 2012 of \$9,272,050.
- 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, 2012 is \$14,321,430.
- 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, 2012 is \$907,437.
- The Recycled Water Project (Southern Area) in Phase VI is also in part funded by the State Revolving Fund (SRF). As of June 30, 2012, we reflect a current balance of \$4,252,493.
- The RP-1 Dewatering Facility Expansion project is also in part funded by the State Revolving Fund (SRF). As of June 30, 2012, this project is approximately 92% complete and has received \$25,977,091 of SRF funding.

As of June 30, 2012, the future payments for the remaining loan obligations by year are as follows:

| <u>Year Ending June 30</u> | <u>Principal Payment</u> | <u>Interest Payment</u> | <u>Total Payment</u> |
|--------------------------------|------------------------------|-----------------------------|--------------------------|
| 2013 | \$ 3,922,613 | \$ 775,016 | \$ 4,697,629 |
| 2014 | 4,154,061 | 850,228 | 5,004,289 |
| 2015 | 4,198,385 | 805,771 | 5,004,156 |
| 2016 | 4,243,624 | 760,400 | 5,004,024 |
| 2017 | 4,289,800 | 714,091 | 5,003,891 |
| 2018/2022 | 22,175,971 | 2,841,494 | 25,017,465 |
| 2023/2027 | 21,428,474 | 1,558,397 | 22,986,871 |
| 2028/2032 | 13,184,069 | 420,080 | 13,604,149 |
| 2033 | 268,390 | 6,978 | 275,368 |
| Total SRF Loans | <u>\$77,865,387</u> | <u>\$8,732,455</u> | <u>\$86,597,842</u> |

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

Notes Payable (continued):

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, 2012, the future payments for the remaining note payable obligation by year are as follows:

| Year Ending June 30 | Principal Payments | Interest Amortization | Total |
|------------------------|-----------------------|--------------------------|--------------------|
| 2013 | \$482,578 | \$79,824 | \$562,402 |
| 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 |
| 2018/2022 | 2,412,890 | 399,120 | 2,812,010 |
| 2023/2027 | 2,412,890 | 399,120 | 2,812,010 |
| 2028/2029 | 695,754 | 85,544 | 781,298 |
| Total Fontana Loan | <u>\$7,934,424</u> | <u>\$1,282,904</u> | <u>\$9,217,328</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, 2013.
- The initial arbitrage rebate on the 2010A Bonds will be due in July, 2015.

No arbitrage liability is currently due at June 30, 2012.

(14) Advance to/from Other Funds

The composition of advances to/from other funds balances as of June 30, 2012, 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, 2012, the Regional Wastewater Capital Improvement (RC) Fund reported an advance to the Recycled Water (WC) Fund, and the Recycled Water (WC) Fund reported an advance from the Regional Wastewater Capital Improvement (RC) 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, 2012, the Non-reclaimable Wastewater Capital Improvement (NC) Fund reported an advance to the Recycled Water Fund, and the Recycled Water Fund reported an advance from the Non-reclaimable Wastewater Capital Improvement 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 \$1,464,375 and \$300,000 in operating support from the Water Fund.

Non-Major Enterprise Funds received transfers in the amount of \$1,340,865 including \$1,066,086 from the Regional Wastewater Funds. These transfers included \$560,229 in capital support to the Administrative Service (GG) Fund from various funds. The remaining amount consisted of \$543,953 in debt service support and \$236,683 in operating support to the Recharge Water (RW) Fund.

The following table reflects the interfund transfer balances in and out by fund as of June 30, 2012.

| | Transfers In: | | | Total |
|----------------------------|----------------------|--------------------|----------------------------|--------------------|
| | Regional Wastewater | Recycled Water | Non-Major Enterprise Funds | |
| Transfers out: | | | | |
| Regional Wastewater Funds | \$0 | \$1,464,375 | \$1,066,086 | \$2,530,461 |
| Recycled Water Fund | 0 | | 255,731 | 255,731 |
| Non-Major Enterprise Funds | 0 | 300,000 | 19,048 | 319,048 |
| Total Transfers | \$0 | \$1,764,375 | \$1,340,865 | \$3,105,240 |

(16) Operating Leases

The Agency has two operating leases at June 30, 2012:

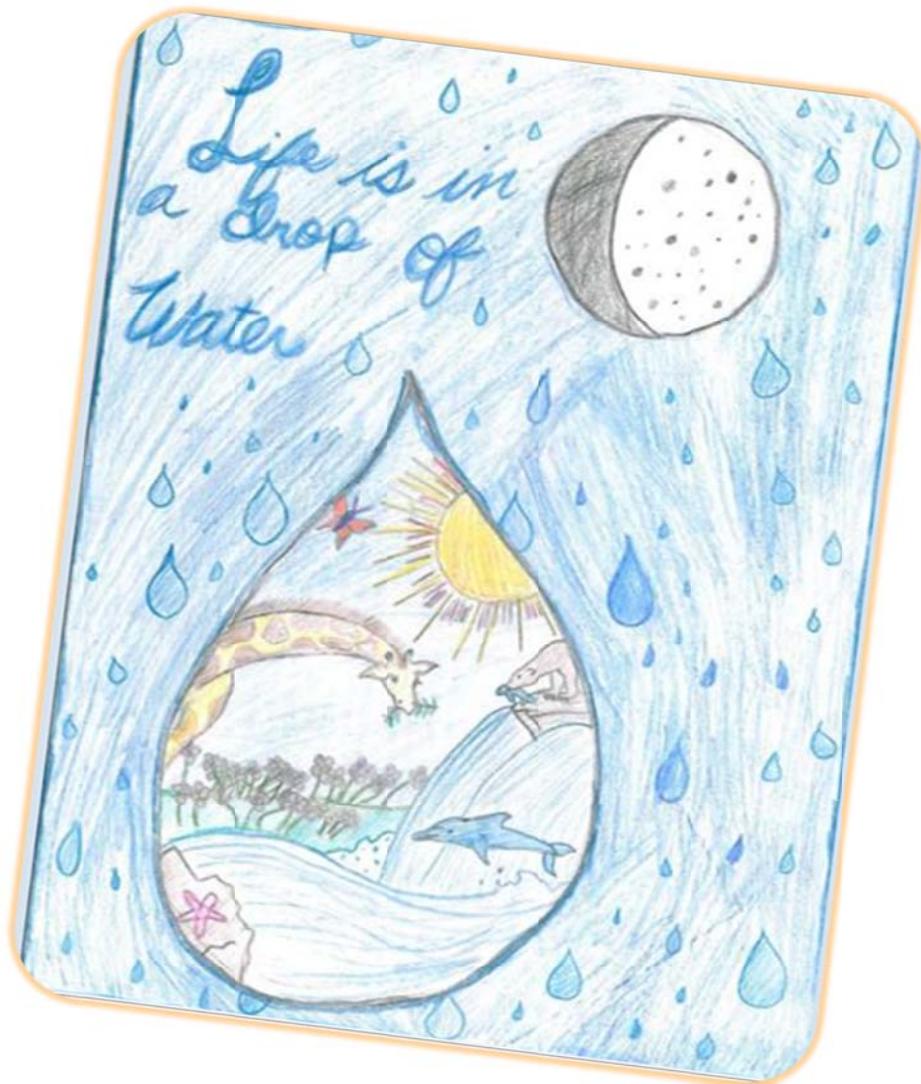
- One postage meter lease extending to June 30, 2016
- One lease for nine copiers, extending to June 30, 2016

Total operating lease costs were \$21,011 for the year ended June 30, 2012. The future minimum lease payments for equipment leases are as follows:

| <u>Year Ended June 30</u> | <u>Amount</u> |
|---------------------------|------------------------|
| 2013 | \$21,011 |
| 2014 | 21,642 |
| 2015 | 22,291 |
| 2016 | 22,960 |
| Total | <u>\$87,904</u> |

(17) Subsequent Event

In preparing these financial statements, the Agency has evaluated events and transactions for potential recognition or disclosure through November 26, 2012, the date the financial statements were available to be issued and found no subsequent event.



Artist: Abby,

Ada Harris School -

First Place Winner - Fourth Grade Category

San Dieguito Water District

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, 2012

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) |
|---------------------------------|--|--------------------------------------|---|---------------------------|----------------------------|--|
| 6/30/2009 | \$101,921,750 | \$79,689,675 | \$22,232,075 | 78.2% | \$24,511,910 | 90.7% |
| 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% |

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) |
|---------------------------------|--|--------------------------------------|---|---------------------------|----------------------------|--|
| 07/01/06 | \$ 7,971,198 | - | \$ 7,971,198 | 0.00% | \$19,176,313 | 41.6% |
| 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% |

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.



Garden in Every School Project



RP-5 Bio-Filter Media



IEUA Solar Field

INLAND EMPIRE UTILITIES AGENCY

Combining Statement of Net Assets

June 30, 2012

(With Comparative Totals for June 30, 2011)

| | <u>Non-Major Enterprise Funds</u> | |
|---|-----------------------------------|---------------------------------------|
| | <u>Water Resources</u> | <u>Non-reclaimable Wastewater</u> |
| ASSETS | | |
| Current assets | | |
| Cash and investments | \$1,484,179 | \$5,929,776 |
| Accounts receivable | 7,788,818 | 826,182 |
| Interest receivable | 3,198 | 399,778 |
| Taxes receivable | 0 | 0 |
| Other receivables | 44 | 47,793 |
| Inventory | 0 | 0 |
| Prepaid items | 0 | 31,205 |
| | <u>9,276,239</u> | <u>7,234,734</u> |
| Total current assets | | |
| Noncurrent assets | | |
| Restricted assets | | |
| Assets held for 401(a) plan | 0 | 0 |
| Assets held with trustee/fiscal agent | 0 | 41,453 |
| | <u>0</u> | <u>41,453</u> |
| Total restricted assets | | |
| Capital assets | | |
| Land | 0 | 0 |
| Jobs in progress | 897,106 | 1,110,927 |
| Capital assets, net of accumulated depreciation | 21,566 | 12,059,664 |
| Intangible assets, net of accumulated amortization | 39,292 | 27,665,460 |
| | <u>957,964</u> | <u>40,836,051</u> |
| Total capital assets | | |
| Other assets | | |
| Long-term receivables | 0 | 56,164 |
| Advances to other funds | 0 | 15,000,000 |
| Deferred costs | 0 | 80,509 |
| | <u>0</u> | <u>15,136,673</u> |
| Total other assets | | |
| | <u>957,964</u> | <u>56,014,177</u> |
| Total noncurrent assets | | |
| | <u>10,234,203</u> | <u>63,248,911</u> |
| Total assets | | |

| Recharge Water | Administrative Services | Totals | |
|-------------------|----------------------------|--------------------|--------------------|
| | | 2012 | 2011 |
| \$2,287,536 | \$23,706,649 | \$33,408,140 | \$30,032,077 |
| 42,336 | 1,911,187 | 10,568,523 | 13,874,213 |
| 8,262 | 43,144 | 454,382 | 415,815 |
| 0 | 218,874 | 218,874 | 439,498 |
| 0 | 173,666 | 221,503 | 81,900 |
| 0 | 1,498,644 | 1,498,644 | 1,559,877 |
| 0 | 67,526 | 98,731 | 371,270 |
| <u>2,338,134</u> | <u>27,619,690</u> | <u>46,468,797</u> | <u>46,774,650</u> |
| 0 | 1,452,719 | 1,452,719 | 1,161,798 |
| <u>857,280</u> | <u>0</u> | <u>898,733</u> | <u>847,295</u> |
| <u>857,280</u> | <u>1,452,719</u> | <u>2,351,452</u> | <u>2,009,093</u> |
| 0 | 20,829 | 20,829 | 20,829 |
| 388,203 | 760,188 | 3,156,424 | 15,397,043 |
| 47,274,253 | 11,928,251 | 71,283,734 | 59,473,915 |
| <u>47,890</u> | <u>4,159,196</u> | <u>31,911,838</u> | <u>31,138,549</u> |
| <u>47,710,346</u> | <u>16,868,464</u> | <u>106,372,825</u> | <u>106,030,336</u> |
| 0 | 0 | 56,164 | 83,010 |
| 0 | 0 | 15,000,000 | 15,000,000 |
| <u>64,533</u> | <u>0</u> | <u>145,042</u> | <u>152,042</u> |
| <u>64,533</u> | <u>0</u> | <u>15,201,206</u> | <u>15,235,052</u> |
| <u>48,632,159</u> | <u>18,321,183</u> | <u>123,925,483</u> | <u>123,274,481</u> |
| <u>50,970,293</u> | <u>45,940,873</u> | <u>170,394,280</u> | <u>170,049,131</u> |

(continued)

INLAND EMPIRE UTILITIES AGENCY
Combining Statement of Net Assets (Continued from previous page)
June 30, 2012
(With Comparative Totals for June 30, 2011)

| | <u>Non-Major Enterprise Funds</u> | |
|---|-----------------------------------|------------------------|
| | <u>Water</u> | <u>Non-reclaimable</u> |
| LIABILITIES | <u>Resources</u> | <u>Wastewater</u> |
| Current liabilities | | |
| Accounts payable | \$6,737,124 | \$269,480 |
| Accrued liabilities | 422,705 | 2,973,596 |
| Compensated absences | 0 | 0 |
| Retentions payable | 0 | 2,500 |
| Notes payable, due within one year | 0 | 125,570 |
| Long-term debt, due within one year | 0 | 0 |
| Interest payable | 0 | 59,479 |
| Retentions deposits and escrows | 0 | 0 |
| | <u>7,159,829</u> | <u>3,430,625</u> |
| Total current liabilities | | |
| Noncurrent liabilities | | |
| Compensated absences | 0 | 0 |
| Long-term debt, due in more than one year | 0 | 7,387,190 |
| Notes payable, due in more than one year | 0 | 769,224 |
| Liability for 401(a) plan | 0 | 0 |
| Advances from other funds | 0 | 0 |
| Other noncurrent liabilities | 0 | 0 |
| Net OPEB liability | 0 | 0 |
| | <u>0</u> | <u>8,156,414</u> |
| Total noncurrent liabilities | | |
| Total liabilities | <u>7,159,829</u> | <u>11,587,039</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | <u>957,964</u> | <u>32,595,520</u> |
| Restricted for: | | |
| Capital construction | 0 | 41,453 |
| Debt service | 0 | 0 |
| Bond operating contingency requirement | 0 | 1,636,182 |
| | <u>0</u> | <u>1,677,635</u> |
| Total restricted | | |
| Unrestricted | <u>2,116,410</u> | <u>17,388,717</u> |
| Total net assets | <u>\$3,074,374</u> | <u>\$51,661,872</u> |

| Recharge Water | Administrative Services | Totals | |
|---------------------|----------------------------|----------------------|----------------------|
| | | 2012 | 2011 |
| \$30,997 | \$1,024,347 | \$8,061,948 | \$11,523,391 |
| 118,688 | 2,590,733 | 6,105,722 | 3,968,652 |
| 0 | 2,237,898 | 2,237,898 | 1,960,081 |
| 0 | 0 | 2,500 | 2,137 |
| 0 | 0 | 125,570 | 118,463 |
| 562,712 | 0 | 562,712 | 528,814 |
| 2,280 | 0 | 61,759 | 60,597 |
| 1,606 | 0 | 1,606 | 0 |
| <u>716,283</u> | <u>5,852,978</u> | <u>17,159,715</u> | <u>18,162,135</u> |
| 0 | 1,838,412 | 1,838,412 | 1,587,592 |
| 16,104,451 | 0 | 23,491,641 | 24,062,479 |
| 0 | 0 | 769,224 | 894,794 |
| 0 | 1,452,719 | 1,452,719 | 1,161,798 |
| 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 |
| 0 | 5,855,131 | 5,855,131 | 4,773,451 |
| <u>16,104,451</u> | <u>9,146,262</u> | <u>33,407,127</u> | <u>32,480,114</u> |
| <u>16,820,734</u> | <u>14,999,240</u> | <u>50,566,842</u> | <u>50,642,249</u> |
| <u>31,898,858</u> | <u>16,868,464</u> | <u>82,320,806</u> | <u>81,273,081</u> |
| 0 | 0 | 41,453 | 0 |
| 0 | 0 | 0 | 0 |
| 0 | 567,868 | 2,204,050 | 2,107,311 |
| <u>0</u> | <u>567,868</u> | <u>2,245,503</u> | <u>2,107,311</u> |
| <u>2,250,701</u> | <u>13,505,301</u> | <u>35,261,129</u> | <u>36,026,490</u> |
| <u>\$34,149,559</u> | <u>\$30,941,633</u> | <u>\$119,827,438</u> | <u>\$119,406,882</u> |

