



**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED
JUNE 30, 2006**



Inland Empire Utilities Agency

A MUNICIPAL WATER DISTRICT
CHINO, CALIFORNIA



Inland Empire Utilities Agency*

Chino, California

Comprehensive Annual Financial Report

Fiscal Year Ended
June 30, 2006

**Prepared by the Finance and Accounting Department
Michael C. Chung
Finance and Accounting Manager**

** a municipal water district*

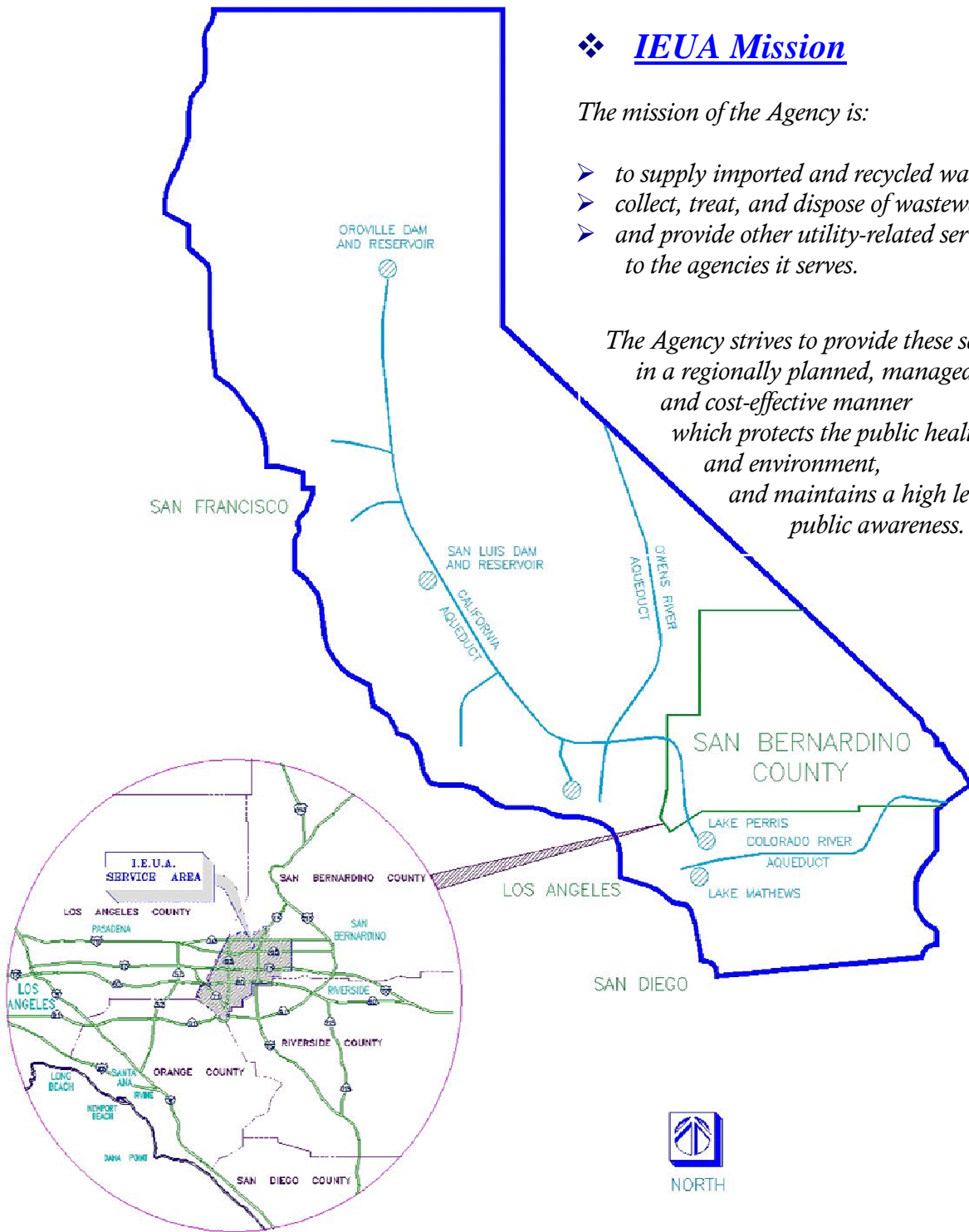
INLAND EMPIRE UTILITIES AGENCY

❖ IEUA Mission

The mission of the Agency is:

- *to supply imported and recycled water;*
- *collect, treat, and dispose of wastewater;*
- *and provide other utility-related services to the agencies it serves.*

The Agency strives to provide these services in a regionally planned, managed, and cost-effective manner which protects the public health and environment, and maintains a high level of public awareness.



INLAND EMPIRE UTILITIES AGENCY

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2006

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IEUA's 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.



6075 Kimball Avenue . Chino, CA 917108
P.O. Box 9020 . Chino Hills, CA 91709
TEL (909) 993-1600 . FAX (909) 606-7364
www.ieua.org

March 21, 2007

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

It is with pleasure that we present The Comprehensive Annual Financial Report of the Inland Empire Utilities Agency (herein after referred to as the Agency) for the fiscal year ended June 30, 2006. State law and local ordinances require that the Agency prepare a comprehensive report on its financial condition and activities, and that an independent audit firm of certified public accountants audit this report.

The Agency's Finance and Accounting Department prepared this report. The management of the Agency assumes full responsibility for the accuracy of the data and completeness and fairness of the presentation, including all disclosures, based upon a comprehensive frame work of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatement.

To the best of management's knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and cash flows, where applicable, of the business type activities, and of the various funds of the Agency. All disclosures necessary to enable the reader to gain an understanding of the Agency's financial activities have been included.

Mayer Hoffman McCann P.C., Certified Public Accountants, have issued an unqualified ("clean") opinion on the Inland Empire Utilities Agency's financial statements for the year ended June 30, 2006 The independent auditor's report is located at the front of the financial section of the report.

Included within this letter are several sections that provide important information about the operations and economic conditions of the Agency. These sections are denoted as follows:

The **Introductory Section** includes this transmittal letter and other information to familiarize the reader with the Agency: the Agency organization chart, a listing of Agency officials, and the Agency's mission and visions statements.

The **Financial Section** is prepared in accordance with GASB 34 requirements by including a narrative introduction in the form of a Management's Discussion and Analysis (MD&A), the basic financial statements including notes and the required supplementary information. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The basic financial statements include the Agency-wide financial statements that present an overview of the Agency's entire financial operations and the fund financial statements that present the financial information of each of the Agency's major funds, as well as nonmajor funds. Also included in this section is the independent auditor's report on the financial statements and schedules. This section also presents supplemental combining statements and schedules for the Agency's nonmajor funds.

The **Statistical Section** includes selected financial and demographic information presented on a multi-year basis.