INLAND EMPIRE UTILITIES AGENCY
Combining Statement of Revenues, Expenses, and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for June 30, 2011)

| | <u>Non-Major Enterprise Funds</u> | |
|--|-----------------------------------|---|
| | <u>Water</u> <u>Resources</u> | <u>Non-reclaimable</u> <u>Wastewater</u> |
| OPERATING REVENUES | | |
| Service charges | <u>\$4,258,189</u> | <u>\$6,606,995</u> |
| Total operating revenues | <u>4,258,189</u> | <u>6,606,995</u> |
| OPERATING EXPENSES | | |
| Wastewater collection | 0 | 3,615,854 |
| Operations and maintenance | 738,085 | 0 |
| Administration and general | 3,357,035 | 1,292,693 |
| Depreciation and amortization | <u>5,367</u> | <u>1,621,180</u> |
| Total operating expenses | <u>4,100,487</u> | <u>6,529,727</u> |
| Operating income (loss) | <u>157,702</u> | <u>77,268</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 12,271 | 89,829 |
| Property tax revenue | 0 | 11 |
| Other nonoperating revenues | 402,049 | 85,686 |
| Interest on long-term debt | 0 | (201,677) |
| Other nonoperating expenses | <u>(106,828)</u> | <u>(144,400)</u> |
| Total nonoperating revenues (expenses) | <u>307,492</u> | <u>(170,551)</u> |
| Income (loss) before capital contributions and transfers | 465,194 | (93,283) |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | |
| Transfers in | 0 | 0 |
| Transfers out | (300,000) | (19,048) |
| Capital grants | <u>577,885</u> | <u>0</u> |
| Change in net assets | <u>743,079</u> | <u>(112,331)</u> |
| Total net assets - beginning | <u>2,331,295</u> | <u>51,774,203</u> |
| Total net assets - ending | <u>\$3,074,374</u> | <u>\$51,661,872</u> |

| Recharge Water | Administrative Services | Totals | |
|-------------------|----------------------------|---------------|---------------|
| | | 2012 | 2011 |
| \$0 | \$0 | \$10,865,184 | \$10,004,221 |
| 0 | 0 | 10,865,184 | 10,004,221 |
| 0 | 0 | 3,615,854 | 3,783,123 |
| 0 | 0 | 738,085 | 630,566 |
| 1,190,345 | 1,472,057 | 7,312,130 | 6,682,262 |
| 1,119,489 | 1,884,113 | 4,630,149 | 4,541,089 |
| 2,309,834 | 3,356,170 | 16,296,218 | 15,637,040 |
| (2,309,834) | (3,356,170) | (5,431,034) | (5,632,819) |
| 20,383 | 123,343 | 245,826 | 399,030 |
| 0 | 2,650,374 | 2,650,385 | 2,695,625 |
| 911,817 | 1,554,991 | 2,954,543 | 2,607,833 |
| (22,901) | 0 | (224,578) | (259,151) |
| (356,071) | (1,295,848) | (1,903,147) | (1,805,586) |
| 553,228 | 3,032,860 | 3,723,029 | 3,637,751 |
| (1,756,606) | (323,310) | (1,708,005) | (1,995,068) |
| 780,636 | 560,229 | 1,340,865 | 1,388,001 |
| 0 | 0 | (319,048) | (558,103) |
| 388,846 | 140,013 | 1,106,744 | 757,360 |
| (587,124) | 376,932 | 420,556 | (407,810) |
| 34,736,683 | 30,564,701 | 119,406,882 | 119,814,692 |
| \$34,149,559 | \$30,941,633 | \$119,827,438 | \$119,406,882 |

INLAND EMPIRE UTILITIES AGENCY
Combining Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

(With Comparative Totals for June 30, 2011)

| | <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 | \$5,723,510 | \$7,460,969 |
| Cash received from interfund services provided | 0 | 0 |
| Cash payments to suppliers for goods and services | (4,753,078) | (1,297,175) |
| Cash payments to employees for services | (474,708) | (737,620) |
| Cash payments for interfund services used | <u>(250,303)</u> | <u>(1,112,757)</u> |
| Net cash provided by (used for) operating activities | <u>245,421</u> | <u>4,313,417</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Transfers in | 0 | 0 |
| Transfers out | (300,000) | (19,048) |
| Contract reimbursement from others | 402,049 | 85,686 |
| Tax revenues | 0 | 17 |
| Issuance of long term receivables | 0 | 26,845 |
| Cash paid to others | (106,828) | (150,450) |
| Advances to other funds | <u>0</u> | <u>0</u> |
| Net cash provided by (used for) noncapital financing activities | <u>(4,779)</u> | <u>(56,950)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets | (533,172) | (3,505,179) |
| Capital grants | 577,885 | 0 |
| Principal paid on capital debt | 0 | (127,768) |
| Interest paid on capital debt | 0 | (198,662) |
| Bond administration fees | 0 | 6,051 |
| Refund of contractor deposits | <u>0</u> | <u>0</u> |
| Net cash provided by (used for) capital and related financing activities | <u>44,713</u> | <u>(3,825,558)</u> |

| Recharge Water | Administrative Services | Totals | |
|--------------------|----------------------------|--------------------|--------------------|
| | | 2012 | 2011 |
| \$0 | \$889,121 | \$14,073,600 | \$10,470,081 |
| 0 | 21,979,072 | 21,979,072 | 22,241,696 |
| (696,025) | (5,695,744) | (12,442,022) | (7,130,609) |
| (238,748) | (17,623,756) | (19,074,832) | (19,824,514) |
| <u>(144,751)</u> | <u>0</u> | <u>(1,507,811)</u> | <u>(1,955,568)</u> |
| <u>(1,079,524)</u> | <u>(451,307)</u> | <u>3,028,007</u> | <u>3,801,086</u> |
| 780,636 | 560,229 | 1,340,865 | 1,388,001 |
| 0 | 0 | (319,048) | (558,103) |
| 869,480 | 1,558,676 | 2,915,891 | 2,726,180 |
| 0 | 2,870,998 | 2,871,015 | 2,629,149 |
| 0 | 0 | 26,845 | 26,053 |
| (197,641) | (1,292,414) | (1,747,333) | (1,655,786) |
| <u>0</u> | <u>0</u> | <u>0</u> | <u>(3,700,000)</u> |
| <u>1,452,475</u> | <u>3,697,489</u> | <u>5,088,235</u> | <u>855,494</u> |
| (204,234) | (710,096) | (4,952,681) | (2,075,371) |
| 388,846 | 140,013 | 1,106,744 | 757,360 |
| (527,635) | 0 | (655,403) | (640,248) |
| (176,942) | (3,434) | (379,038) | (436,007) |
| 0 | 0 | 6,051 | 6,038 |
| <u>363</u> | <u>0</u> | <u>363</u> | <u>(116,982)</u> |
| <u>(519,602)</u> | <u>(573,517)</u> | <u>(4,873,964)</u> | <u>(2,505,210)</u> |

(Continued)

INLAND EMPIRE UTILITIES AGENCY**Combining Statement of Cash Flows - (Continued from previous page)****For the Fiscal Year Ended June 30, 2012**

(With Comparative Totals for June 30, 2011)

| | <u>Non-Major Enterprise Funds</u> | |
|--|-----------------------------------|---------------------------|
| | <u>Water</u> | <u>Non-reclaimable</u> |
| | <u>Resources</u> | <u>Wastewater</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest on investments | \$11,669 | \$32,346 |
| Sale of investments | <u>0</u> | <u>0</u> |
| Net cash provided by (used for) investing activities | <u>11,669</u> | <u>32,346</u> |
| Net increase (decrease) in cash and cash equivalents | <u>297,024</u> | <u>463,255</u> |
| Cash and cash equivalents - beginning | <u>1,187,155</u> | <u>5,507,974</u> |
| Cash and cash equivalents - ending | <u><u>\$1,484,179</u></u> | <u><u>\$5,971,229</u></u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | | |
| Operating income (loss) | \$157,702 | \$77,268 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities | | |
| Depreciation and amortization | 5,367 | 1,621,180 |
| Changes in assets and liabilities | | |
| (Increase) decrease in | | |
| Accounts receivable | 1,465,322 | 875,470 |
| Other receivables | 0 | (21,497) |
| Short term receivables | 0 | 0 |
| Inventory | 0 | 0 |
| Prepaid items | 0 | 215,985 |
| Deferred costs | 0 | 0 |
| Increase (decrease) in | | |
| Accounts payable | (1,463,859) | (510,200) |
| Accrued liabilities | 80,889 | 2,055,211 |
| Other noncurrent liabilities | 0 | 0 |
| Compensated absences | <u>0</u> | <u>0</u> |
| Net cash provided by (used for) operating activities | <u><u>\$245,421</u></u> | <u><u>\$4,313,417</u></u> |

| Recharge Water | Administrative Services | Totals | |
|----------------------|----------------------------|---------------------|---------------------|
| | | 2012 | 2011 |
| \$21,676 | \$141,568 | \$207,259 | \$316,501 |
| 0 | (22,036) | (22,036) | (126,289) |
| <u>21,676</u> | <u>119,532</u> | <u>185,223</u> | <u>190,212</u> |
| <u>(124,975)</u> | <u>2,792,197</u> | <u>3,427,501</u> | <u>2,341,582</u> |
| <u>3,269,791</u> | <u>20,914,452</u> | <u>30,879,372</u> | <u>28,537,790</u> |
| <u>\$3,144,816</u> | <u>\$23,706,649</u> | <u>\$34,306,873</u> | <u>\$30,879,372</u> |
| | | | |
| (2,309,834) | (\$3,356,170) | (\$5,431,034) | (\$5,632,819) |
| | | | |
| 1,119,489 | 1,884,113 | \$4,630,149 | 4,541,089 |
| | | | |
| 0 | 1,007,234 | 3,348,026 | 333,097 |
| 0 | 0 | (21,497) | 113,294 |
| 0 | (118,113) | (118,113) | 18,112 |
| 0 | 61,233 | 61,233 | 198,899 |
| 0 | 56,554 | 272,539 | (49,389) |
| 0 | 758 | 758 | 0 |
| | | | |
| (7,867) | (1,479,514) | (3,461,440) | 3,531,906 |
| 118,688 | (117,718) | 2,137,070 | 27,565 |
| 0 | 1,081,679 | 1,081,679 | 1,016,102 |
| <u>0</u> | <u>528,637</u> | <u>528,637</u> | <u>(296,770)</u> |
| | | | |
| <u>(\$1,079,524)</u> | <u>(\$451,307)</u> | <u>\$3,028,007</u> | <u>\$3,801,086</u> |

(Continued)

INLAND EMPIRE UTILITIES AGENCY

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

For the Fiscal Year Ended June 30, 2012

(With Comparative Totals for June 30, 2011)

| | <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 | \$1,484,179 | \$5,929,776 |
| Restricted assets | 0 | 41,453 |
| Cash & cash equivalents at end of year | <u>\$1,484,179</u> | <u>\$5,971,229</u> |

| Recharge Water | Administrative Services | Total Non-Major Funds | |
|--------------------|----------------------------|-----------------------|---------------------|
| | | 2012 | 2011 |
| \$2,287,536 | \$23,706,649 | \$33,408,140 | \$30,032,077 |
| 857,280 | 0 | 898,733 | 847,295 |
| <u>\$3,144,816</u> | <u>\$23,706,649</u> | <u>\$34,306,873</u> | <u>\$30,879,372</u> |



Artist: Brenda Chen,

Arcadia High School -

Third Place Winner - Ninth - Twelfth Grade Category

Upper San Gabriel Valley Water District

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

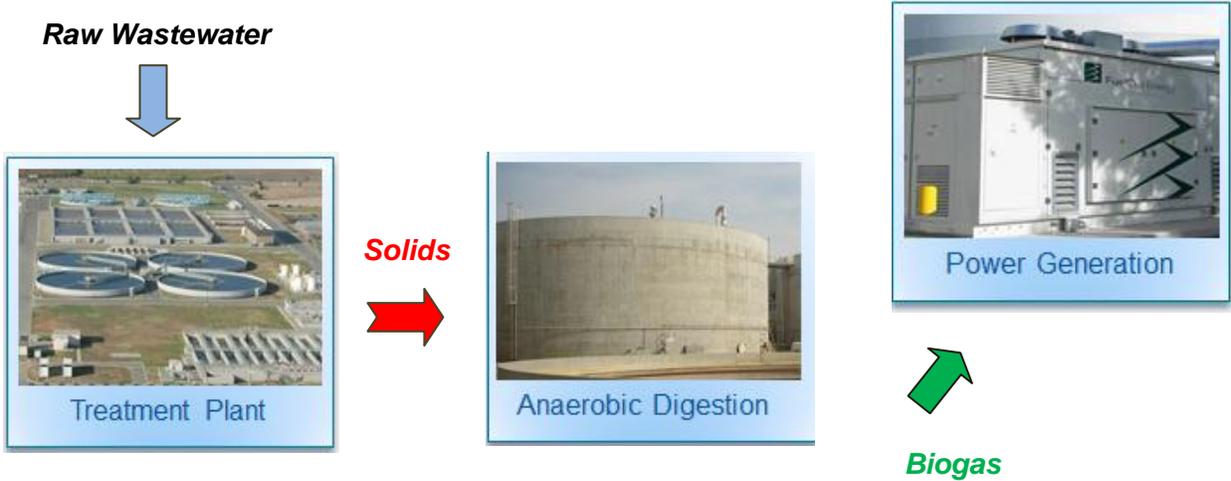
The RC fund records the activities associated with the acquisition, construction, replacement, and expansion of the Agency's wastewater treatment plants, energy cogeneration, solids handling facilities, large sewer interceptors, and appurtenant facilities. In addition, principal payments, interest expenses, 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 Assets by Subfund
June 30, 2012
(With Comparative Totals for June 30, 2011)

| | Regional | Regional | Totals | |
|--|------------------------|-----------------------------|--------------|--------------|
| | Capital Improvement | Operations & Maintenance | 2012 | 2011 |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and investments | \$16,651,013 | \$25,702,214 | \$42,353,227 | \$41,053,543 |
| Accounts receivable | 1,240,858 | 6,328,005 | 7,568,863 | 8,317,819 |
| Interest receivable | 166,080 | 55,404 | 221,484 | 208,362 |
| Taxes receivable | 1,763,393 | 601,795 | 2,365,188 | 4,711,373 |
| Other receivables | 2,362,696 | 153,508 | 2,516,204 | 23,583 |
| Prepaid items | 1,200 | 0 | 1,200 | 1,200 |
| Total current assets | 22,185,240 | 32,840,926 | 55,026,166 | 54,315,880 |
| Noncurrent assets | | | | |
| Restricted assets | | | | |
| Deposits held by governmental agencies | 16,632,592 | 0 | 16,632,592 | 13,446,467 |
| Assets held with trustee/fiscal agents | 4,833,878 | 96,689 | 4,930,567 | 6,867,805 |
| Total restricted assets | 21,466,470 | 96,689 | 21,563,159 | 20,314,272 |
| Capital assets | | | | |
| Land | 13,958,520 | 0 | 13,958,520 | 14,120,545 |
| Jobs in progress | 59,129,126 | 6,562,563 | 65,691,689 | 82,451,929 |
| Capital assets, net of accumulated depreciation | 331,968,962 | 3,059,571 | 335,028,533 | 325,576,700 |
| Intangible assets, net of accumulated amortization | 5,761,290 | 0 | 5,761,290 | 5,966,202 |
| Total capital assets | 410,817,898 | 9,622,134 | 420,440,032 | 428,115,376 |
| Other assets | | | | |
| Long-term investments | 46,452,575 | 0 | 46,452,575 | 47,171,104 |
| Advances to other funds | 3,000,000 | 0 | 3,000,000 | 3,000,000 |
| Long-term receivables | 5,170,468 | 0 | 5,170,468 | 7,533,164 |
| Deferred costs | 2,993,521 | 48,362 | 3,041,883 | 3,232,293 |
| Total other assets | 57,616,564 | 48,362 | 57,664,926 | 60,936,561 |
| Total noncurrent assets | 489,900,932 | 9,767,185 | 499,668,117 | 509,366,209 |
| Total assets | 512,086,172 | 42,608,111 | 554,694,283 | 563,682,089 |

(Continued)

| | Regional Capital Improvement | Regional Operations & Maintenance | Totals | |
|---|------------------------------------|---|---------------|---------------|
| | | | 2012 | 2011 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable | \$879,859 | \$2,419,687 | \$3,299,546 | \$3,855,754 |
| Accrued liabilities | 83,533 | 159,316 | 242,849 | 1,545,635 |
| Retentions payable | 87,522 | 149,819 | 237,341 | 87,565 |
| Notes payable, due within one year | 1,763,503 | 0 | 1,763,503 | 541,809 |
| Long-term debt, due within one year | 6,087,288 | 0 | 6,087,288 | 5,866,186 |
| Interest payable | 1,604,968 | 35,729 | 1,640,697 | 1,629,593 |
| Retention deposits and escrows | 966,399 | 0 | 966,399 | 1,967,186 |
| Total current liabilities | 11,473,072 | 2,764,551 | 14,237,623 | 15,493,728 |
| Noncurrent liabilities | | | | |
| Long-term debt, due in more than one year | 175,537,213 | 4,437,487 | 179,974,700 | 186,288,877 |
| Notes payable, due in more than one year | 32,567,066 | 0 | 32,567,066 | 28,869,074 |
| Other noncurrent liabilities | 0 | 0 | 0 | 0 |
| Total noncurrent liabilities | 208,104,279 | 4,437,487 | 212,541,766 | 215,157,951 |
| Total liabilities | 219,577,351 | 7,202,038 | 226,779,389 | 230,651,679 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 208,191,267 | 5,281,336 | 213,472,603 | 220,911,007 |
| Restricted for: | | | | |
| Capital construction | 16,589,085 | 96,689 | 16,685,774 | 14,385,134 |
| Debt service | 0 | 0 | 0 | 0 |
| SRF Loan debt service | 1,333,729 | 0 | 1,333,729 | 0 |
| Bond operating contingency requirement | 2,173,072 | 13,184,509 | 15,357,581 | 14,820,947 |
| Total restricted | 20,095,886 | 13,281,198 | 33,377,084 | 29,206,081 |
| Unrestricted | 64,221,668 | 16,843,539 | 81,065,207 | 82,913,322 |
| Total net assets | \$292,508,821 | \$35,406,073 | \$327,914,894 | \$333,030,410 |

INLAND EMPIRE UTILITIES AGENCY
Regional Wastewater Fund
Combining Schedule of Revenues, Expenses and
Changes in Fund Net Assets by Subfund
For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for June 30, 2011)

| | Regional Capital Improvement | Regional Operations & Maintenance | Totals | |
|---|------------------------------------|---|----------------|----------------|
| | | | 2012 | 2011 |
| OPERATING REVENUES | | | | |
| Service charges | \$0 | \$35,602,244 | \$35,602,244 | \$34,771,736 |
| Total operating revenues | 0 | 35,602,244 | 35,602,244 | 34,771,736 |
| OPERATING EXPENSES | | | | |
| Wastewater collection | 0 | 2,013,577 | 2,013,577 | 2,734,134 |
| Wastewater treatment | 0 | 17,377,464 | 17,377,464 | 17,208,487 |
| Wastewater disposal | 0 | 11,316,321 | 11,316,321 | 10,663,787 |
| Administration and general | 6,519,215 | 8,846,163 | 15,365,378 | 15,356,434 |
| Depreciation and amortization | 21,491,576 | 146,852 | 21,638,428 | 21,987,327 |
| Total operating expenses | 28,010,791 | 39,700,377 | 67,711,168 | 67,950,169 |
| Operating income (loss) | (28,010,791) | (4,098,133) | (32,108,924) | (33,178,433) |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Interest income | 473,708 | 131,196 | 604,904 | 636,031 |
| Property tax revenue | 21,118,918 | 7,278,564 | 28,397,482 | 28,061,808 |
| Wastewater capital connection fees | 7,686,126 | 0 | 7,686,126 | 5,398,047 |
| Other nonoperating revenues | 820,252 | 3,657,887 | 4,478,139 | 3,205,151 |
| Interest on long-term debt | (6,246,504) | (4,992) | (6,251,496) | (6,247,226) |
| Other nonoperating expenses | (3,444,155) | (2,854,778) | (6,298,933) | (4,671,253) |
| Total nonoperating revenues (expenses) | 20,408,345 | 8,207,877 | 28,616,222 | 26,382,558 |
| Income (loss) before capital contributions and transfers | (7,602,446) | 4,109,744 | (3,492,702) | (6,795,875) |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | | | |
| Transfers in | 0 | 0 | 0 | 0 |
| Transfers out | (2,530,461) | 0 | (2,530,461) | (2,449,868) |
| Capital grants | 846,310 | 61,337 | 907,647 | 807,005 |
| Change in net assets | (9,286,597) | 4,171,081 | (5,115,516) | (8,438,738) |
| Total net assets - beginning | 301,795,418 | 31,234,992 | 333,030,410 | 341,469,148 |
| Total net assets - ending | \$ 292,508,821 | \$ 35,406,073 | \$ 327,914,894 | \$ 333,030,410 |

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



INLAND EMPIRE UTILITIES AGENCY
Recycled Water Fund
Schedule of Net Assets
June 30, 2012

(With Comparative Totals for June 30, 2011)

| | Totals | |
|--|--------------------|--------------------|
| | 2012 | 2011 |
| ASSETS | | |
| Current assets | | |
| Cash and investments | \$11,811,214 | \$10,255,613 |
| Accounts receivable | 4,302,969 | 5,224,042 |
| Interest receivable | 25,451 | 23,213 |
| Taxes receivable | 136,632 | 334,430 |
| Other receivable | 348,626 | 214,772 |
| Prepaid items | 13,500 | 23,500 |
| Total current assets | <u>16,638,392</u> | <u>16,075,570</u> |
| Noncurrent assets | | |
| Restricted assets | | |
| Assets held with trustee/fiscal agents | <u>4,026,901</u> | <u>14,885,490</u> |
| Total restricted assets | <u>4,026,901</u> | <u>14,885,490</u> |
| Capital assets | | |
| Jobs in progress | 48,523,805 | 55,941,701 |
| Capital assets, net of accumulated depreciation | 99,068,292 | 81,855,759 |
| Intangible assets, net of accumulated amortization | <u>282,154</u> | <u>227,000</u> |
| Total capital assets | <u>147,874,251</u> | <u>138,024,460</u> |
| Other assets | | |
| Long term receivables | 1,280,784 | 1,282,310 |
| Deferred costs | <u>1,846,576</u> | <u>1,949,465</u> |
| Total other assets | <u>3,127,360</u> | <u>3,231,775</u> |
| Total noncurrent assets | <u>155,028,512</u> | <u>156,141,725</u> |
| Total assets | <u>171,666,904</u> | <u>172,217,295</u> |

(Continued)

| | Totals | |
|---|----------------------------|----------------------------|
| | 2012 | 2011 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$721,699 | \$3,277,709 |
| Accrued liabilities | 23,874 | 5,411 |
| Retentions payable | 518,685 | 545,774 |
| Notes payable, due within one year | 2,704,473 | 2,673,187 |
| Interest payable | 898,329 | 838,558 |
| Retention deposits and escrows | 214,904 | 361,155 |
| Total current liabilities | <u>5,081,964</u> | <u>7,701,794</u> |
| Noncurrent liabilities | | |
| Advances from other funds | 18,000,000 | 18,000,000 |
| Long-term debt, due in more than one year | 30,312,057 | 30,350,239 |
| Notes payable, due in more than one year | 49,183,823 | 49,432,215 |
| Other noncurrent liabilities | 589,256 | 714,925 |
| Total noncurrent liabilities | <u>98,085,136</u> | <u>98,497,379</u> |
| Total liabilities | <u>103,167,100</u> | <u>106,199,173</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | <u>69,485,893</u> | <u>70,093,154</u> |
| Restricted for: | | |
| Capital construction | 3,811,997 | 14,524,332 |
| Bond debt service | 0 | 0 |
| SRF Loan debt service | 3,363,901 | 4,540,386 |
| Total restricted | <u>7,175,898</u> | <u>19,064,718</u> |
| Unrestricted | <u>(8,161,987)</u> | <u>(23,139,750)</u> |
| Total net assets | <u><u>\$68,499,804</u></u> | <u><u>\$66,018,122</u></u> |

INLAND EMPIRE UTILITIES AGENCY
Recycled Water Fund
Schedule of Revenues, Expenses, and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for June 30, 2011)

| | Totals | |
|--|--------------|--------------|
| | 2012 | 2011 |
| OPERATING REVENUES | | |
| Recycled water sales | \$6,009,468 | \$4,352,800 |
| Total operating revenue | 6,009,468 | 4,352,800 |
| OPERATING EXPENSES | | |
| Operations and Maintenance | 2,986,686 | 2,599,721 |
| Administration and general | 2,077,785 | 1,227,050 |
| Depreciation and amortization | 3,904,315 | 3,470,492 |
| Total operating expenses | 8,968,786 | 7,297,263 |
| Operating income (loss) | (2,959,318) | (2,944,463) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 112,466 | 143,445 |
| Property tax revenue | 1,646,650 | 2,661,804 |
| Other nonoperating revenues | 1,129,353 | 276,741 |
| Other nonoperating expenses | (811,930) | (1,296,611) |
| Interest on long-term debt | (970,462) | (1,551,166) |
| Total nonoperating revenues (expenses) | 1,106,077 | 234,213 |
| Income (loss) before capital contributions and transfers | (1,853,241) | (2,710,250) |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | |
| Transfers in | 1,764,375 | 1,764,622 |
| Transfers out | (255,731) | (144,652) |
| Capital grants | 2,826,279 | 6,022,279 |
| Change in net assets | 2,481,682 | 4,931,999 |
| Total net assets - beginning | 66,018,122 | 61,086,123 |
| Total net assets - ending | \$68,499,804 | \$66,018,122 |

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 Assets
June 30, 2012
(With Comparative Totals for June 30, 2011)

| | Totals | |
|--|---------------------------|---------------------------|
| | <u>2012</u> | <u>2011</u> |
| ASSETS | | |
| Current assets | | |
| Cash and investments | \$1,484,179 | \$1,187,155 |
| Accounts receivable | 7,788,818 | 9,254,140 |
| Interest receivable | 3,198 | 2,596 |
| Other receivable | <u>44</u> | <u>44</u> |
| Total current assets | <u>9,276,239</u> | <u>10,443,935</u> |
| Noncurrent assets | | |
| Capital assets | | |
| Jobs in progress | 897,106 | 363,934 |
| Capital assets, net of accumulated depreciation | 21,566 | 22,112 |
| Intangible assets, net of accumulated amortization | <u>39,292</u> | <u>44,113</u> |
| Total capital assets | <u>957,964</u> | <u>430,159</u> |
| Total noncurrent assets | <u>957,964</u> | <u>430,159</u> |
| Total assets | <u>10,234,203</u> | <u>10,874,094</u> |
| LIABILITIES | | |
| Accounts payable | 6,737,124 | 8,200,983 |
| Accrued liabilities | <u>422,705</u> | <u>341,816</u> |
| Total liabilities | <u>7,159,829</u> | <u>8,542,799</u> |
| NET ASSETS | | |
| Invested in capital assets | 957,964 | 430,159 |
| Unrestricted | 2,116,410 | 1,901,136 |
| Total net assets | <u><u>\$3,074,374</u></u> | <u><u>\$2,331,295</u></u> |

INLAND EMPIRE UTILITIES AGENCY
Water Resources Fund
Schedule of Revenues, Expenses, and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2011
(With Comparative Totals for June 30, 2011)

| | Totals | |
|--|--------------------|--------------------|
| | 2012 | 2011 |
| OPERATING REVENUES | | |
| Service charges | \$4,258,189 | \$3,231,584 |
| Total operating revenues | <u>4,258,189</u> | <u>3,231,584</u> |
| OPERATING EXPENSES | | |
| Operations and maintenance | 738,085 | 630,566 |
| Administration and general | 3,357,035 | 2,800,659 |
| Depreciation and amortization | 5,367 | 5,367 |
| Total operating expenses | <u>4,100,487</u> | <u>3,436,592</u> |
| Operating income (loss) | <u>157,702</u> | <u>(205,008)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 12,271 | 19,272 |
| Other nonoperating revenues | 402,049 | 81,305 |
| Other nonoperating expenses | (106,828) | (401,799) |
| Total nonoperating revenues (expenses) | <u>307,492</u> | <u>(301,222)</u> |
| Income (loss) before capital contributions and transfers | 465,194 | (506,230) |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | |
| Transfers out | (300,000) | (300,000) |
| Capital grants | 577,885 | 734,787 |
| Change in net assets | <u>743,079</u> | <u>(71,443)</u> |
| Total net assets - beginning | <u>2,331,295</u> | <u>2,402,738</u> |
| Total net assets - ending | <u>\$3,074,374</u> | <u>\$2,331,295</u> |



Artist: Charlize Sunahara, First Grade

Howard Cattle School - Chino

First Place Winner - Kindergarten - Fifth Grade Category

Inland Empire Utilities Water District

INLAND EMPIRE UTILITIES AGENCY
NON-RECLAIMABLE WASTEWATER FUND
COMPARATIVE SCHEDULES

The Non-reclaimable Wastewater Fund consists of the following:

The Non-reclaimable Wastewater (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, pipeline transport, and non-reclaimable 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 Vector Truck



INLAND EMPIRE UTILITIES AGENCY
Non-reclaimable Wastewater Fund
Schedule of Net Assets
June 30, 2012

(With Comparative Totals for June 30, 2011)

| | Totals | |
|--|-------------------|-------------------|
| | 2012 | 2011 |
| ASSETS | | |
| Current assets | | |
| Cash and investments | \$5,929,776 | \$5,507,972 |
| Accounts receivable | 826,182 | 1,701,652 |
| Interest receivable | 399,778 | 342,295 |
| Other receivables | 47,793 | 26,303 |
| Prepaid items | 31,205 | 247,190 |
| Total current assets | <u>7,234,734</u> | <u>7,825,412</u> |
| Noncurrent assets | | |
| Restricted assets | | |
| Assets held with trustee/fiscal agent | 41,453 | 2 |
| Total restricted assets | <u>41,453</u> | <u>2</u> |
| Capital assets | | |
| Jobs in progress | 1,110,927 | 7,709,968 |
| Capital assets, net of accumulated depreciation | 12,059,664 | 5,119,931 |
| Intangible assets, net of accumulated amortization | 27,665,460 | 26,122,153 |
| Total capital assets | <u>40,836,051</u> | <u>38,952,052</u> |
| Other assets | | |
| Advances to other funds | 15,000,000 | 15,000,000 |
| Long-term receivables | 56,164 | 83,010 |
| Deferred costs | 80,509 | 83,524 |
| Total other assets | <u>15,136,673</u> | <u>15,166,534</u> |
| Total noncurrent assets | <u>56,014,177</u> | <u>54,118,588</u> |
| Total assets | <u>63,248,911</u> | <u>61,944,000</u> |