Fifty-Five Years of Excellence in Water Resources & Quality Management

John L. Anderson
President

Wyatt L. Troxel
Vice President

Gene Koopman
Secretary/Treasurer

Angel Santiago
Director

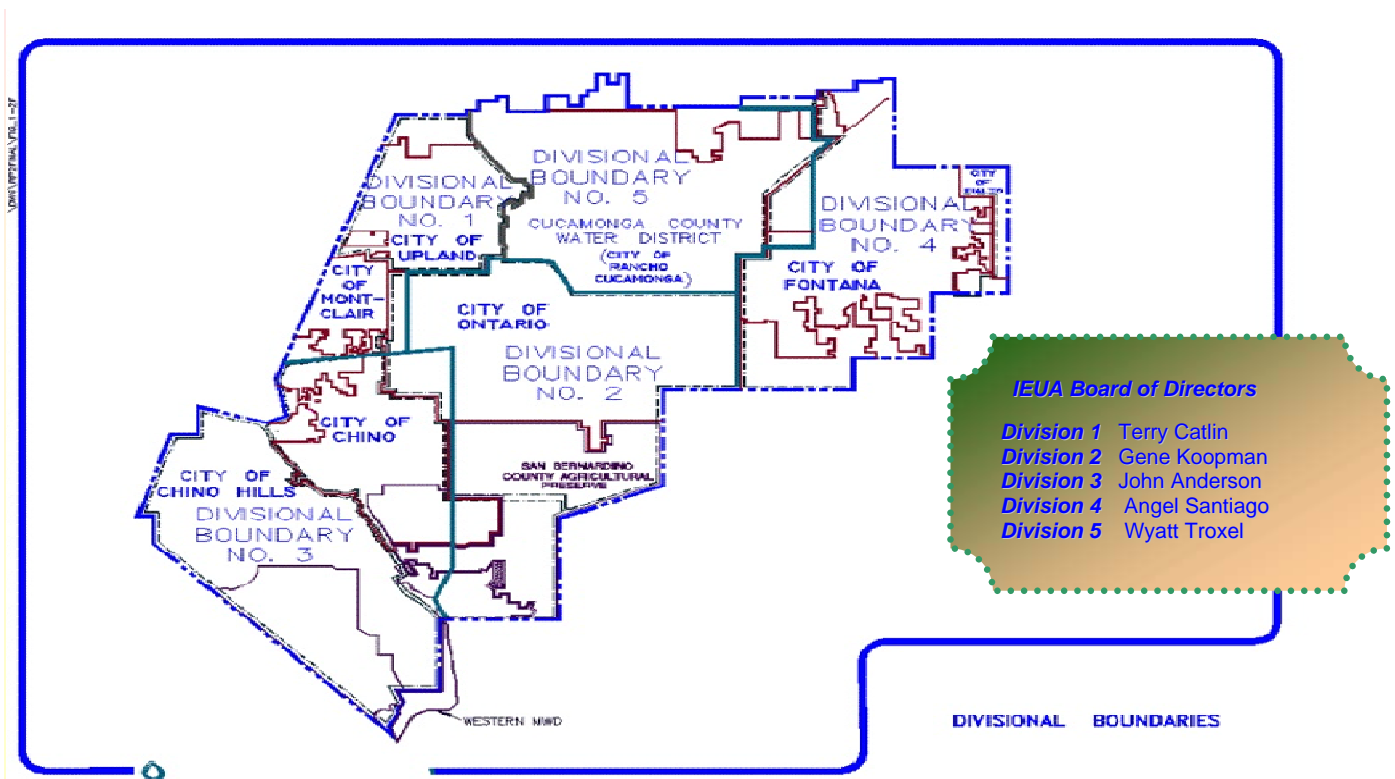
Terry Catlin
Director

Richard W. Atwater
Chief Executive Officer
General Manager

INLAND EMPIRE UTILITIES AGENCY PROFILE

Up to the Present

The Agency was established by a majority vote in a special election, on June 6, 1950, to bring supplemental imported water to a semi-arid region, and to meet domestic and agricultural needs for an original population of approximately 80,000 people. Until July 1, 1998, the Agency was formerly 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.

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 wastewater treatment plants.

- ◆ **Regional Plant No. 1 (RP-1)** is located south of the 60 freeway at Archibald Avenue in the City of Ontario, and processes approximately 39.6 million gallons per day (mgd) of wastewater.
- ◆ **Regional Plant No. 2 (RP-2)** is located in the southern service area in the City of Chino near El Prado and Pine Avenues. RP2 wastewater flows have been diverted to RP5, and as a result RP2 no longer processes wastewater.
- ◆ The **Carbon Canyon Wastewater Recycling Facility (CCWRF)** is located near the intersection of Central Avenue and Chino Hills Parkway in the City of Chino, and processes approximately 9.6 mgd.
- ◆ **Regional Plant No. 4 (RP-4)** is located in the northeastern section of the service area in the City of Rancho Cucamonga. Due to the energy reduction project during FY 04/05 several of the digesters were shut down. As a result, RP-4 currently processes approximately 2.3 mgd.
- ◆ **Regional Plant No. 5 (RP-5)** is located in the Southwestern area of the Agency's boundary in the City of Chino. Currently, RP-5 processes approximately 8.1 mgd.

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.

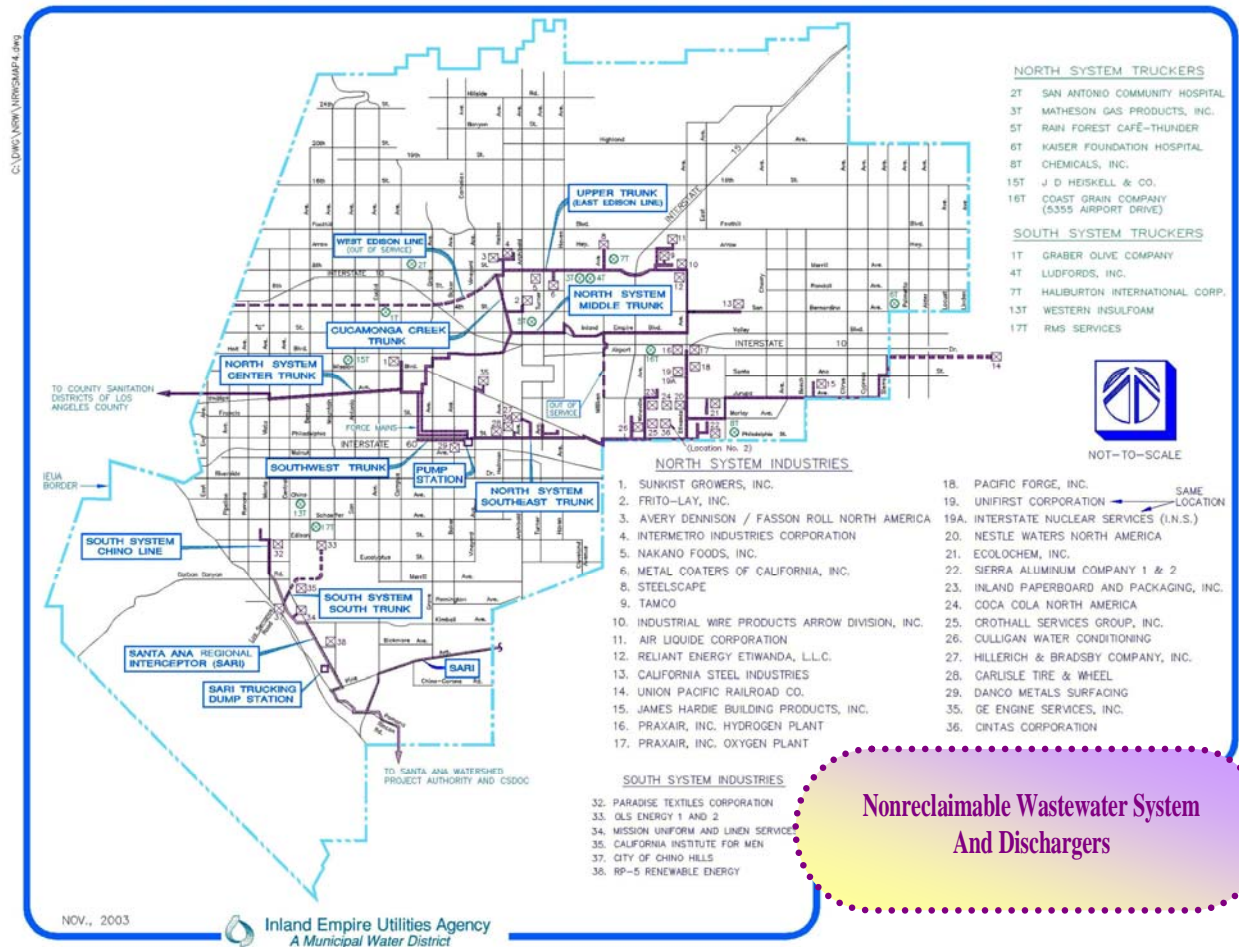
The Agency operates the Nonreclaimable Wastewater System (NRWS) that provides for the treatment and disposal of industrial waste, which is too high in salts for discharge into the Agency's treatment plants. The NRWS transports nonreclaimable, salt-laden, industrial strength wastewater out of the Agency's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

As of June 30, 2006, 56 companies discharged industrial wastewater to the Agency's Nonreclaimable Wastewater System. Some of the largest companies are California Steel Industries, Inland Paperboard and Packaging Inc., Frito Lay Inc., Mission Linen Companies, Crothall/Tartan Textile Services (Westar Linen), James Hardie Building Products, Clement Pappas, Cintas #1 and Cintas #2, Ecolochem Inc., Arrowhead Water, Sierra Aluminum, Pacific Forge, Unifirst, and Sunkist Growers Inc. These heavy industries directly connect to the Agency's pipelines. The NRWS also serves approximately 12 industrial customers who truck their wastewater to the Agency's dump discharge stations.