(Continued)

| | Totals | |
|---|---------------------|---------------------|
| | 2012 | 2011 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$269,480 | \$779,681 |
| Accrued liabilities | 2,973,596 | 918,385 |
| Retention deposits and escrows | 2,500 | 2,500 |
| Notes payable, due within one year | 125,570 | 118,463 |
| Interest payable | 59,479 | 59,479 |
| Total current liabilities | <u>3,430,625</u> | <u>1,878,508</u> |
| Noncurrent liabilities | | |
| Long-term debt, due in more than one year | 7,387,190 | 7,396,495 |
| Notes payable, due in more than one year | 769,224 | 894,794 |
| Total noncurrent liabilities | <u>8,156,414</u> | <u>8,291,289</u> |
| Total liabilities | <u>11,587,039</u> | <u>10,169,797</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | <u>32,595,520</u> | <u>30,542,302</u> |
| Restricted for: | | |
| Capital construction | 41,453 | 0 |
| Bond operating contingency requirement | 1,636,182 | 1,718,351 |
| Total restricted | <u>1,677,635</u> | <u>1,718,351</u> |
| Unrestricted | <u>17,388,717</u> | <u>19,513,550</u> |
| Total net assets | <u>\$51,661,872</u> | <u>\$51,774,203</u> |

INLAND EMPIRE UTILITIES AGENCY
Non-reclaimable Wastewater Fund
Schedule of Revenues, Expenses and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for June 30, 2011)

| | Totals | |
|---|----------------------------|----------------------------|
| | 2012 | 2011 |
| OPERATING REVENUES | | |
| Service charges | \$6,606,995 | \$6,772,637 |
| Total operating revenues | <u>6,606,995</u> | <u>6,772,637</u> |
| OPERATING EXPENSES | | |
| Wastewater collection | 3,615,854 | 3,783,123 |
| Administration and general | 1,292,693 | 1,371,930 |
| Depreciation and amortization | <u>1,621,180</u> | <u>1,260,189</u> |
| Total operating expenses | <u>6,529,727</u> | <u>6,415,242</u> |
| Operating income (loss) | <u>77,268</u> | <u>357,395</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 89,829 | 128,908 |
| Property tax revenue | 11 | 11 |
| Other nonoperating revenues | 85,686 | 72,430 |
| Interest on long-term debt | (201,677) | (208,412) |
| Other nonoperating expenses | <u>(144,400)</u> | <u>(35,384)</u> |
| Total nonoperating revenues (expenses) | <u>(170,551)</u> | <u>(42,447)</u> |
| Income (loss) before transfers | (93,283) | 314,948 |
| TRANSFERS | | |
| Transfers out | <u>(19,048)</u> | <u>(12,353)</u> |
| Change in net assets | <u>(112,331)</u> | <u>302,595</u> |
| Total net assets - beginning | <u>51,774,203</u> | <u>51,471,608</u> |
| Total net assets - ending | <u><u>\$51,661,872</u></u> | <u><u>\$51,774,203</u></u> |

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 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, equipment, and tools), contracted services (e.g. weeding and vector control) 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 RC & WC, 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 Assets****June 30, 2012**

(With Comparative Totals for June 30, 2011)

| | Totals | |
|--|-------------------|-------------------|
| | 2012 | 2011 |
| ASSETS | | |
| Current assets | | |
| Cash and investments | \$2,287,536 | \$2,422,498 |
| Accounts receivable | 42,336 | 0 |
| Interest receivable | 8,262 | 9,555 |
| Prepaid items | 0 | 0 |
| Total current assets | <u>2,338,134</u> | <u>2,432,053</u> |
| Noncurrent assets | | |
| Restricted assets | | |
| Assets held with trustee/fiscal agents | <u>857,280</u> | <u>847,293</u> |
| Total restricted assets | <u>857,280</u> | <u>847,293</u> |
| Capital assets | | |
| Jobs in progress | 388,203 | 6,682,468 |
| Capital assets net of accumulated depreciation | 47,274,253 | 41,884,931 |
| Intangible assets, net of accumulated amortization | <u>47,890</u> | <u>56,597</u> |
| Total capital assets | <u>47,710,346</u> | <u>48,623,996</u> |
| Other assets | | |
| Deferred costs | <u>64,533</u> | <u>67,760</u> |
| Total other assets | <u>64,533</u> | <u>67,760</u> |
| Total noncurrent assets | <u>48,632,159</u> | <u>49,539,049</u> |
| Total assets | <u>50,970,293</u> | <u>51,971,102</u> |

(Continued)

| | <u>Totals</u> | |
|---|---------------------|---------------------|
| | <u>2012</u> | <u>2011</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$30,997 | \$38,866 |
| Accrued liabilities | 118,688 | 0 |
| Retentions payable | 0 | (363) |
| Notes payable, due within one year | 0 | 0 |
| Long-term debt, due within one year | 562,712 | 528,814 |
| Interest payable | 2,280 | 1,118 |
| Retentions deposits and escrows | 1,606 | 0 |
| | <u>716,283</u> | <u>568,435</u> |
| Noncurrent liabilities | | |
| Advances from other funds | | |
| Long-term debt, due in more than one year | <u>16,104,451</u> | <u>16,665,984</u> |
| | <u>16,104,451</u> | <u>16,665,984</u> |
| | <u>16,820,734</u> | <u>17,234,419</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | <u>31,898,858</u> | <u>32,276,491</u> |
| Restricted for: | | |
| Debt service | <u>0</u> | <u>0</u> |
| Total restricted | <u>0</u> | <u>0</u> |
| Unrestricted | <u>2,250,701</u> | <u>2,460,192</u> |
| Total net assets | <u>\$34,149,559</u> | <u>\$34,736,683</u> |

INLAND EMPIRE UTILITIES AGENCY
Recharge Water Fund
Schedule of Revenues, Expenses
and Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for June 30, 2011)

| | Totals | |
|--|--------------|--------------|
| | 2012 | 2011 |
| OPERATING REVENUES | | |
| Recycled water sales | \$0 | \$0 |
| Total operating revenues | 0 | 0 |
| OPERATING EXPENSES | | |
| Administration and general | 1,190,345 | 842,792 |
| Depreciation and amortization | 1,119,489 | 1,033,495 |
| Total operating expenses | 2,309,834 | 1,876,287 |
| Operating income (loss) | (2,309,834) | (1,876,287) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 20,383 | 44,182 |
| Other nonoperating revenues | 911,817 | 1,090,652 |
| Interest on long-term debt | (22,901) | (50,739) |
| Other nonoperating expenses | (356,071) | (152,707) |
| Total nonoperating revenues (expenses) | 553,228 | 931,388 |
| Income (loss) before capital contributions and transfers | (1,756,606) | (944,899) |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | |
| Transfers in | 780,636 | 1,024,689 |
| Capital grants | 388,846 | 14,890 |
| Change in net assets | (587,124) | 94,680 |
| Total net assets - beginning | 34,736,683 | 34,642,003 |
| Total net assets - ending | \$34,149,559 | \$34,736,683 |

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 Assets
June 30, 2012
(With Comparative Totals for June 30, 2011)

| | Totals | |
|--|-------------------|-------------------|
| | 2012 | 2011 |
| ASSETS | | |
| Current assets | | |
| Cash and investments | \$23,706,649 | \$20,914,452 |
| Accounts receivable | 1,911,187 | 2,918,421 |
| Interest receivable | 43,144 | 61,369 |
| Taxes receivable | 218,874 | 439,498 |
| Other receivables | 173,666 | 55,553 |
| Inventory | 1,498,644 | 1,559,877 |
| Prepaid items | 67,526 | 124,080 |
| Total current assets | <u>27,619,690</u> | <u>26,073,250</u> |
| Noncurrent assets | | |
| Restricted assets | | |
| Assets held for 401(a) plan | <u>1,452,719</u> | <u>1,161,798</u> |
| Total restricted assets | <u>1,452,719</u> | <u>1,161,798</u> |
| Capital assets | | |
| Land | 20,829 | 20,829 |
| Jobs in progress | 760,188 | 640,673 |
| Capital assets, net of accumulated depreciation | 11,928,251 | 12,446,941 |
| Intangible assets, net of accumulated amortization | <u>4,159,196</u> | <u>4,915,686</u> |
| Total capital assets | <u>16,868,464</u> | <u>18,024,129</u> |
| Other assets | | |
| Deferred costs | <u>0</u> | <u>758</u> |
| Total other assets | <u>0</u> | <u>758</u> |
| Total noncurrent assets | <u>18,321,183</u> | <u>19,186,685</u> |
| Total assets | <u>45,940,873</u> | <u>45,259,935</u> |

(Continued)

| | Totals | |
|--|----------------------------|----------------------------|
| | 2012 | 2011 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$1,024,347 | \$2,503,861 |
| Accrued liabilities | 2,590,733 | 2,708,451 |
| Compensated absences | 2,237,898 | 1,960,081 |
| Current liabilities | <u>5,852,978</u> | <u>7,172,393</u> |
| Noncurrent liabilities | | |
| Compensated absences | 1,838,412 | 1,587,592 |
| Liability for 401(a) plan | 1,452,719 | 1,161,798 |
| Net OPEB liability (note 1 d.) | 5,855,131 | 4,773,451 |
| Total noncurrent liabilities | <u>9,146,262</u> | <u>7,522,841</u> |
| Total liabilities | <u>14,999,240</u> | <u>14,695,234</u> |
| NET ASSETS | | |
| Invested in capital assets | <u>16,868,464</u> | <u>18,024,129</u> |
| Restricted for: | | |
| Bond operating contingency requirement | <u>567,868</u> | <u>388,960</u> |
| Total restricted | <u>567,868</u> | <u>388,960</u> |
| Unrestricted | <u>13,505,301</u> | <u>12,151,612</u> |
| Total net assets | <u><u>\$30,941,633</u></u> | <u><u>\$30,564,701</u></u> |

INLAND EMPIRE UTILITIES AGENCY
Administrative Services Fund
Schedule of Revenues, Expenses and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for June 30, 2011)

| | Totals | |
|--|--------------|--------------|
| | 2012 | 2011 |
| OPERATING REVENUES | | |
| Service charges | \$0 | \$0 |
| Total operating revenues | 0 | 0 |
| OPERATING EXPENSES | | |
| Administration and general | 1,472,057 | 1,666,881 |
| Depreciation and amortization | 1,884,113 | 2,242,038 |
| Total operating expenses | 3,356,170 | 3,908,919 |
| Operating income (loss) | (3,356,170) | (3,908,919) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 123,343 | 206,668 |
| Property tax revenue | 2,650,374 | 2,695,614 |
| Other nonoperating revenues | 1,554,991 | 1,363,446 |
| Other nonoperating expenses | (1,295,848) | (1,215,696) |
| Total nonoperating revenues (expenses) | 3,032,860 | 3,050,032 |
| Income (loss) before capital contributions and transfers | (323,310) | (858,887) |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | |
| Transfers in | 560,229 | 363,312 |
| Transfers out | 0 | (245,750) |
| Capital grants | 140,013 | 7,683 |
| Change in net assets | 376,932 | (733,642) |
| Total net assets - beginning | 30,564,701 | 31,298,343 |
| Total net assets - ending | \$30,941,633 | \$30,564,701 |

INLAND EMPIRE UTILITIES AGENCY
Index of Statistical Section Schedules

June 30, 2012

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) *Financial Trends*.....118
 - a. *These schedules contain trend information to help the reader understand how IEUA’s financial performance and well-being have changed over time.*

- (2) *Revenue Capacity*.....122
 - a. *These schedules contain information to help the reader assess IEUA’s most significant revenue sources.*

- (3) *Debt Capacity*.....127
 - a. *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.*

- (4) *Operating Indicators*.....132
 - a. *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.*

- (5) *Demographic and Economic Information*.....138
 - a. *These schedules offer demographic and economic indicators to help the reader understand the environment within which IEUA’s financial activities take place.*

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, 2003 through 2012
(Dollars in Thousands)

| | <u>2011/12</u> | <u>2010/11</u> | <u>2009/10</u> | <u>2008/09</u> | <u>2007/08</u> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Operating revenues | | | | | |
| Service charges | \$ 42,209 | \$ 41,544 | \$ 42,108 | \$ 41,575 | \$ 38,021 |
| Other charges | 6,009 | 4,353 | 4,162 | 2,715 | - |
| Total operating revenues | <u>48,218</u> | <u>45,897</u> | <u>46,270</u> | <u>44,290</u> | <u>38,021</u> |
| Operating expenses | | | | | |
| Wastewater collection | 5,629 | 6,517 | 7,338 | 5,939 | 5,361 |
| Wastewater treatment | 17,377 | 17,208 | 19,016 | 20,049 | 22,430 |
| Wastewater disposal | 11,316 | 10,664 | 10,030 | 12,885 | 12,722 |
| Operations and maintenance | 2,987 | 2,600 | - | - | 2,135 |
| Administration and general | 21,398 | 20,465 | 22,018 | 25,685 | 12,728 |
| Depreciation and amortization | 30,168 | 29,993 | 26,168 | 22,179 | 17,289 |
| Total operating expenses | <u>88,875</u> | <u>87,447</u> | <u>84,570</u> | <u>86,737</u> | <u>72,665</u> |
| Operating income (loss) | <u>(40,657)</u> | <u>(41,550)</u> | <u>(38,300)</u> | <u>(42,447)</u> | <u>(34,644)</u> |
| Non-operating revenues (expenses) | | | | | |
| Interest income | 951 | 1,159 | 1,684 | 2,742 | 4,659 |
| Property tax revenue | 32,695 | 33,419 | 34,355 | 36,325 | 34,451 |
| Wastewater capital connection fees | 7,686 | 5,398 | 7,753 | 5,753 | 16,626 |
| Other nonoperating revenues | 8,160 | 6,008 | 7,566 | 3,098 | 15,280 |
| Interest on long-term debt | (7,447) | (7,803) | (9,891) | (13,498) | (10,101) |
| Other nonoperating expenses | (8,907) | (7,626) | (7,283) | (3,268) | (1,224) |
| Total nonoperating revenues (expenses) | <u>33,138</u> | <u>30,555</u> | <u>34,184</u> | <u>31,152</u> | <u>59,691</u> |
| Income (loss) before contributions and transfers | <u>(7,519)</u> | <u>(10,995)</u> | <u>(4,116)</u> | <u>(11,295)</u> | <u>25,047</u> |
| Capital grants | 4,263 | 6,852 | 10,163 | 12,275 | 1,095 |
| Contribution in aid | - | - | - | - | - |
| Transfers (to non-sewer funds) | 300 | 300 | 300 | 300 | (4,546) |
| Change in net assets | <u>\$ (2,956)</u> | <u>\$ (3,843)</u> | <u>\$ 6,347</u> | <u>\$ 1,280</u> | <u>\$ 21,596</u> |
| Total net assets - beginning | 515,572 | 518,244 | 511,897 | 434,393 | 412,797 |
| Prior period adjustment | | 1,171 | | 76,224 | |
| Total net assets - ending | <u>\$ 512,616</u> | <u>\$ 515,572</u> | <u>\$ 518,244</u> | <u>\$ 511,897</u> | <u>\$ 434,393</u> |

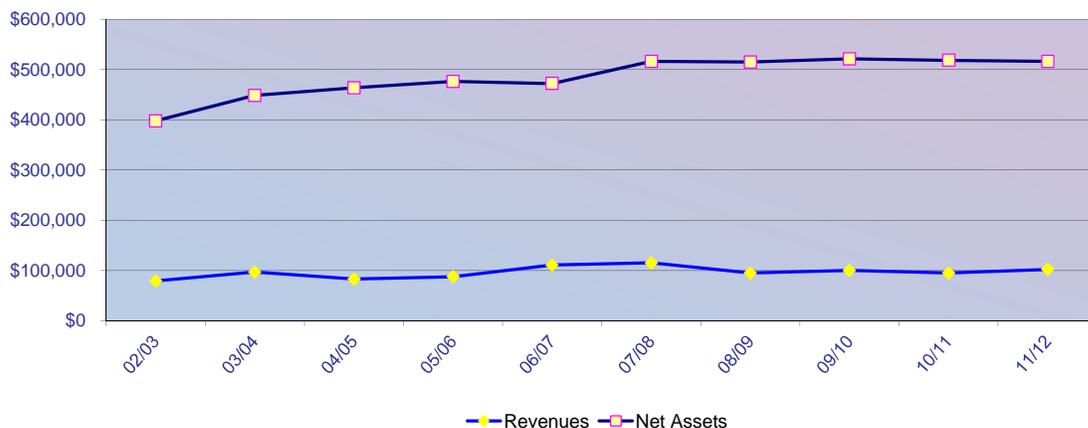
INLAND EMPIRE UTILITIES AGENCY
Historical Operating Results
Wastewater Revenue Funds' Combined Statement of Revenues, Expenses
and Changes in Fund Net Assets
Fiscal Years Ended June 30, 2003 through 2012
(Dollars in Thousands)

| <u>2006/07</u> | <u>2005/06</u> | <u>2004/05</u> | <u>2003/04</u> | <u>2002/03</u> |
|-------------------|-------------------|-------------------|-------------------|-------------------|
| \$ 36,132 | \$ 31,716 | \$ 27,090 | \$ 25,579 | \$ 25,253 |
| - | - | 1,755 | 1,707 | 1,677 |
| <u>36,132</u> | <u>31,716</u> | <u>28,845</u> | <u>27,286</u> | <u>26,930</u> |
| 1,086 | 1,143 | 1,052 | 967 | 1,521 |
| 25,082 | 22,694 | 19,194 | 18,677 | 15,790 |
| 7,434 | 6,235 | 5,851 | 4,749 | 4,663 |
| 4,442 | 42 | 1,067 | - | - |
| 17,650 | 16,607 | 15,483 | 11,997 | 10,937 |
| 17,603 | 18,261 | 16,160 | 14,178 | 13,614 |
| <u>73,297</u> | <u>64,982</u> | <u>58,807</u> | <u>50,568</u> | <u>46,525</u> |
| <u>(37,165)</u> | <u>(33,266)</u> | <u>(29,962)</u> | <u>(23,282)</u> | <u>(19,595)</u> |
| 5,226 | 3,670 | 2,642 | 2,693 | 3,735 |
| 31,018 | 20,070 | 16,674 | 21,508 | 19,292 |
| 24,672 | 20,896 | 27,958 | 28,451 | 23,999 |
| 5,711 | 6,302 | 2,005 | 12,780 | 935 |
| (8,419) | (7,029) | (6,613) | (6,669) | (7,134) |
| <u>(15,275)</u> | <u>(1,415)</u> | <u>(804)</u> | <u>(3,152)</u> | <u>(908)</u> |
| <u>42,933</u> | <u>42,494</u> | <u>41,862</u> | <u>55,611</u> | <u>39,919</u> |
| <u>5,768</u> | <u>9,228</u> | <u>11,900</u> | <u>32,330</u> | <u>20,324</u> |
| 3,380 | 2,493 | 975 | 221 | 79 |
| - | 75 | - | 1,225 | - |
| (14,358) | (3,107) | (6,124) | (4,838) | (3,888) |
| <u>\$ (5,210)</u> | <u>\$ 8,689</u> | <u>\$ 6,751</u> | <u>\$ 28,938</u> | <u>\$ 16,515</u> |
| 422,441 | 413,752 | 407,001 | 378,063 | 361,548 |
| (4,434) | - | - | - | - |
| <u>\$ 412,797</u> | <u>\$ 422,441</u> | <u>\$ 413,752</u> | <u>\$ 407,001</u> | <u>\$ 378,063</u> |

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

| | 2011/12 | 2010/11 | 2009/10 | 2008/09 |
|--|-------------------|-------------------|-------------------|-------------------|
| Operating revenues | | | | |
| Service charges | \$ 46,468 | \$ 44,776 | \$ 44,545 | \$ 43,832 |
| Other Charges | - | - | - | - |
| Recycled water sales | 6,009 | 4,352 | 4,162 | 2,716 |
| Total operating revenues | <u>52,477</u> | <u>49,128</u> | <u>48,707</u> | <u>46,548</u> |
| Operating expenses | | | | |
| Wastewater collection | 5,629 | 6,517 | 7,338 | 2,351 |
| Wastewater treatment | 17,378 | 17,208 | 19,016 | 23,640 |
| Wastewater disposal | 11,316 | 10,664 | 10,030 | 9,885 |
| Administration and general | 24,755 | 23,266 | 21,567 | 25,101 |
| Depreciation and amortization | 30,173 | 29,999 | 26,173 | 22,185 |
| Operations and maintenance | 3,725 | 3,230 | 2,760 | 5,539 |
| Total operating expenses | <u>92,976</u> | <u>90,884</u> | <u>86,884</u> | <u>88,701</u> |
| Operating income (loss) | <u>(40,499)</u> | <u>(41,756)</u> | <u>(38,177)</u> | <u>(42,154)</u> |
| Non-Operating revenues (expenses) | | | | |
| Interest income | 963 | 1,179 | 1,715 | 2,796 |
| Property tax revenue | 32,695 | 33,419 | 34,355 | 36,325 |
| Wastewater capital connection fees | 7,686 | 5,398 | 7,753 | 5,753 |
| Other non-operating revenues | 8,562 | 6,090 | 7,638 | 3,543 |
| Interest on long-term debt | (7,447) | (8,058) | (9,891) | (13,498) |
| Other non-operating expenses | (9,014) | (7,773) | (7,684) | (8,031) |
| Total non-operating revenues (expenses) | <u>33,445</u> | <u>30,255</u> | <u>33,886</u> | <u>26,888</u> |
| Income (loss) before contributions and transfers | (7,054) | (11,501) | (4,291) | (15,266) |
| Capital grants | 4,841 | 7,587 | 10,387 | 13,924 |
| Contributions in aid | - | - | - | - |
| Change in net assets | <u>\$ (2,213)</u> | <u>\$ (3,914)</u> | <u>\$ 6,096</u> | <u>\$ (1,342)</u> |
| Total net assets - beginning | <u>\$518,455</u> | <u>\$522,370</u> | <u>\$515,104</u> | <u>\$516,446</u> |
| Net assets by component: | | | | |
| Invested in capital assets, net of related debt | 365,279 | 372,277 | 377,512 | 370,516 |
| Restricted for Debt service & Capital construction | 42,799 | 50,378 | 63,545 | 81,418 |
| Unrestricted | 108,164 | 95,800 | 81,313 | 63,170 |
| Total net assets - ending | <u>\$ 516,242</u> | <u>\$ 518,455</u> | <u>\$ 522,370</u> | <u>\$ 515,104</u> |

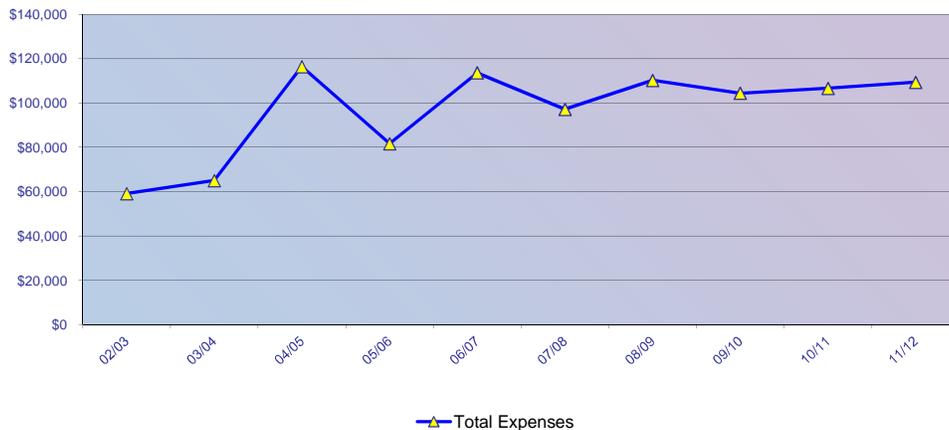
Operating & Non-Operating Revenues & Net Assets Trends
For the Past Ten Fiscal Years



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

| 2007/08 | 2006/07 | 2005/06 | 2004/05 | 2003/04 | 2002/03 |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| \$ 39,459 | \$ 37,964 | \$ 33,837 | \$ 29,194 | \$ 27,509 | \$ 26,586 |
| - | - | - | 1,755 | 1,707 | 1,677 |
| 2,007 | 3,254 | 1,147 | 653 | 589 | 586 |
| <u>41,466</u> | <u>41,218</u> | <u>34,984</u> | <u>31,602</u> | <u>29,805</u> | <u>28,849</u> |
| 5,361 | 1,086 | 1,143 | 1,052 | 967 | 1,521 |
| 22,429 | 25,082 | 22,694 | 19,194 | 18,677 | 15,790 |
| 12,723 | 7,434 | 6,236 | 5,851 | 4,749 | 4,663 |
| 22,322 | 24,447 | 23,568 | 20,605 | 14,415 | 13,515 |
| 19,054 | 18,944 | 18,719 | 16,311 | 14,328 | 13,769 |
| 2,175 | 7,431 | 67 | 1,688 | 1,788 | 1,367 |
| <u>84,064</u> | <u>84,424</u> | <u>72,427</u> | <u>64,701</u> | <u>54,924</u> | <u>50,625</u> |
| <u>(42,598)</u> | <u>(43,206)</u> | <u>(37,443)</u> | <u>(33,099)</u> | <u>(25,119)</u> | <u>(21,776)</u> |
| 5,006 | 5,325 | 3,868 | 2,903 | 2,874 | 4,246 |
| 34,451 | 31,018 | 20,070 | 16,674 | 21,508 | 19,292 |
| 16,626 | 24,671 | 20,895 | 27,958 | 28,451 | 23,999 |
| 17,720 | 8,645 | 8,007 | 4,195 | 14,288 | 2,848 |
| (11,278) | (9,540) | (7,796) | (7,138) | (6,876) | (7,355) |
| <u>(1,890)</u> | <u>(19,678)</u> | <u>(1,478)</u> | <u>(868)</u> | <u>(3,211)</u> | <u>(1,176)</u> |
| <u>60,635</u> | <u>40,441</u> | <u>43,566</u> | <u>43,724</u> | <u>57,034</u> | <u>41,854</u> |
| 18,036 | (2,765) | 6,123 | 10,623 | 10,625 | 20,078 |
| 12,373 | 13,883 | 6,656 | 4,220 | 17,480 | 3,104 |
| - | - | 68 | 26 | 1,482 | 866 |
| <u>\$ 30,409</u> | <u>\$ 11,118</u> | <u>\$ 12,847</u> | <u>\$ 14,869</u> | <u>\$ 29,587</u> | <u>\$ 24,048</u> |
| <u>\$472,192</u> | <u>\$476,440</u> | <u>\$463,594</u> | <u>\$448,725</u> | <u>\$397,847</u> | <u>\$373,799</u> |
| 355,794 | 330,897 | 339,320 | 300,869 | 256,642 | 219,305 |
| 123,620 | 66,071 | 59,447 | 101,162 | 138,875 | 127,349 |
| 37,032 | 75,224 | 77,673 | 61,563 | 53,208 | 51,193 |
| <u>\$ 516,446</u> | <u>\$ 472,192</u> | <u>\$ 476,440</u> | <u>\$ 463,594</u> | <u>\$ 448,725</u> | <u>\$ 397,847</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

| Fiscal Year | CVWD* | Chino | Chino Hills | Fontana |
|-------------|------------|-----------|-------------|------------|
| 2002/03 | 15,471,378 | 2,656,591 | 3,456,762 | 11,624,023 |
| 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 |
| Percentage | 21.2% | 12.2% | 5.1% | 25.7% |

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.

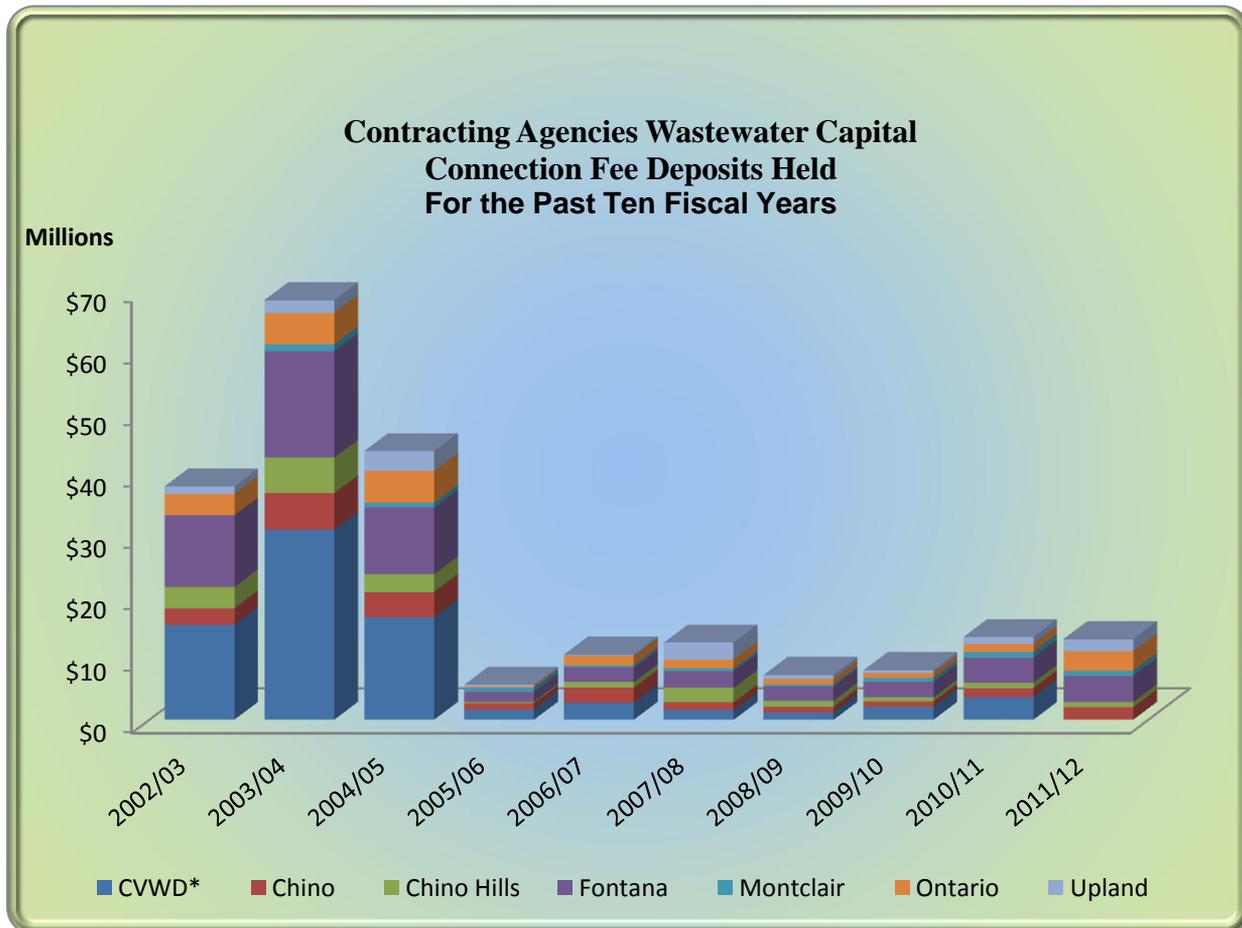
In accordance with the Chino Basin Regional Sewage Service Contract, IEUA must provide each Contracting Agency: a) a quarterly report concerning the level of Capital Capacity Reimbursement Account reserves, b) Regional wastewater capital improvement expenditures and, c) the estimated amount of Supplemental 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. The table above represents the connection fee balances reported in the respective Contracting Agency's Annual Financial Reports. Balances reported for FY 2011/2012 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

| Fiscal Year | Montclair | Ontario | Upland | Total |
|-------------|-----------|-----------|-----------|------------|
| 2002/03 | | 3,531,167 | 1,177,653 | 37,917,574 |
| 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 |
| Percentage | 5.0% | 18.9% | 11.9% | 100.0% |