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 System and a 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.

Up to the Present (continued):

During 1972, bond proceeds were used to purchase treatment capacity in the County Sanitation District of Orange County (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 for transmission, treatment, and disposal. The NRWS owns a 1.75 mgd capacity right in the SARI system, and 1.85 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 2.25 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 treatment 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.

Up to the Present (continued):

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 (RCA). It is the Agency's plan to replace the existing facility with an indoor composting facility to be constructed by the RCA. The new facility is scheduled to commence operation in early 2007. The current composting site has been sold to a local developer.

Economic Condition and Outlook

Fast Facts

The Inland Empire (IE) region has continued to be ranked among the fastest growing regions in the country. IE continues to attract the interest of business, real estate and companies around the country and the world. The region's assets include vast expanses of underdeveloped land, right in the heart of Southern California. As a result, from 1990-2002, IE has created 340,820 new jobs representing a 40.2% of the 847,720 created in Southern California. Looking ahead, preliminary forecasts by the Southern California Association of Governments anticipate that the Inland Empire's employment base will expand by 408,946 jobs from 2000-2010. With this growth rate, the IE will have 1,419,000 jobs by 2010. Accordingly, personal income will rise and inch closer to the 100 billion mark.

How does this translate to the mission of Inland Empire Utilities Agency (IEUA)? First and foremost, IEUA needs to monitor the rapid growth to ensure it has available capacity to accommodate the increase. Additionally, the Agency would continue its effort in promoting the use of recycled water. The production of recycled water is a very critical component of IEUA's business in conserving the supply of water to drought-proof our region.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

Total capital expenditures of close to \$100 million set a record by completing several major projects. These projects include, but are not limited to, RP-5 Renewable Energy, Chino Creek Park, RP-1 Phase I Odor Control, RP-1 Three Phase Digestion Improvements, RP-4 Liquid Expansion to 14 mgd, Recycled Water Distribution System – Phase II, and the Wineville Avenue Recycled Water Pipeline Extension. Grants and State Revolving Loan Funding activities increased substantially to sustain the capital programs. The Enterprise Resources Planning project has been progressing per plan. By June 30, 2006, the process went through from evaluation to demonstration of different proposed software systems. Actual system selection was completed by September 2006.

Major Accomplishments for FY 2005/2006

- Finalized implementation of BidNet system which benefits the Agency by increasing supplier/contractors access to public procurements.
- Effort in maximizing renewable energy production resulted in the actual production of 5.429 MWH of power, utilizing the Agency's co-generation and natural gas generators.
- Recycled water program continues to expand at the expected rate. Current deliveries of 12,000 af doubled prior year's. As a result of the agency's commitment to promote use of recycled water, a new department was formed to manage construction and to monitor and coordinate the use of the recycled water in concert with our retail water agencies.
- Completed the 'Need Assessment Study' on the Agency's computerized systems. Instigated the search for an 'Enterprise Resources Planning - ERP' solution which provides for fully integrated software to fulfill the functional requirements developed out of the study.

Major Accomplishments for FY 2005/2006 (continued):

- The Agency secured commitments for the following grants/State Revolving Loans applications which include: 1) \$3.3 million from the State Water Resources Control Board for the Chino Creek Master Plan and Surface Wetland project; 2) \$13.4 million from State Water Resources Control Board for the Recycled Water Distribution System, Phase II.

Future Years

IEUA will continue to push forward in completing the 5-phased recycled water infrastructure program. With a total budget of close to \$200 million, by 2014, we will have increase capacity to nearly 100,000 acre feet of recycled water from the current demand of 18,000 af. The number of customers will increase to about 2,000. Also, IEUA will continue to develop cost-effective and reliable renewable energy sources through green power technologies, such as solar panels, biogas (methane) fuels, and efficient power generation systems to demonstrate what can be done locally to generate electricity in an environmentally safe manner. Currently, IEUA's "diary waste to energy" digester converts dairy cow manure and sewage treatment waste into 3 megawatts of clean, renewable energy. With infusion of both Federal and State grants, IEUA will continue to expand its renewable energy program.

Vision



IEUA will continue to be the leading agency in our region to be involved with various environmental management programs. These programs touch upon: 1) Groundwater Management; 2) Water Recycling; 3) Organics Composting; 4) Energy, Air and Water Quality, and 5) Water Conservation.

Through the vision and cooperation of the cities, local water districts, state and federal agencies, and private partners, IEUA is committed to improve the quality of life for the residents of the Chino Basin.

The following highlights some of the future major initiatives the Agency will undertake in the future years.

- Further expansion of the Regional Recycled Water Distribution System to deliver recycled water to customers throughout the Agency's service area.
- Major regional capital improvements that include the following projects:
 1. Upgrade at Regional Plant No. 1 to increase treatment process performance and capacity.
 2. Complete the Regional No. 5 Renewable Energy Generation Efficiency project to reduce the Agency's purchase of electrical power.
 3. Complete the Aeration System Modification project at Carbon Canyon Water Reclamation facility in Chino.
- Continue to pursue the salinity reduction study with water softener industry to develop incentives for the public to reduce the amount of salt entering our sewage system through water softeners.

Future Years (continued):

Vision (continued):

- Collaborate with the Chino Basin Watermaster on the implementation of the Optimum Basin Management Plan.
- Continue to implement Organics Management Strategy plan through inter-agency effort with other municipalities.

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 can not legally exceed the appropriated amount) is the category level (i.e., Office and Administrative Expenses, etc.) 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.

Cash and Investment Management

In order of priority, the Agency's objectives when investing, reinvesting, purchasing, acquiring, selling and managing public funds are as follows:

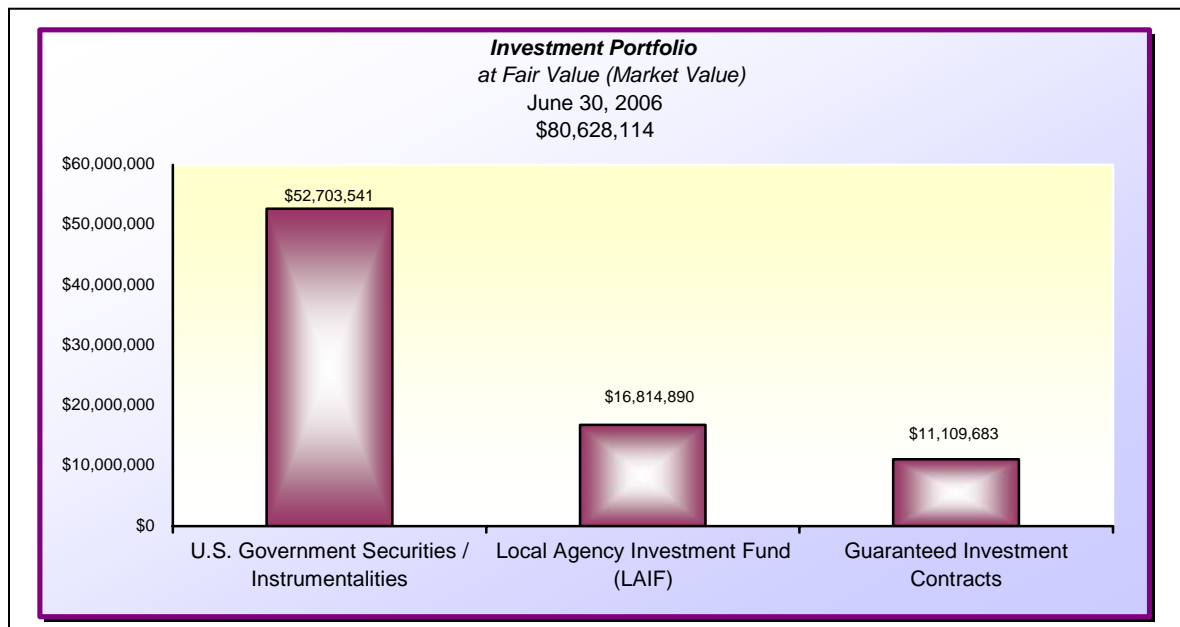
1. **Safety:** *Safety of principal is the foremost objective of the investment program. Investments made by the Agency are undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required to prevent any potential loss on any individual security or depository from exceeding the income generated from the remainder of the portfolio.*
2. **Liquidity:** *The investment portfolio will remain sufficiently liquid to enable the Agency to meet all operating requirements that might be reasonably anticipated.*
3. **Return on Investments:** *The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.*

Cash and Investment Management (continued):

All cash and investment transactions are conducted in accordance with the Agency's stringent resolutions and Investment Policy and Master Resolutions. While management recognizes that investment risks may result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity, portfolio diversification is employed as a way to control these risks. The Agency therefore limits the allowable investment amount, per financial institution, to the lesser of \$8,000,000 or 20% of the surplus funds investment portfolio at the time of the investment decision. The computation of this limitation does not include the funds in demand deposit accounts, money market accounts, passbook savings accounts, escrow agreements for construction retention payments, or the funds invested in U.S. Government Securities, Agencies, Instrumentalities, or Local Agency Investment Fund (LAIF), deposits.

Investment Portfolio Performance

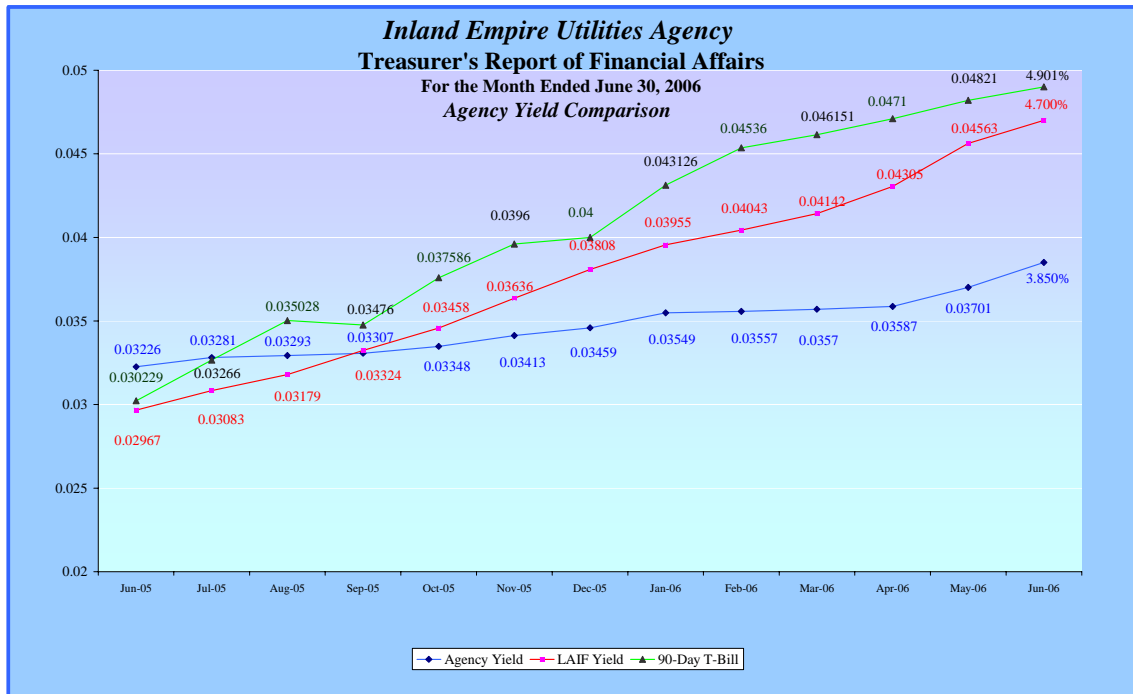
Investment interest for fiscal year 2005/06 totaled \$3,192,999. The Agency's portfolio fund balance for the fiscal years ended June 30, 2006 and 2005 were \$80,628,114 and \$114,184,803, respectively.



The Agency has followed a conservative approach in conducting its investment activities. By following the established Investment Policy and Master Resolution, Agency staff has successfully managed the investment portfolio to attain the Agency's investment objectives

Cash and Investment Management (continued):

Investment Portfolio Performance (continued):



Year-End portfolio earnings rates for fiscal years 2005/06 and 2004/05 were 3.85% and 3.23%, respectively.

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 Mayer Hoffman McCann P.C., CPA's 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, 2005. This was the eighth 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.

OTHER INFORMATION (continued):

Awards (continued):

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.

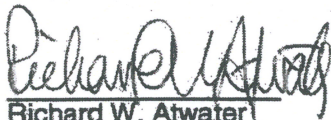
Acknowledgements

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

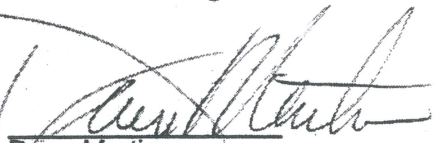
We further acknowledge the thorough and professional manner in which our auditors, Mayer Hoffman and McCann, L.L.P., conducted the audit.

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

Respectfully submitted,



Richard W. Atwater
Chief Executive Officer
General Manager



Dean Martin
Executive Manager of Finance & Administration

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, 2005

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.