INLAND EMPIRE UTILITIES AGENCY
Regional Wastewater Program Capital Requirements
For the Ten Fiscal Years Ending June 30, 2021*

| Project Description | Actual | Projected | |
|---|---------------------|---------------------|--------------------|
| | 2011/12 | 2012/13 | 2013/14 |
| Replacement Projects | | | |
| Asset Improvement and Replacement | \$0 | \$1,900,000 | \$4,000,000 |
| RP-1 Flare & RP1/RP2 Boiler Replacements | 996,355 | 1,736,037 | |
| CCWRF Secondary Clarifier No.2 Rehab. | 12,807 | 890,000 | |
| Major Facilities Repair/ Replacement | - | 800,000 | 700,000 |
| RP-1,RP-2,Carbon Canyon O&M Manual | - | 500,000 | 495,998 |
| CCWRF Secondary Clarifiers Rehab Phase 1 | 501,267 | 308,348 | |
| TP-1 Disinfection Pump Improvements | 30,699 | 300,000 | 85,000 |
| Chino Creek Invert Repair | 4,079 | 240,000 | |
| RP-1 Outdoor Lighting Improvements | 100,115 | 203,140 | |
| Plant Equipment Improvements | 1,298,143 | 200,000 | |
| CCWRF Tertiary Filter Media Replacement | 416,222 | 13,047 | |
| RP-1 Fuel Cell | 342,919 | | |
| Major Facilities Repairs/ Replacements | 375,387 | | |
| Various Replacement Projects | 245,646 | | |
| Total Replacement Projects | \$4,323,641 | \$7,090,572 | \$5,280,998 |
| Equipment Projects | | | |
| GCMS Volatiles Wastewater | \$0 | \$250,000 | \$0 |
| GCMS Semi Volatiles Wastewater | - | 150,000 | |
| Agency Wide Security Equipment Upgrade | - | 120,000 | 100,000 |
| Replace Records Management Scanner | - | 13,700 | |
| Uninterruptable Power Supply (UPS) Redun | 72,055 | | |
| Purchase CCWRF Primary Effluent Pump | 186,631 | | |
| Future DCS Initiatives | - | | 50,000 |
| Upgrade DCS Foxboro I/A to Infusion (Won | 2,512 | | 100,000 |
| Upgrade DCS AIM Historian to InSQL | - | | 100,000 |
| GC Pesticides Wastewater | - | | 100,000 |
| Various Equipment Projects | 50,446 | | |
| Total Equipment Projects | \$311,644 | \$533,700 | \$450,000 |
| Construction Projects | | | |
| Capital Upgrades to RP-1, RP-2, CCWRF, RP-4 | \$0 | \$2,000,000 | \$2,000,000 |
| RP-1 Asset Replacement | 364,004 | 1,900,000 | |
| HVAC & Server Room Fire Suppression Impr | 142,324 | 824,141 | |
| Central Plant for the New Operations Lab | 47,905 | 369,096 | |
| RP-2 Digester Cleaning | - | 320,000 | 320,000 |
| Plant Recycled Water Valves Replace | - | 300,000 | |
| CM Misc RC Const & Emerg Proj FY12/13 | - | 287,500 | 250,000 |
| Misc WW Constr & Emerg Proj FY12/13 | - | 287,000 | 250,000 |
| Montclair Lift Station Upgrades | 9,045 | 185,000 | |
| RP-1 Facilities Improvements | 642,128 | 183,590 | |
| RP-5 Pond/Drainage Improvements | 18,983 | 183,000 | |
| RP-5 Flow Equalization and Effluent Moni | 11,649 | 160,000 | |
| Engineering-As-Building | - | 157,250 | |
| RP-1 Dewatering Facility Expansion | 6,060,052 | 150,000 | |
| RP-5 System Fac Upgrade & Imprv | 1,438,948 | 150,000 | |
| RP-4 Grading and Drainage Improvements, | - | 110,000 | |
| Regional Sewer SpL Proj FY12/13 | - | 100,000 | 100,000 |
| RP-1 Odor Control - Phase I RDSV | 400,711 | 100,000 | |
| Headquarters Repairs and Drainage Improve | 1,726 | 88,817 | |
| Network Switch Replace-Plant Net | - | 85,000 | |
| New Operations Laboratory | 1,223 | 50,000 | 50,000 |
| Server Hardware Repl-Plant Auto Net | - | 40,000 | |
| UPS Replacement PAC | - | 35,000 | |
| RP-4 Storage Pond Improvements | 264,255 | 25,000 | |
| RP-5 SHF/REEP Independent Review | 154,262 | 16,658 | |
| RP-4 Liquid Expansion to 14 mgd | 783,435 | | |
| RP-4 Headworks Retrofit | 535,775 | | |
| CCWRF 12 kV Switchgear Repair | 182,408 | | |
| RP-1 Digester Gas Condensate Sump Improv | 470,181 | | |
| RP-4 Odor Control Backup Blower | 129,917 | | |
| EI Prado Road Improvements | 126,646 | | |
| Digester Cleaning | - | | |
| Network Switch Repl -Fore Plant Net | - | | 75,000 |
| UPS Replacement Forecast - PAC | - | | 33,500 |
| Server Replace-Plant Auto FORECAST | - | | 46,000 |
| Workstation Replace Fore-PAC Net | - | | 16,000 |
| RP-1 Phase 3 Digestion | 278,955 | | |
| SBS Critical Spare | 135,686 | | |
| Various Construction Projects | 1,116,430 | 128,541 | |
| IERCF Capital Contribution | - | 500,000 | 500,000 |
| Total Construction Projects | \$13,316,647 | \$8,735,593 | \$3,640,500 |
| Total Capital Costs | \$17,951,932 | \$16,359,865 | \$9,371,498 |

* Source: Projections were derived from the 2012/13 IEUA Ten Year Capital Improvement Plan.

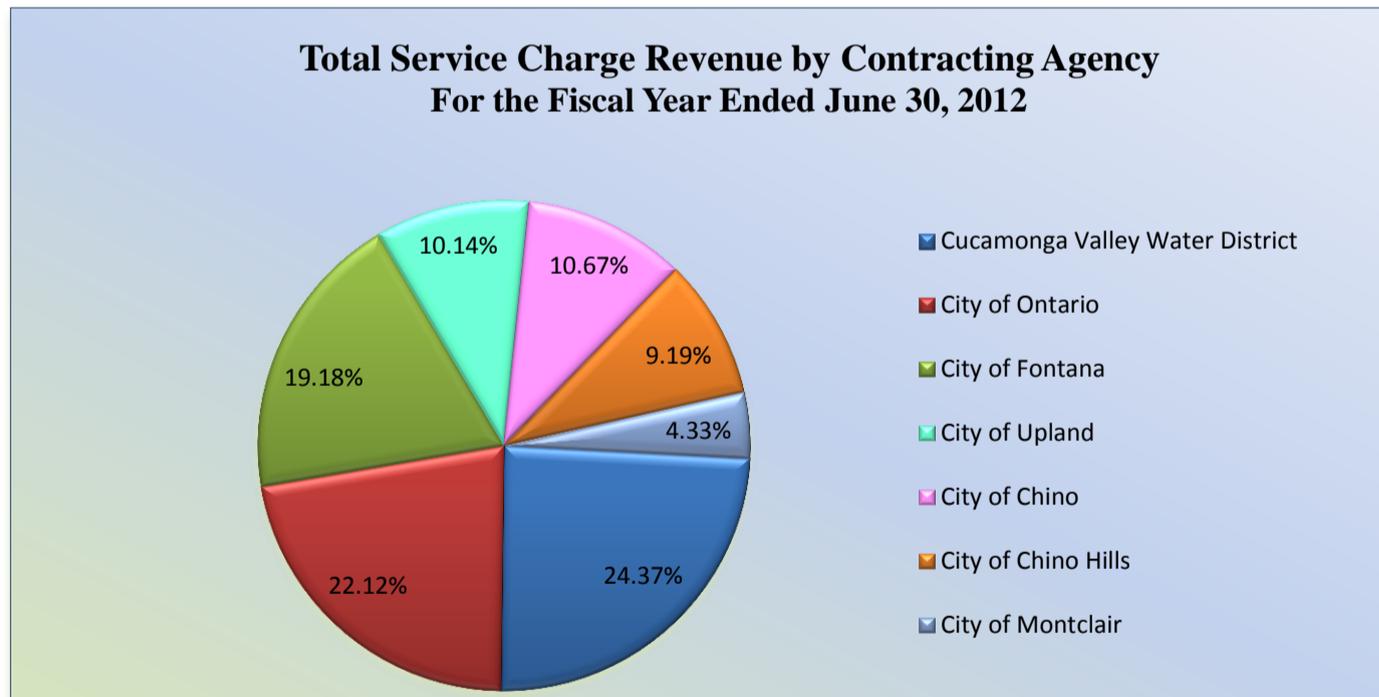
INLAND EMPIRE UTILITIES AGENCY
Regional Wastewater Program Capital Requirements
For the Ten Fiscal Years Ending June 30, 2021*

| Projected | | | | | | | |
|--------------------|--------------------|---------------------|---------------------|--------------------|--------------------|--------------------|----------------------|
| 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | TOTAL |
| \$4,000,000 | \$4,000,000 | \$4,000,000 | \$4,000,000 | \$4,000,000 | \$4,000,000 | \$4,000,000 | \$33,900,000 |
| | | | | | | | 2,732,392 |
| | | | | | | | 902,807 |
| 700,000 | 700,000 | 700,000 | 700,000 | 700,000 | 700,000 | 700,000 | 6,400,000 |
| 415,516 | | | | | | | 1,411,514 |
| | | | | | | | 809,615 |
| | | | | | | | 415,699 |
| | | | | | | | 244,079 |
| | | | | | | | 303,255 |
| | | | | | | | 1,498,143 |
| | | | | | | | 429,269 |
| | | | | | | | 342,919 |
| | | | | | | | 375,387 |
| | | | | | | | 245,646 |
| \$5,115,516 | \$4,700,000 | \$4,700,000 | \$4,700,000 | \$4,700,000 | \$4,700,000 | \$4,700,000 | \$50,010,727 |
| \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$250,000 |
| | | | | | | | 150,000 |
| 36,100 | | | | | | | 256,100 |
| | | | | | | | 13,700 |
| | | | | | | | 72,055 |
| | | | | | | | 186,631 |
| 150,000 | | | | | | | 200,000 |
| 100,000 | | | | | | | 202,512 |
| | | | | | | | 100,000 |
| | | | | | | | 100,000 |
| | | | | | | | 50,446 |
| \$286,100 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$1,577,531 |
| \$2,000,000 | \$2,000,000 | \$2,000,000 | \$2,000,000 | \$2,000,000 | \$2,000,000 | \$2,000,000 | \$18,000,000 |
| | | | | | | | 2,264,004 |
| | | | | | | | 966,465 |
| | | | | | | | 417,001 |
| 320,000 | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 | 2,880,000 |
| | | | | | | | 300,000 |
| 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 2,287,500 |
| 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 2,287,000 |
| | | | | | | | 194,045 |
| | | | | | | | 825,718 |
| | | | | | | | 201,983 |
| | | | | | | | 171,649 |
| | | | | | | | 157,250 |
| | | | | | | | 6,210,052 |
| | | | | | | | 1,588,948 |
| | | | | | | | 110,000 |
| 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 900,000 |
| | | | | | | | 500,711 |
| | | | | | | | 90,543 |
| | | | | | | | 85,000 |
| 50,000 | 1,000,000 | 10,000,000 | 4,000,000 | | | | 15,151,223 |
| | | | | | | | 40,000 |
| | | | | | | | 35,000 |
| | | | | | | | 289,255 |
| | | | | | | | 170,920 |
| | | | | | | | 783,435 |
| | | | | | | | 535,775 |
| | | | | | | | 182,408 |
| | | | | | | | 470,181 |
| | | | | | | | 129,917 |
| | | | | | | | 126,646 |
| | | | | | | | - |
| 75,000 | 50,000 | | | | | | 200,000 |
| 33,500 | 33,500 | | | | | | 100,500 |
| 25,200 | 45,500 | 45,500 | | | | | 162,200 |
| 15,500 | 15,000 | 14,500 | | | | | 61,000 |
| | | | | | | | 278,955 |
| | | | | | | | 135,686 |
| | | | | | | | 1,244,971 |
| | | | | | | | 1,000,000 |
| \$3,119,200 | \$4,064,000 | \$12,980,000 | \$6,920,000 | \$2,920,000 | \$2,920,000 | \$2,920,000 | \$61,535,940 |
| \$8,520,816 | \$8,764,000 | \$17,680,000 | \$11,620,000 | \$7,620,000 | \$7,620,000 | \$7,620,000 | \$113,124,198 |

INLAND EMPIRE UTILITIES AGENCY
Regional Wastewater Funds
Service Charge Revenue and Rates by Contracting Agency
For the Fiscal Year Ended June 30, 2012

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 2011/2012.

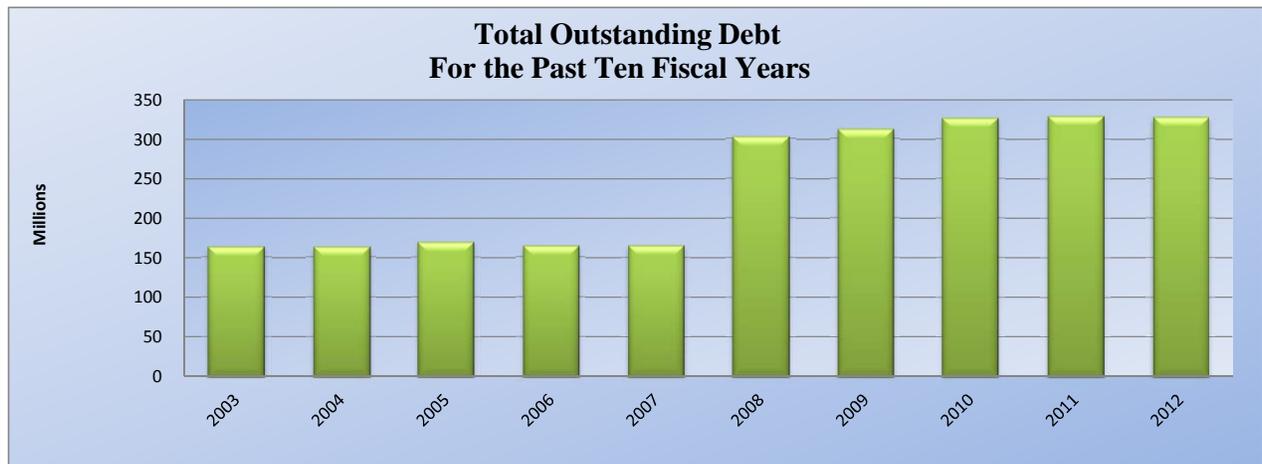
| Contracting Agency | Total EDU's | Rate | Service Charge Revenue | % of Service Charge Revenue |
|---|------------------|-------|------------------------|-----------------------------|
| Cucamonga Valley Water District | 767,791 | 11.14 | \$ 8,553,192 | 24.37% |
| City of Ontario | 696,693 | 11.14 | 7,761,160 | 22.12% |
| City of Fontana | 604,260 | 11.14 | 6,731,458 | 19.18% |
| City of Upland | 319,345 | 11.14 | 3,557,503 | 10.14% |
| City of Chino | 336,043 | 11.14 | 3,743,519 | 10.67% |
| City of Chino Hills | 289,415 | 11.14 | 3,224,083 | 9.19% |
| City of Montclair | 136,458 | 11.14 | 1,520,142 | 4.33% |
| Total Contracting Agencies' Service Charge Revenue | 3,150,005 | | \$ 35,091,057 | 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) |
|-------------------|-------------------|-------------------------------|-----------------|----------------|--------------------|----------------------------|----------------|----------------------------------|
| 2003 | \$160,500,181 | \$0 | \$0 | \$2,594,992 | \$0 | \$163,095,173 | \$88 | 0.367% |
| 2004 | 153,967,142 | 6,534,146 | 0 | 2,483,504 | 0 | 162,984,792 | 85 | 0.340% |
| 2005 | 152,957,336 | 14,079,679 | 0 | 2,365,327 | 0 | 169,402,342 | 87 | 0.333% |
| 2006 | 147,608,907 | 14,547,366 | 0 | 2,225,451 | 0 | 164,381,724 | 83 | 0.305% |
| 2007 | 143,140,252 | 20,490,644 | 0 | 2,107,273 | 0 | 165,738,169 | 83 | 0.295% |
| 2008 | 271,851,506 | 28,984,381 | 0 | 1,966,522 | 0 | 302,802,409 | 150 | 0.495% |
| 2009 | 266,575,303 | 43,887,866 | 0 | 1,817,326 | 0 | 312,280,495 | 154 | 0.410% |
| 2010 | 259,825,394 | 56,246,235 | 0 | 1,659,178 | 8,899,580 | 326,630,387 | 160 | 0.357% |
| 2011 | 247,096,595 | 72,620,998 | 0 | 1,491,542 | 8,417,002 | 329,626,137 | 161 | 0.308% |
| 2012 | 240,428,398 | 77,865,387 | 0 | 1,313,848 | 7,934,424 | 327,542,057 | 159 | 0.284% |