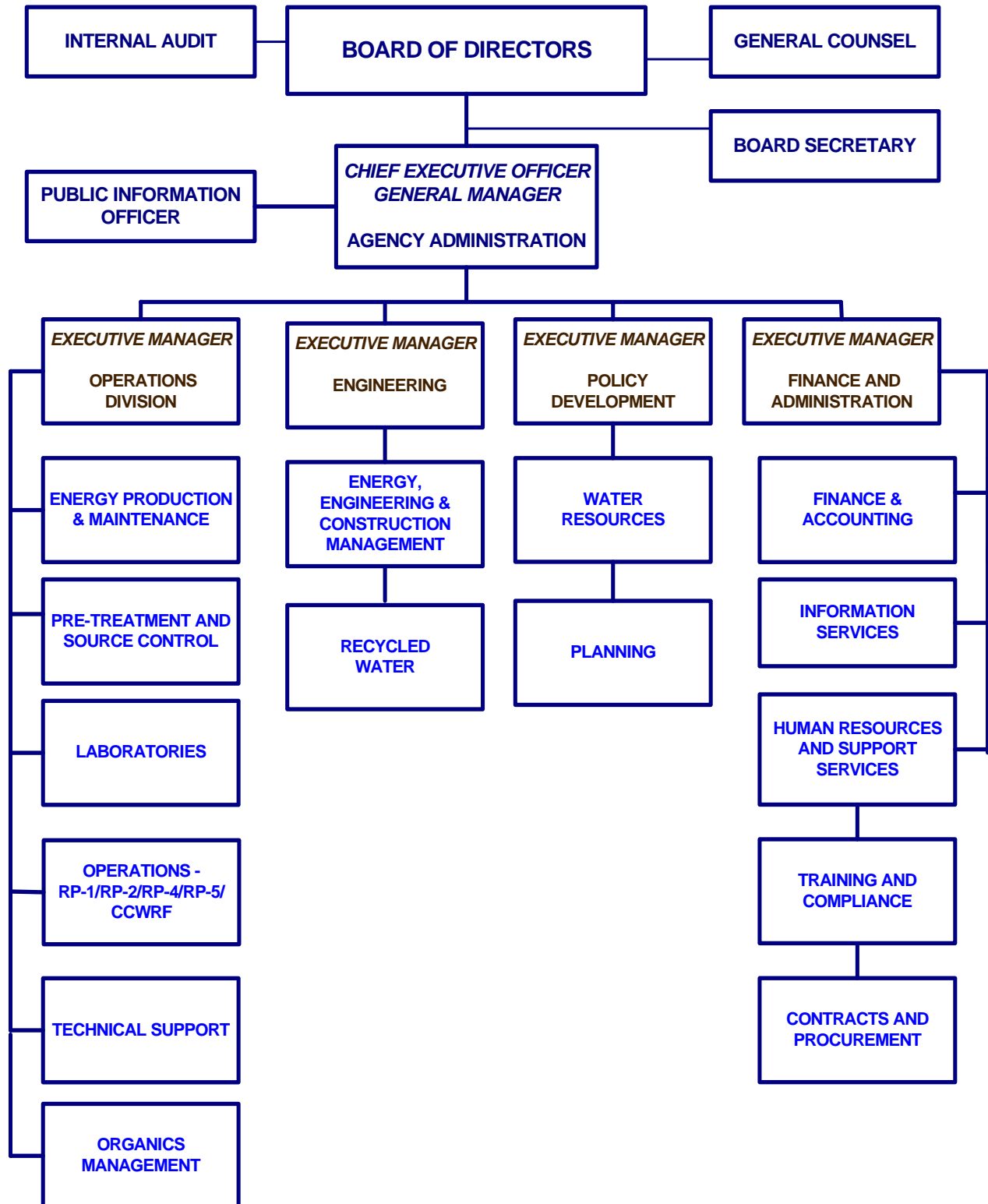


President

Executive Director

INLAND EMPIRE UTILITIES AGENCY

FY 2005/06 ORGANIZATIONAL CHART



INLAND EMPIRE UTILITIES AGENCY

Principal Officials

June 30, 2006

BOARD OF DIRECTORS

John L. Anderson	<i>President</i>
Wyatt Troxel	<i>Vice President</i>
Gene Koopman	<i>Secretary/Treasurer</i>
Angel Santiago	<i>Director</i>
Terry Catlin	<i>Director</i>

EXECUTIVE STAFF

Richard W. Atwater	<i>Chief Executive Officer - General Manager</i>
Dean Martin	<i>Executive Manager - Finance and Administration</i>
Patrick Sheilds	<i>Executive Manager - Operations Division</i>
Thomas A. Love	<i>Executive Manager - Engineering</i>
Martha Davis	<i>Executive Manager - Policy Development</i>

MANAGEMENT STAFF

Gary P. Bankston	<i>Manager - Energy Production & Maintenance</i>
Chris Berch	<i>Manager - Technical Support and Operations</i>
David V. Bobbitt	<i>Internal Auditor</i>
Tina Y. Cheng	<i>Budget Officer</i>
Michael C. Chung	<i>Manager - Finance and Accounting</i>
Neil W. Clifton	<i>Manager - Engineering, Energy and Construction Management</i>
Parivash Dezham	<i>Manager - Pre-Treatment and Source Control</i>
Sondra J. Elrod	<i>Public Information Officer</i>
Jack E. Frazier	<i>Manager - Safety and Risk Management</i>
Jonathan Glazier	<i>Manager - Information Services</i>
Nelletje Groenveld	<i>Manager - Laboratories</i>
John C. Gundlach	<i>Manager - Organics Management</i>
Gary E. Hackney	<i>Manager - Recycled Water</i>
Cameron B. Langner	<i>Manager - Contracts and Procurement</i>
Robert H. Nienhuis	<i>Manager - Compliance and Recycled Water System</i>
Amy Thenor	<i>Manager - Human Resources & Support Services</i>
David R. Wall	<i>Manager - Construction Management</i>
Eliza Jane Whitman	<i>Manager - Planning and Water Resources</i>
April Woodruff	<i>Board Secretary</i>

STRIVE TO ACHIEVE RECOGNITION (STAR) PROGRAM

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

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

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

For the purposes of the STAR Program, the Agency is divided into three areas: 1) Finance/Administration Division, 2) Engineering/Planning Division, and 3) Operations Division. Each of these three areas has three representatives who serve on the Selection Committee (a total of nine committee members). The STAR program was started as a quarterly program. In Fiscal Year 1999/2000 the program was modified to a semi-annual award, to enjoy greater program participation. Accordingly, the prize award was also increased to afford more employee appeal. Following are the semi-annual STAR Award recipients for the Fiscal Year 2005/2006:

First Half FY 2005/2006

Finance/Administration

Mary Blasingame – Procurement Specialist

Engineering/Planning

Sylvie Lee – Senior Engineer

Operations

Byung-Rock Im – Sr. Associate Engineer.

Second Half FY 2005/2006

Finance/Administration

Brandi Florio –Grants Technician

Engineering/Planning

David Mendez –Construction Project Manager

Operations

Jeff Ziegenbein – Compost Facility Superintendent

★ **Employee of the Year** ★

For the Fiscal Year 2005/2006, **Mary Blasingame**, *Procurement Specialist*, was chosen by the Selection Committee as the Employee of the Year.

*IEUA Star Award Recipient
Employee of The Year 2005/2006*



Mary Blasingame
Procurement Specialist

Mary Blasingame began her employment at the Agency in 1977 as a Clerk Typist. Since that time, she has filled the position of Steno Secretary I and II, Purchasing Clerk, Acting Buyer in General Services Department, and currently as Procurement Specialist in the Contracts and Procurement Department. Mary is always willing to assist staff whenever asked. She is enthusiastic, cost-effective, dependable and productive. She never complains about an assignment and goes out of her way to lend assistance to others. She provides outreach to staff, assisting them with obtaining materials and supplies so that they can complete their project on time and within budget. Even when she is tasked herself, she will lend a helping hand to assist a fellow staff member. Mary has been the key coordinator for "Pennies from the Heart" supporting the Ronald McDonald House for the last few years. She is one of the few individuals always willing to give of herself truly from the heart.





Mayer Hoffman McCann P.C.

An Independent CPA Firm

Conrad Government Services Division

2301 Dupont Drive, Suite 200

Irvine, California 92612

949-474-2020 ph

949-263-5520 fx

www.mhm-pc.com

Board of Directors
Inland Empire Utilities Agency
Chino, California

Independent Auditors' Report

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Inland Empire Utilities Agency ("Agency") as of and for the year ended June 30, 2006, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the Agency. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative financial information has been derived from the Agency's 2005 financial statements which were audited by Conrad and Associates, L.L.P., who merged with Mayer Hoffman McCann P.C. as of January 1, 2006, and whose report dated September 30, 2005 expressed an unqualified opinion on those 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Inland Empire Utilities Agency at June 30, 2006, and the respective changes in financial position and cash flows of the Agency for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Board of Directors
Inland Empire Utilities Agency
Chino, California

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Inland Empire Utilities Agency's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 20, 2006, 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.

Mayor Hoffman Melann P.C.

Irvine, California
October 20, 2006

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, 2006. 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 within the category as either a Major fund group or Non-major fund group. Because of the nature of the Agency's business, all funds are classified as "Proprietary" funds, using full accrual 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: 1) wholesaling of potable water, and management of water resources; 2) sale of recycled water and development of the distribution system; 3) acquisition and construction of conveyance and plant facilities, and treatment of domestic wastewater; 4) organics management, digestion and marketing; 5) renewable energy production through digestion; and 6) nonreclaimable wastewater system services, operations and maintenance.

Fiscal year 2005-06 was a very busy and successful year. Capital spending set a record high of \$83.0 million. While user charges of \$29.0 million remained on target, total connection fees of \$19.5 million came in 25% lower than budget due to a softening economy. As a result of the increase in property valuation, property tax revenues of \$18.7 million surpassed budget by 16% in spite of the State tax shift.

FINANCIAL HIGHLIGHTS

Cash and Investment Management

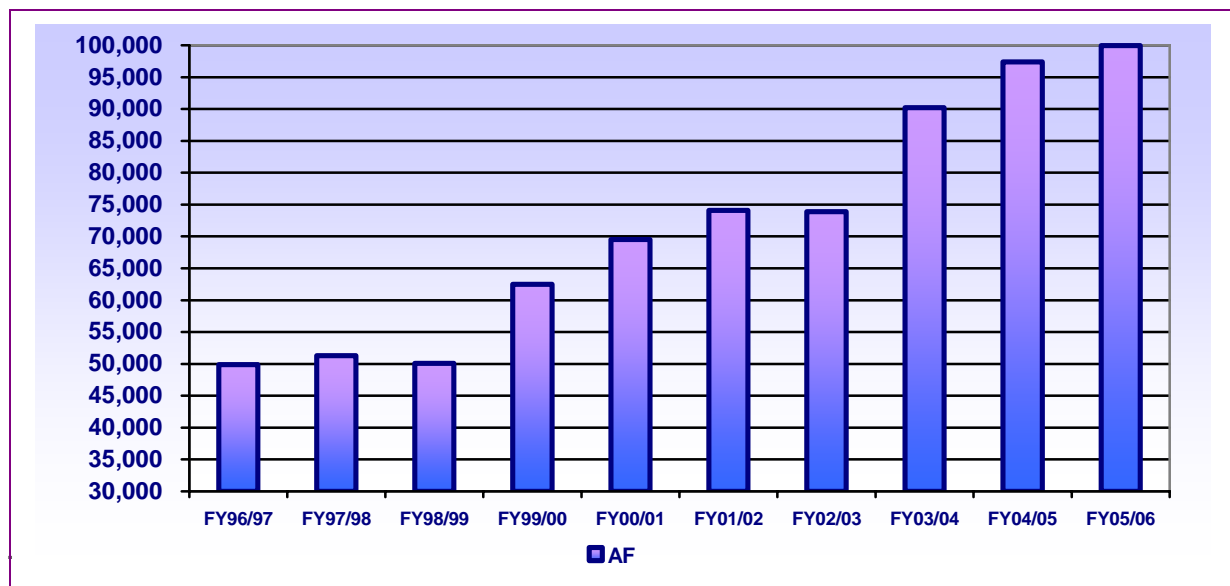
The Agency has a comprehensive cash and investment program subject to California State Code and bond covenants. These regulations are incorporated into the Agency's Investment Policy and Master Resolution, which identify the types of investments that are authorized and indicates any restrictions. Consistent with the State of California Government Code, the Agency bi-annually adopts an investment policy that is intended to minimize credit and market risks, while maintaining a competitive yield on its overall portfolio. The Agency's cash management system is also designed to forecast revenues and expenditures accurately, and to invest idle funds to the fullest extent possible. During the fiscal year ended June 30, 2006, idle funds were invested in accordance with this policy. These investments primarily consisted of United States Government Securities/Instrumentalities and deposits in a pooled investment fund administered by the State of California.

FINANCIAL HIGHLIGHTS (continued):

Water Deliveries

Total imported water deliveries for fiscal year 2005/06 were 99,952 acre feet (AF) against a budgeted total of 95,000 AF. The fiscal year 2005/06 AF surcharge levied by IEUA to member agencies remained at \$9.00/af. The total operating revenue was \$2,120,666 compared to \$2,103,086 for last fiscal year. Total operating expenses increased slightly from \$2,491,002 to \$2,514,289, while total non-operating revenue recorded a significant decrease from \$785,627 in FY 04/05 to \$176,080 in FY 05/06. The primary contributor for this decrease was due to the decrease in MWD conservation programs rebates. With fund transfer from Regional fund to support conservation programs, the Water Fund recorded an increase in net assets of \$179,331 in FY 05/06.

Comparative Acre Feet (AF) Deliveries
(Includes Conjunctive Program Use AF)



The Agency is committed to encouraging and supporting effective water management and conservation activities in order to help protect the region's vital water supply. IEUA works closely with various agencies to promote the Agency's conservation programs, including: the Metropolitan Water District of Southern California, Chino Basin Watermaster, Cucamonga Valley Water District, Monte Vista Water District, and the cities of Chino, Chino Hills, Ontario, and Upland, as well as the Fontana Water Company and the San Antonio Water Company.

The conservation programs include rebates to residential customers in the Agency's service area for installing ultra-low flush (ULF) toilets, high efficiency clothes washers and other appliances and reward business customers for installing other water efficient apparatus. In addition, IEUA is continuing a native landscaping initiative to promote usage of water-efficient plants, as well as the installation of water-efficient irrigation systems.

In fiscal year 2005/06, the conservation programs distributed and/or rebated 9,304 ULF toilets and issued 1,365 residential high efficiency clothes washer rebates.

FINANCIAL HIGHLIGHTS (continued):

Recycled Water Sales

Recycled water recorded sales of \$652,897 in FY 04/05 and \$1,147,241 in FY 05/06, respectively. This was an increase of \$494,344, or 75.7%, over last fiscal year. Total sales were 8,847.3 AF compared to 4,954 AF for last fiscal year. Capital grants receipts increased by \$1,194,965 to \$3,765,554 in support of the Regional Recycled Water Expansion program. Total operating expenses were \$2,320,728 including \$450,180 of depreciation.

Total net assets for FY 05/06 increased by \$3,880,232 as a result of the additional grant funding and inter-fund transfer from the Regional Capital Improvement fund. At June 30, 2006, the balance of net assets was \$24,023,452.

The IEUA Regional Recycled Water Expansion Program Phase I-V is designed to provide reliable “drought-proof” water supplies to meet future growth needs and reduce costly imported water use in the Chino Basin.

As of June 30, 2006, three of the seven major capital projects in Phase II were complete. Total budget for Phase II is \$70.3 million.

Chino Desalter Operations

Chino Basin Desalter Authority, (CDA), a joint power 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.

The CDA and IEUA entered into two separate agreements: 1) an Operations and Maintenance Agreement for IEUA to manage the production, treatment and distribution of the water produced by the desalination facilities; and 2) a Construction Management Agreement for IEUA to manage the design and construction of the Chino Desalter No. 1 Expansion Project and Chino Desalter No. 2.

Starting with fiscal year 2005/06, all operations and maintenance expenses including labor incurred by IEUA are being tracked in the Administrative Service Fund. These expenses are billed to the CDA monthly. In fiscal year 2005/06, the total amount billed and reimbursed was \$1,056,090.

FINANCIAL HIGHLIGHTS (continued):

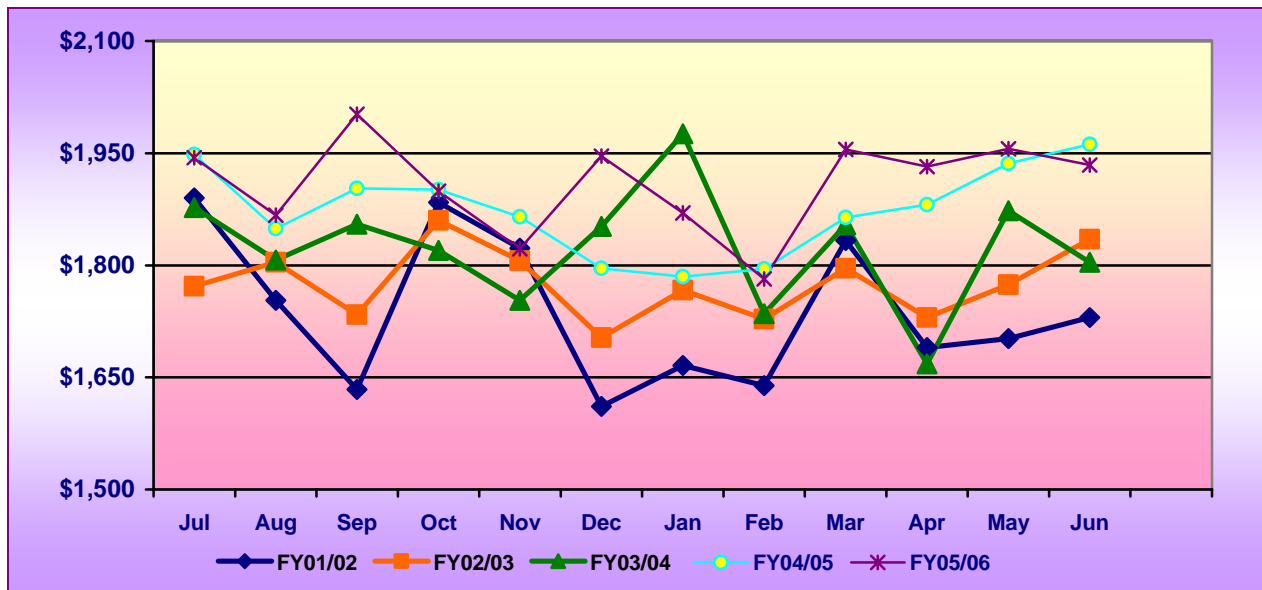
Wastewater Treatment Activities

The Regional Wastewater Treatment Funds showed combined total operating revenue of \$23,378,315, a 2.1% increase over the fiscal year 2004/05. This was an expected growth in sewage treatment revenue (EDU) with the increase in rate from \$7.69 to \$8.44. Total property revenues recorded was \$18,450,106 which represented a significant increase of \$3,123,440 over the prior fiscal year. Fiscal year 05/06 was the second of the two years of mandated property tax shift by the State.