(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, 2012
(With Comparative Totals for the Fiscal Year Ended June 2011)

| | <u>2012</u> | <u>2011</u> |
|--|----------------------|----------------------|
| <u>Revenues:</u> | | |
| Wastewater System Service Charges | \$ 35,602,244 | \$ 34,771,736 |
| Wastewater Capital Connection Fees | 7,686,126 | 5,398,047 |
| Property Tax | 32,694,517 | 33,419,237 |
| NRW System Service Charges | 6,249,994 | 6,772,637 |
| Interest | 882,525 | 1,062,216 |
| Recycled Water Sales | 6,009,468 | 4,352,800 |
| Desalter/Composter Services | 3,776,581 | 3,572,954 |
| Other | 2,920,705 | 1,819,412 |
| Total Revenues | \$ 95,822,160 | \$ 91,169,039 |
| <u>Operation and Maintenance Costs:</u> | | |
| Wastewater Treatment | \$ 17,377,464 | \$ 17,208,487 |
| Administration and General | 21,398,258 | 20,465,087 |
| Wastewater Disposal | 11,316,321 | 10,663,787 |
| Wastewater Collection | 5,629,431 | 6,517,257 |
| Operations and maintenance | 2,986,686 | 2,599,721 |
| Desalter/Composter Services | 3,776,581 | 3,572,954 |
| Other | 1,722,151 | 3,710,497 |
| Total Operation and Maintenance Costs: | \$ 64,206,892 | \$ 64,737,790 |
| Revenues Available to Pay Senior Debt Service | \$ 31,615,268 | \$ 26,431,249 |
| <u>Senior Obligation Debt Service</u> | | |
| 1994 Installment Payments | \$ 0 | \$ 4,797,581 |
| 1999 Installment Payments | 0 | 0 |
| Total Senior Obligation Debt Service | \$ 0 | \$ 4,797,581 |
| Senior Obligation Debt Service Coverage | - | 5.51 |
| Net Revenues | \$ 31,615,268 | \$ 21,633,668 |
| <u>Parity Obligation Debt Service</u> | | |
| 2005A Installment Purchase Payments | \$ 2,205,825 | \$ 2,219,988 |
| 2008A Installment Payments | 6,250,000 | 6,250,000 |
| 2008B Installment Payments | 1,624,171 | 1,652,879 |
| 2010A Installment Payments | 5,256,343 | 963,686 |
| Total Parity Obligation Debt Service | \$ 15,336,339 | \$ 11,086,553 |
| Parity Obligation Debt Service Coverage | 2.06 | 1.95 |
| Net Revenues | \$ 16,278,929 | \$ 10,547,115 |
| <u>Subordinate Obligations</u> | | |
| State Revolving Fund Loan | \$ 2,673,187 | \$ 1,898,602 |
| SAWPA Sari Capacity Purchase | 267,188 | 267,188 |
| City of Fontana | 482,578 | 482,578 |
| Total Subordinate Obligations | \$ 3,422,953 | \$ 2,648,368 |
| Other Debt Service Coverage | 4.76 | 3.98 |
| Remaining Net Revenue | \$ 12,855,976 | \$ 7,898,747 |
| Revenues available after O&M expenses | \$ 31,615,268 | \$ 26,431,249 |
| Total debt service | \$ 18,759,292 | \$ 18,532,502 |
| Total debt coverage ratio | 1.69 | 1.43 |

INLAND EMPIRE UTILITIES AGENCY
Agency System Subordinate Debt Coverage Ratio
For Fiscal Years Ended June 30, 2012 (continued)
(With Comparative Totals for the Fiscal Year Ended June 2011)

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.

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 2011/2012 for operating and maintenance expenses for four months was \$22,893,611.
- As of the Fiscal Year Ended June 30, 2012, the Agency had designated debt service reserves of \$4,766,661, which has been included in Net Assets invested in capital assets, net of related debt.

INLAND EMPIRE UTILITIES AGENCY
Computation of Direct and Overlapping Bonded Debt
As of June 30, 2012

2011/2012 Assessed Valuation: \$80,558,549,515 (after deducting \$26,184,874,028 Redevelopment Incremental Valuation)

| <u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u> | <u>% Applicable (1)</u> | <u>Debt 6/30/12</u> |
|--|--------------------------------|---------------------------------------|
| Metropolitan Water District | 3.015% | \$ 5,925,832 |
| Chaffey Community College District | 99.570 | 145,215,731 |
| San Bernardino Community College District | 0.227 | 970,642 |
| Chino Valley Unified School District | 100. | 139,374,999 |
| Colton Joint Unified School District | 2.232 | 4,318,327 |
| Fontana Unified School District | 97.148 | 274,270,165 |
| Rialto Unified School District | 0.114 | 87,771 |
| Upland Unified School District | 99.752 | 89,397,884 |
| Chaffey Union High School District | 99.707 | 85,802,859 |
| Alta Loma School District | 99.786 | 16,553,441 |
| Central School District | 100. | 21,041,415 |
| Mountain View School District & School Facilities Improvement District No. | 100. | 14,449,416 |
| Ontario-Montclair School District | 100. | 51,804,903 |
| Inland Empire Utilities Agency | 100. | 0 (2) |
| City of Chino Community Facilities Districts | 100. | 123,990,000 |
| City of Chino Hills Community Facilities Districts | 100. | 55,430,000 |
| Etiwanda School District Community Facilities Districts | 100. | 101,045,000 |
| Upland Unified School District Community Facilities District No. 99-1 | 100. | 4,475,000 |
| City of Fontana Community Facilities Districts | 4.930-100. | 67,507,701 |
| Mountain View School District Community Facilities District | 100. | 2,490,000 |
| San Bernardino County Community Facilities Districts No. 2002-1 | 100. | 22,850,000 |
| City of Ontario Community Facilities District | 100. | 9,210,000 |
| City of Rancho Cucamonga Community Facilities Districts | 100. | 93,300,000 |
| City of Upland Community Facilities Districts | 100. | 42,245,000 |
| City of Chino Hills 1915 Act Bonds | 100. | 3,240,000 |
| City of Ontario 1915 Act Bonds | 100. | 10,780,000 |
| City of Rancho Cucamonga 1915 Act Bonds | 100. | 2,225,000 |
| TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT | | <u>\$1,388,001,086</u> |
| <u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u> | | |
| San Bernardino County General Fund Obligations | 47.771% | \$ 292,948,492 |
| San Bernardino County Pension Obligations | 47.771 | 261,730,426 |
| San Bernardino County Flood Control General Fund Obligations | 47.771 | 51,692,999 |
| Chaffey Community College District Certificates of Participation | 99.570 | 12,222,881 |
| Chino Valley Unified School District Certificates of Participation | 100. | 23,295,000 |
| Colton Joint Unified School District Certificates of Participation | 2.294 | 111,758 |
| Fontana Unified School District Certificates of Participation | 97.148 | 48,486,567 |
| Rialto Unified School District Certificates of Participation | 0.114 | 7,798 |
| Upland Unified School District Certificate of Participation | 99.752 | 827,942 |
| Cucamonga School District Certificate of Participation | 100. | 10,805,000 |
| City of Chino Hills Certificates of Participation | 100. | 20,845,000 |
| City of Fontana Certificates of Participation | 92.096 | 52,531,558 |
| City of Montclair General Fund Obligations | 100. | 27,660,000 |
| City of Ontario General Fund Obligations | 100. | 60,500,000 |
| Other City General Fund Obligations | 5.663&100. | 1,313,750 |
| West Valley Vector Control District Certificates of Participation | 100. | 3,375,000 |
| TOTAL NET OVERLAPPING GENERAL FUND | | <u>\$ 868,354,171</u> |
| NET COMBINED TOTAL DEBT | | <u>\$2,256,355,257</u> (8) |

INLAND EMPIRE UTILITIES AGENCY
Computation of Direct and Overlapping Bonded Debt *(continued)*
As of June 30, 2012

Ratios to 2011-12 Assessed Valuation:

| | |
|---|-------|
| Direct Debt | 0.00% |
| Total Direct and Overlapping Tax and Assessment Debt..... | 1.72% |

Ratios to Adjusted Assessed Valuation:

| | |
|---|-------|
| Combined Direct Debt..... | 4.15% |
| <u>State School Building Aid Repayable As Of 6/30/12:</u> | \$0 |

Source: California Municipal Statistics, Inc.

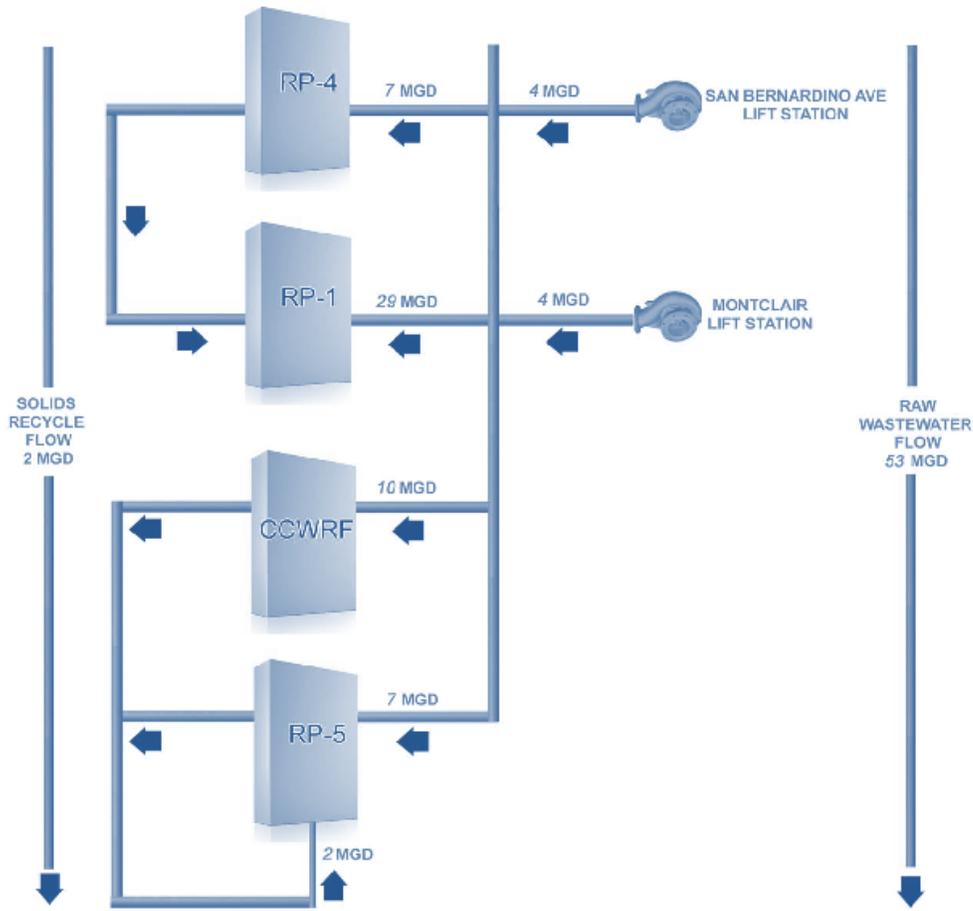
Footnotes:

- (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, 2012

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

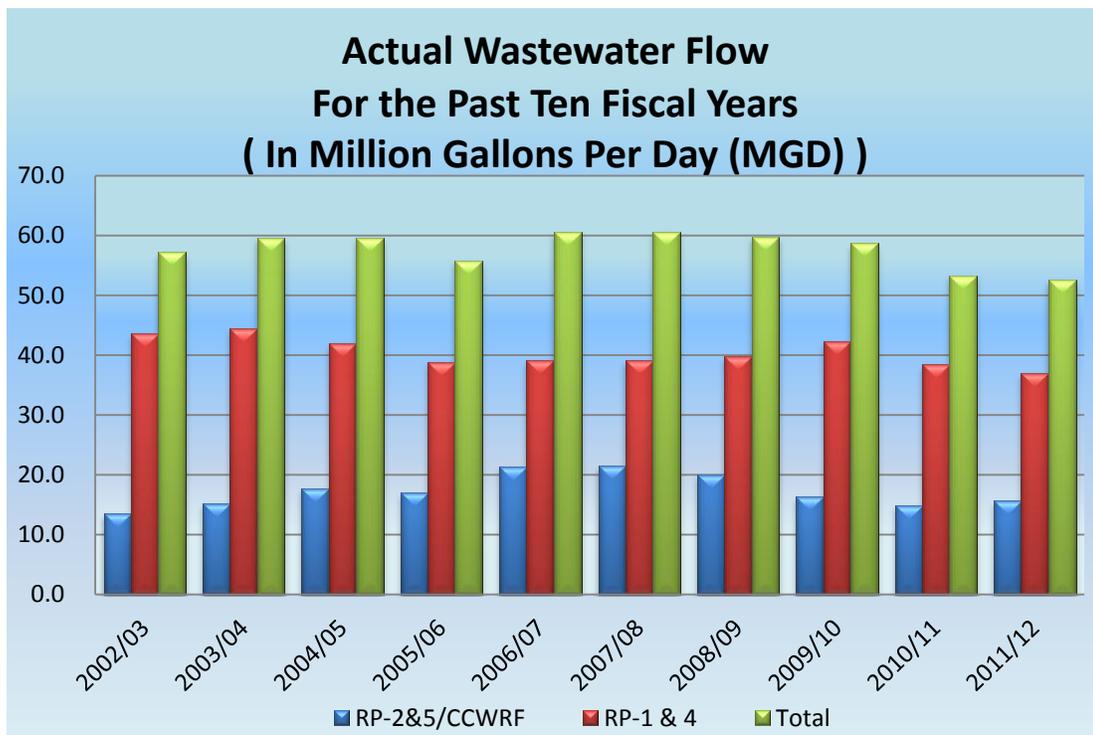


The following table presents the current design capacities and flows of the Agency's wastewater treatment as of June 30, 2012:

| Facility | Design Capacity (MGD) | Average Flow (MGD) | Average Flow as % of Design Capacity |
|--------------|-----------------------|--------------------|--------------------------------------|
| RP-1 | 44.0 | 27.3 | 62.0% |
| RP-5 | 15.0 | 8.2 | 54.4 |
| RP-4 | 14.0 | 9.7 | 69.5 |
| CCWRF | 11.4 | 7.4 | 64.7 |
| Total | 84.4 | 52.6 | 62.3% |