Total number of EDU connections was 5,224 which represented \$20,895,635 in connection revenue at \$4,000 per connection. This represented a 27% decrease indicating a slowdown in construction activities.

The Agency billed and collected a total of \$22,918,111 in revenue for its wastewater treatment operation, which represents a 1.8% increase over the past year. The total EDU's billed were 2,980,248, *(each Equivalent Dwelling Unit equals approximately 98,550 gallons per year for a single residential household, or 270 gallon per day).

**Comparative EDU Revenues
(In thousands)**



Total wastewater collection, treatment and disposal costs incurred in fiscal year 2005/06 were \$26,346,310 compared to \$23,129,609 in the prior year, a 13.9% increase. Fiscal year 05/06 registered a full year of the latest treatment facility – Regional Plant no. 5, compared to a three-month operation in prior year. There were three major factors that contributed to the overall increase: 1) higher labor costs – increased by \$1.8 million; 2) Utilities expenses in treatment increased by \$442,634; and 3) higher professional and contractual service totaling an increase of \$261,872.

There was a negative \$2,185,671 net change in net assets for the fiscal year bringing the balance at June 30, 2006 to \$305,213,356.

FINANCIAL HIGHLIGHTS (continued):

Nonreclaimable Wastewater Treatment

Combined service charges of both the Operations and Maintenance and the Capital Improvement Funds totaled \$8,290,454 compared to total revenue of \$5,614,477 in the prior year. This \$2,675,979 increase was due to: 1) monthly capacity fees had an increase of \$677,706; 2) administration fees on volumetric and strength charges recorded \$1,409,800 – this is the first year the Agency adopted a straight pass-through rate with the added on administrative fees, and 3) the sale of 8 capacity units for a total of \$832,272.

Total operating expenses increased by \$1,450,208 or 29.2% from prior year. There were two major factors contributing to the increase: 1) SARI volumetric and strength charges posted an increase of \$576,589; and 2) the NRWS pipeline cleaning contributed to an increase of \$693,427 in contract service expenses.

Total net assets at June 30, 2006 were \$45,329,126 with an increase of \$1,741,107 over the prior fiscal year.

There were 59 users in the Nonreclaimable Wastewater System during the FY 05/06, with a total flow of 1,849 million gallons.

Organics Management

For fiscal year 2005/06, the Co-composting Funds were combined with the Organics Management Funds. The total operating revenue of \$47,087 came from tipping fees collected for trucked manure processing.

Operations & Maintenance (O&M) expenses for the year decreased by 55% to a total of \$1,670,766, compared to \$3,720,603 for prior year. The primary reason for the decrease was due to the realignment of the general allocation of the agency's labor, especially maintenance expenses, to the digestion activities. The fund received a one-time contribution of \$75,000 from the Southern California Edison for using high efficiency motors that save energy. With inter-fund transfer of \$9,000,000 from the Regional Capital Improvement Fund to support the Agency's partnership in the Inland Empire Regional Composting Authority, the total net asset balance at June 30, 2006 was \$38,491,008.

Recharge Water Program Fund

The Agency entered into the Chino Basin Recharge Master Plan Operations and Maintenance agreement with Chino Basin Watermaster (CBW). The agreement calls for the Agency to perform all of the operation and financial functions related to the program. CBW will fund the costs based on budget. In addition, IEUA and CBW entered into separate agreements sharing costs related to the monitoring of basins.

Total expenses recorded were \$3,222,260 including interest on debt service of \$549,182. Total reimbursement from CBW included: 1) fixed project cost including debt service charge - \$535,783 less \$136,022 of prior years adjustments; 2) O&M reimbursement of \$854,199. Total net assets increased by \$98,205 with an ending balance at June 30, 2006 of \$24,365,841.

FINANCIAL HIGHLIGHTS (continued):

Revenues

Combined revenues for the fiscal year totaled \$87,824,494 an increase of \$4,494,681, or 5.4%, more than the prior fiscal year. The following table presents a comparison of revenues by category for the two fiscal years 2005/06 and 2004/05.

Combined Revenues by Category - All Funds
For the Fiscal Year Ended June 30, 2006
(With Comparative Totals for the Fiscal Year Ended June 30, 2005)

Revenue Category	2005/06		2004/05		Increase/<Decrease> from 2004/05	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF CHANGE
Service Charges	33,836,522	39.0%	29,193,606	35.0%	\$4,642,916	16.0%
Other Charges	0	0.0%	1,754,653	2.0%	(\$1,754,653)	-100.0%
Recycled Water Sales	1,147,241	1.0%	652,897	1.0%	\$494,344	76.0%
Interest Income	3,867,906	4.0%	2,902,608	3.0%	\$965,298	33.0%
Property Tax Revenue	20,069,646	23.0%	16,673,512	20.0%	\$3,396,134	20.0%
Wastewater Connection Fees	20,895,635	24.0%	27,957,765	34.0%	(\$7,062,130)	-25.0%
Other Non-operating Revenues	8,007,544	9.0%	4,194,772	5.0%	\$3,812,772	91.0%
Total Revenues	\$87,824,494	100.0%	\$83,329,813	100.0%	\$4,494,681	5.4%

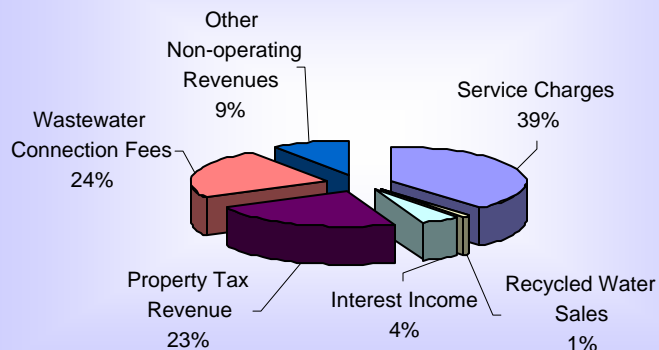
Other Non-operating Revenues

In FY 05/06 other non-operating revenues reported a total of \$4.4M of reimbursable project cost.

Property Tax Revenue

The Agency experienced an increase of over \$3M in overall property tax revenues, despite the \$7.2M shift to the State.

Combined Revenue by Category - All Funds
Fiscal Year 2005/06
\$87,824,494



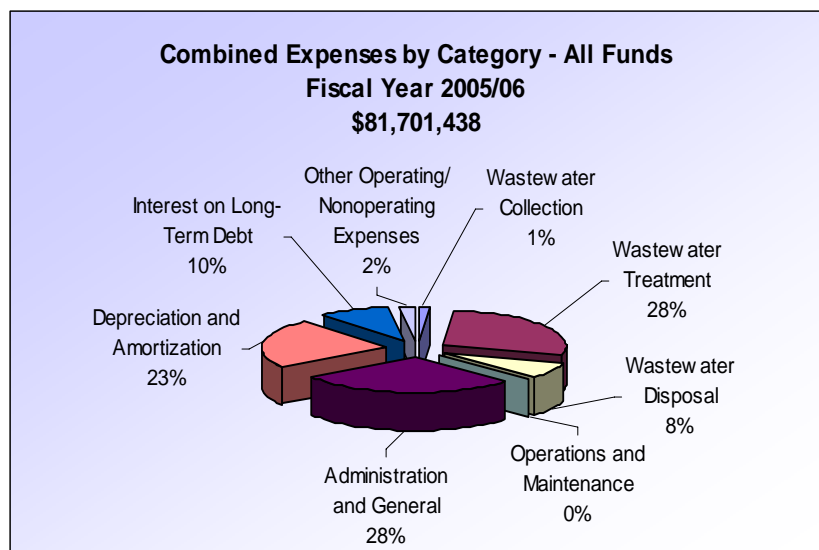
FINANCIAL HIGHLIGHTS (continued):

Expenses

Combined expenses for the fiscal year totaled \$81,701,438, an increase of \$8,994,601, or 12.4% over the prior fiscal year. The following table presents a comparison of expenses by category for the two fiscal years 2005/06 and 2004/05.