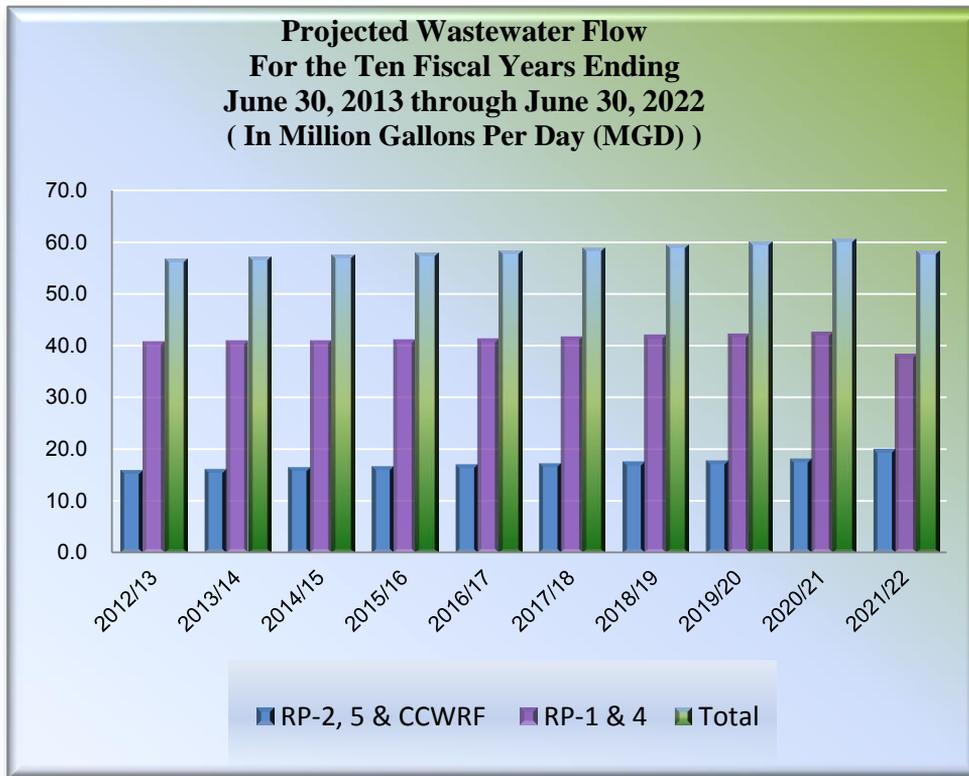
INLAND EMPIRE UTILITIES AGENCY
Operating Indicators - Actual Wastewater Flow
For the Past Ten Fiscal Years
(In Million Gallons Per Day (MGD))

| Fiscal Year | RP-1 & 4 (MGD) | RP-2&5/CCWRF (MGD) | Total (MGD) |
|-------------|----------------|--------------------|-------------|
| 2002/03 | 43.7 | 13.5 | 57.2 |
| 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 |



INLAND EMPIRE UTILITIES AGENCY
Operating Indicator - Projected Wastewater Flow
For the Ten Fiscal Years Ending June 30, 2013 through June 30, 2022*
(In Million Gallons Per Day (MGD))

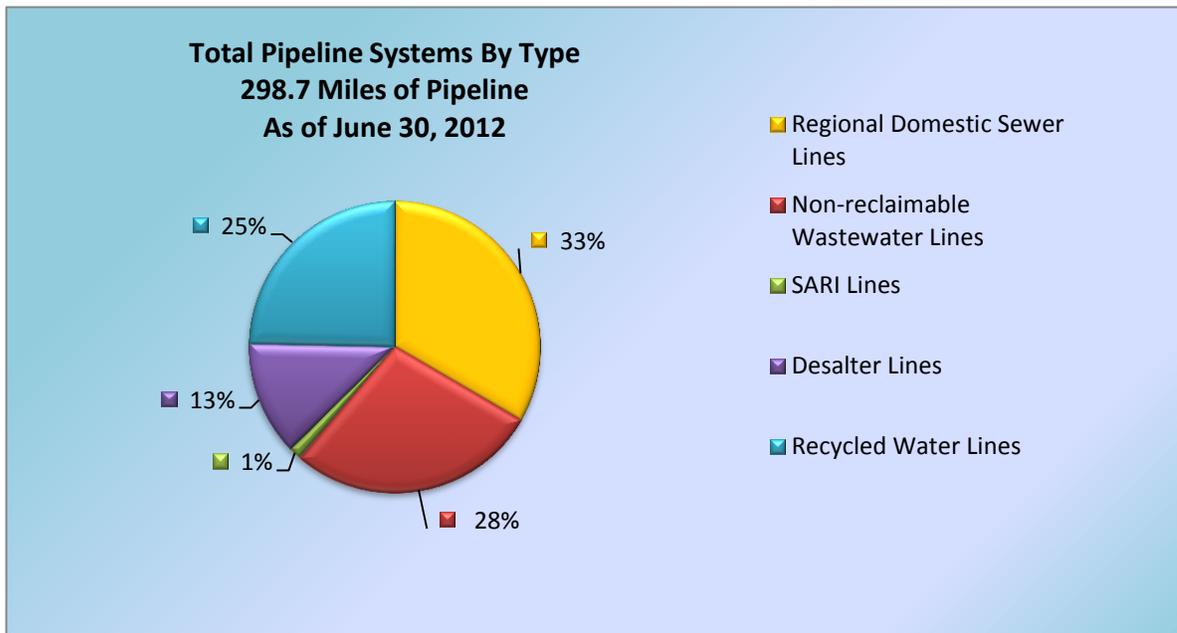
| Fiscal Year | RP-1 & 4 (MGD) | RP-2, 5 & CCWRF (MGD) | Total (MGD) |
|-------------|----------------|-----------------------|-------------|
| 2012/13 | 40.9 | 15.9 | 56.8 |
| 2013/14 | 41.0 | 16.1 | 57.1 |
| 2014/15 | 41.1 | 16.4 | 57.5 |
| 2015/16 | 41.3 | 16.7 | 58.0 |
| 2016/17 | 41.5 | 16.9 | 58.4 |
| 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 | 38.4 | 19.9 | 58.3 |



* 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, 2012

| 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 2011/12 Staffing Allocations
As of June 30, 2012

Total staffing positions by Program: 274

FTE

| | |
|--|--------------|
| Regional Wastewater Operations | 152.0 |
| Regional Wastewater Capital Programs | 40.9 |
| Recycled Water Programs | 29.1 |
| Inland Empire Regional Composting Authority Operations | 21.0 |
| Non-reclaimable Wastewater System Programs | 13.7 |
| Chino Basin Desalter Operations & Capital Programs | 8.2 |
| Recharge Water Programs | 2.8 |
| Water Related Activities & Conservation Programs | 3.5 |
| General Administration | 2.8 |
| Total Staffing in FTE * | 274.0 |

Source: IEUA FY 2011/12 Adopted Budget, IEUA June 2012 Position Control Report

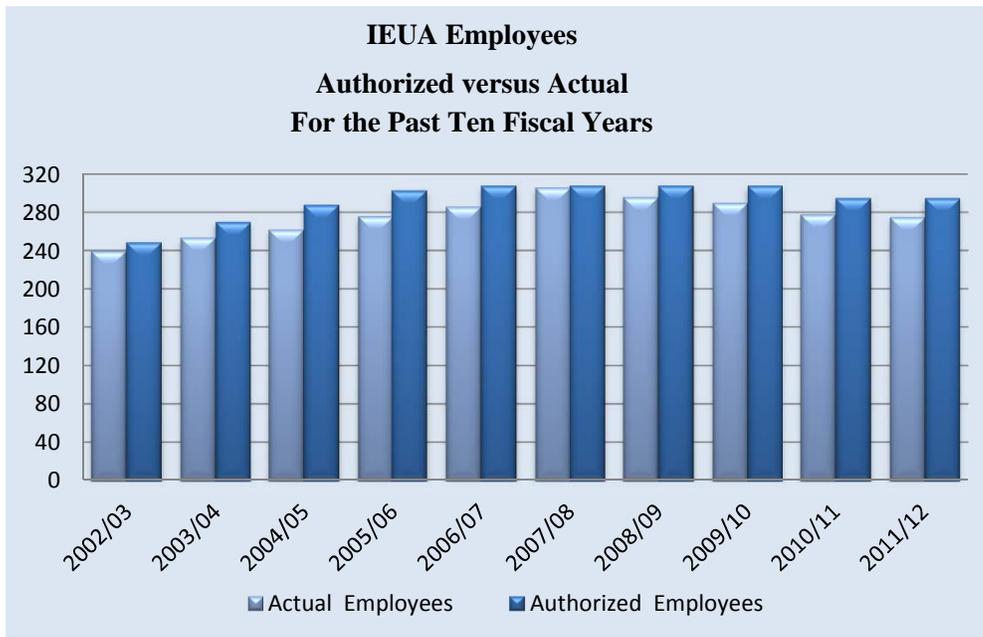
Authorized employees = 295, Actual FTE = 274

****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 |
|-------------|------------------|----------------------|
| 2002/03 | 240 | 249 |
| 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 |

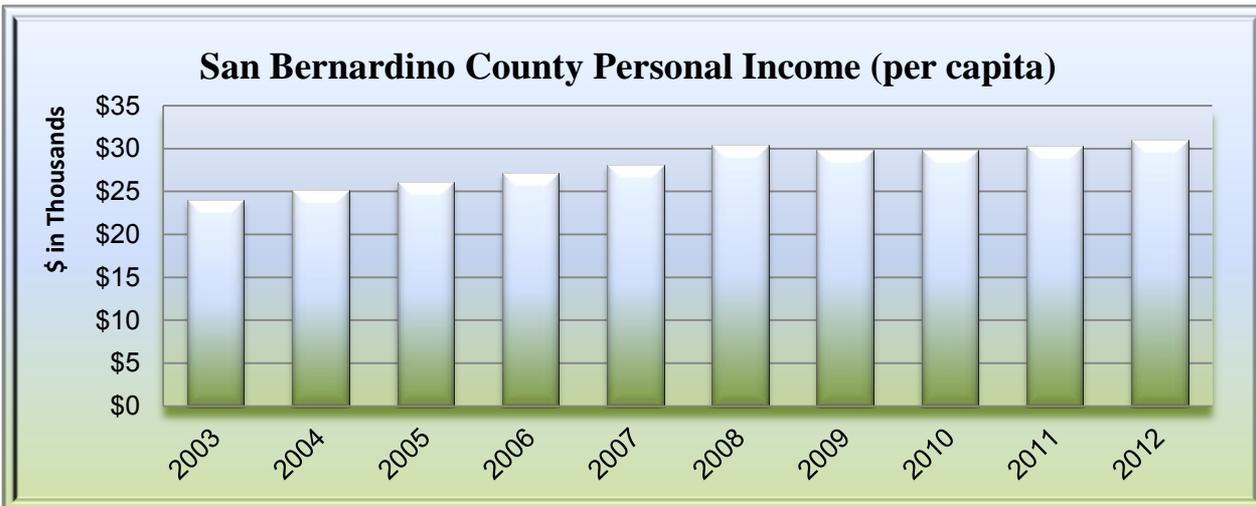
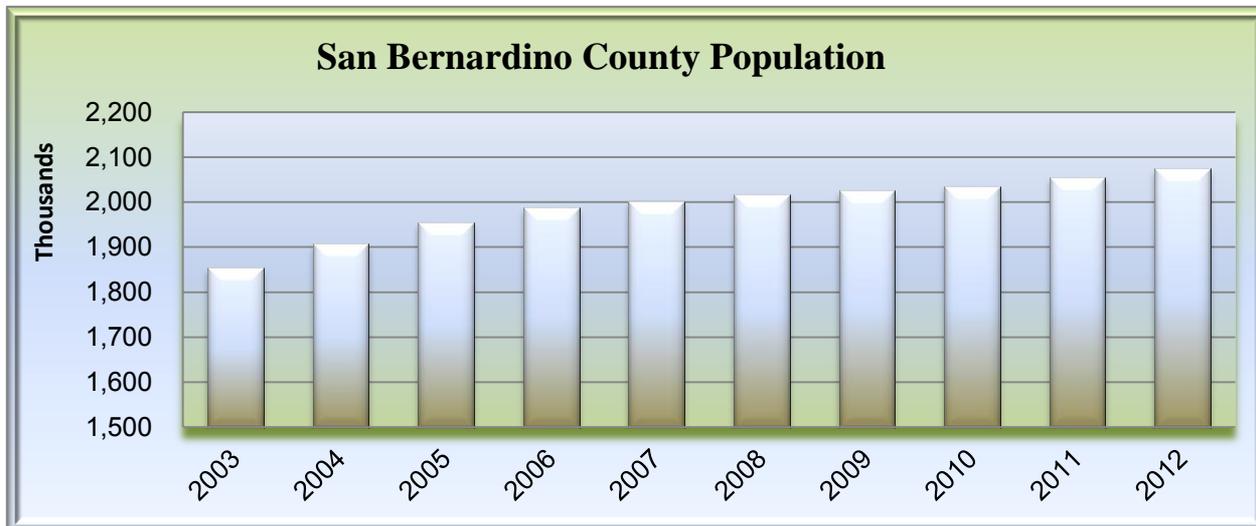
*Actual Employee Count is an annual weighted average



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) |
| 2003 | 1,853,248 | 44.5 | 23,987 |
| 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 |



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 2012 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 | 7,690 |
| Kaiser Medical Center | Fontana | 6,000 |
| Fontana Unified School District | Fontana | 4,584 |
| Chino Valley Unified School District | Chino | 3,500 |
| California Institution for Men | Chino | 2,327 |
| San Antonio Community Hospital | Upland | 1,900 |
| Chaffey Community College District | Rancho | 1,516 |
| 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.

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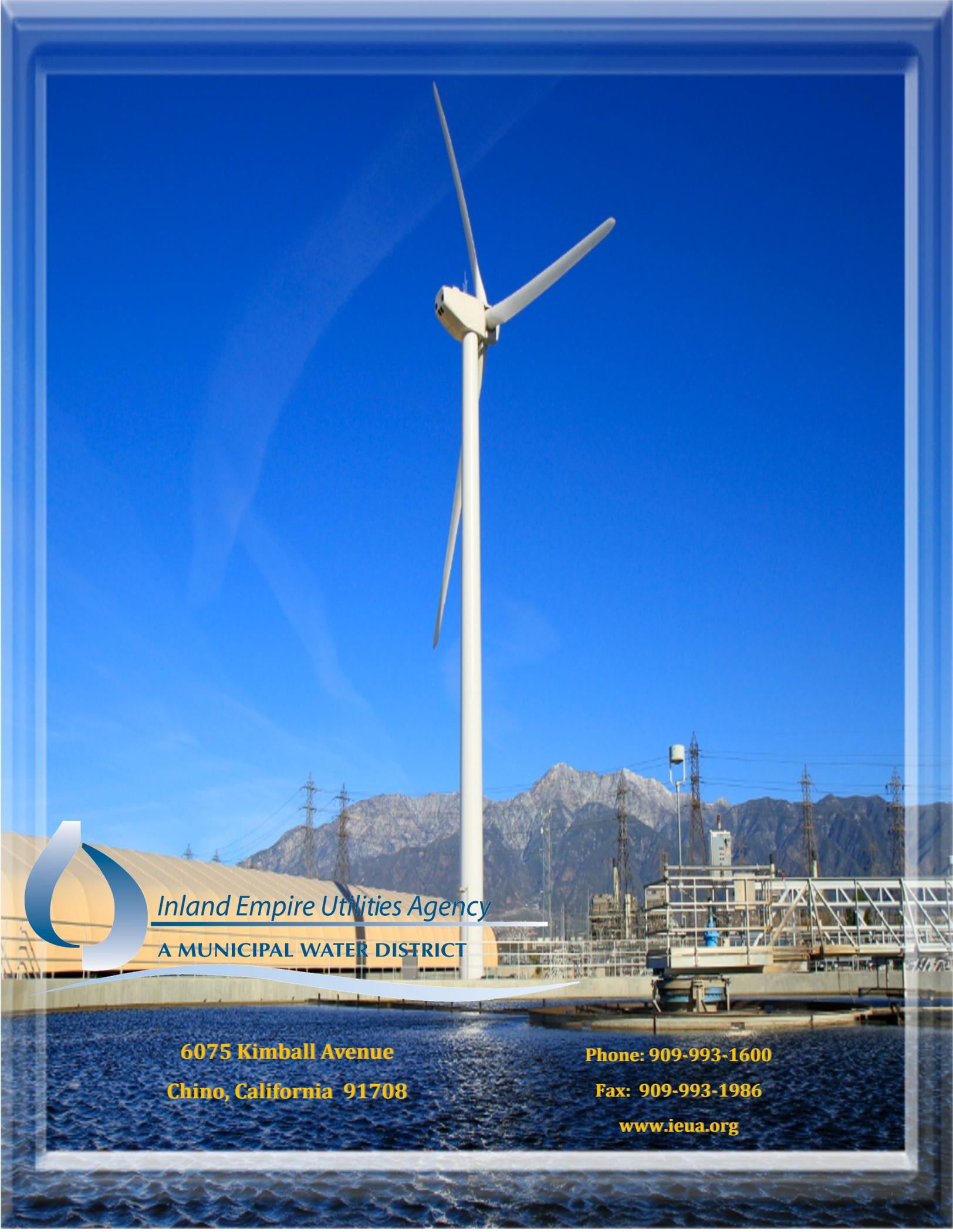
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Artist: Daniel Lee, Tenth Grade
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