Combined Expenses by Category - All Funds
For the Fiscal Year Ended June 30, 2006
(With Comparative Totals for the Fiscal Year Ended June 30, 2005)

Expense Category	2005/06		2004/05		Increase/<Decrease> from 2004/05	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF CHANGE
Wastewater Collection	1,142,969	1.0%	1,051,905	1.0%	\$91,064	9.0%
Wastewater Treatment	22,693,776	28.0%	19,193,678	27.0%	\$3,500,098	18.0%
Wastewater Disposal	6,235,413	8.0%	5,850,988	8.0%	\$384,425	7.0%
Operations and Maintenance	67,404	0.0%	1,687,958	2.0%	(\$1,620,554)	-96.0%
Administration and General	23,568,215	28.0%	20,605,025	29.0%	\$2,963,190	14.0%
Depreciation and Amortization	18,719,355	23.0%	16,310,680	22.0%	\$2,408,675	15.0%
Interest on Long-Term Debt	7,795,856	10.0%	7,138,409	10.0%	\$657,447	9.0%
Other Operating/ Non-operating Expenses	1,478,450	2.0%	868,194	1.0%	\$610,256	70.0%
Total Expenses	\$81,701,438	100.0%	\$72,706,837	100.0%	\$8,994,601	12.4%



Wastewater Treatment

Electricity expenses continued to climb to higher costs. Also, residual disposal expenses increased due to the NRWS line cleaning.

FINANCIAL HIGHLIGHTS (continued):**Changes in Financial Conditions of the Agency**

Combined Net Assets-All Funds				
For the Fiscal Year Ended June 30, 2006				
(With Comparative Totals for the Fiscal Year Ended June 30, 2005)				
	2005/06	2004/05	Increase/<Decrease> from 2004/05	
Assets				
Current Assets	\$109,666,275	\$125,954,284	(\$16,288,009)	-12.9%
Restricted assets	19,642,319	56,088,771	(36,446,452)	-65.0%
Capital assets	481,032,145	419,409,377	61,622,768	14.7%
Other assets	79,278,945	69,112,126	10,166,819	14.7%
Total Assets	689,619,684	670,564,558	19,055,126	2.8%
Liabilities				
Current liabilities	42,796,884	32,070,217	9,219,001	33.4%
Non-current liabilities	170,382,616	174,900,776	(3,010,494)	-2.6%
Total liabilities	213,179,500	206,970,993	6,208,507	3.0%
Net Assets				
Invested in capital assets, net of related debt	339,319,971	300,869,289	38,450,682	12.8%
Restricted	59,447,344	101,161,368	(41,714,024)	-41.2%
Unrestricted	77,672,869	61,562,908	16,109,961	26.2%
TOTAL NET ASSETS	\$476,440,184	\$463,593,565	\$12,846,619	2.77%

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

- The \$16 million decrease in Current Assets was primarily due to: 1) decrease in total pool investments of \$30 million due to the decrease of connection fees revenue and in the increase of capital spending; 2) Due from other fund as a result of a \$5.0 million short-term borrowing from the recycled water program from the Regional Wastewater program; 3) Taxes receivable increased by \$800,000.
- The decrease of restricted assets by \$36.4 million was the result of \$19.5 million of connection fees called from other governmental agencies to fund various regional sewage capital projects.
- Net Capital assets increased by \$61.6 million primarily due to additional construction in progress of \$83 million, offset by depreciation and amortization.

FINANCIAL HIGHLIGHTS (continued):

Changes in Financial Conditions of the Agency (continued):

- The increase of \$10 million in Other Assets was primarily due to IEUA's share of investment in Inland Empire Regional Composting Authority related to the construction of a fully enclosed Biosolids composting facility. This investment is recorded in the Organics Management fund.
- The increase of \$9.2 million in Current Liabilities consists mainly of the following changes: 1) accounts payable and related liabilities contributed \$4.2 million; 2) \$5.0 million short-term loan from Regional Wastewater fund to Recycled Water fund.

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

For the Fiscal Year Ended June 30, 2006

(With Comparative Totals for the Fiscal Year Ended June 30, 2005)

Item Category	2005/06		2004/05		Increase/<Decrease> from 2004/05	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF CHANGE
Total Revenue	87,824,494	18.0%	83,329,813	18.0%	\$4,494,681	5.0%
Total Expenses	81,701,438	18.0%	72,706,837	16.0%	\$8,994,601	12.0%
Excess (deficiency) before contrib.	6,123,056	1.0%	10,622,976	2.0%	(\$4,499,920)	-42.0%
Capital Grants	6,655,778	1.0%	4,219,952	1.0%	\$2,435,826	58.0%
Contributions	67,785	0.0%	26,009	0.0%	\$41,776	161.0%
Change in Net Assets	12,846,619	3.0%	14,868,937	3.0%	(\$2,022,318)	-14.0%
Beginning Net Assets	463,593,565	97.0%	448,724,628	97.0%	\$14,868,937	3.0%
Ending Net Assets	\$476,440,184	100.0%	\$ 463,593,565	100.0%	\$12,846,619	2.8%

Capital Assets

Net of accumulated depreciation and amortization, the Agency had total capital assets of \$481,032,145 in fiscal year 2005/06 compared to \$419,409,377 in fiscal year 2004/05. The increase was primarily due to the completion of various capital projects and the on-going construction in progress as follows:

- RP4 Energy Load Reduction Facility (\$10,012,196)
- Completion of 4th Street Recycled Water Pipelines (\$7,488,573)
- RP1/RP4 Recycled Water Pump Station Phase I (\$7,809,941)
- RP1 Chlorine Contact Tank Expansion (\$4,807,028)
- Philadelphia Street Recycled Water Pipeline (\$3,409,793)
- RP4 Etiwanda Extension to 210 Freeway (\$3,109,757)
- RP5 Digestion Expansion and Modification (\$3,586,906)
- Upland Interceptor Relief Phase I (\$3,234,298).

(Refer to Note 8 of the Notes to the Basic Financial Statements for additional information)

FINANCIAL HIGHLIGHTS (continued):

Debt Management

At June 30, 2006, the Agency had four bond debt issues outstanding; \$ 64,692,017 for the 1994 Revenue Bonds, \$3,051,472 for the 1999 Revenue Bonds, and \$52,980,352 for the 2002A Variable Rate Revenue Bonds, and \$22,210,066 for the 2005A Revenue Bonds.

Notes and loans payable at June 30, 2006, included a note from the Santa Ana Watershed Project Authority pertaining to the purchases of pipeline capacity, with an outstanding balance of \$1,958,264, and State Revolving Financing loans in the amount of \$13,933,559 from the State Water Resources Control Board. (Refer to Note 12 of the Notes to the Basic Financial Statements for additional information).

Contacting the Agency's Financial Management

This financial report is designed to provide Inland Empire Utilities Agency's elected officials, citizens, customers, investors and creditors 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 Finance and Accounting Department.

INLAND EMPIRE UTILITIES AGENCY

BASIC FINANCIAL STATEMENTS

OVERVIEW

Financial Statements

The following Basic Financial Statements, along with the Notes to the Basic Financial Statements, present an overview of the Agency's financial position at June 30, 2006, and the results of operations and the cash flows of its proprietary fund types for the year then ended.

All individual Enterprise Funds are classified as either Major fund groups or Non-major fund group. An Internal 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.

INLAND EMPIRE UTILITIES AGENCY**Statement of Net Assets****June 30, 2006**

(With Comparative Totals for June 30, 2005)

ASSETS	Enterprise Funds	
	Regional Wastewater	Non Reclaimable Wastewater
Current assets		
Cash (note 2)	\$0	\$0
Short-term investments (note 2)	34,914,844	17,984,422
Accounts receivable	8,321,439	2,315,614
Interest receivable	1,605,588	142,311
Taxes receivable	2,926,900	26,760
Other receivables	0	22,428
Due from other funds (note 15)	5,000,000	0
Inventory	0	0
Prepaid items	17,558	96,454
Total current assets	52,786,329	20,587,989
Noncurrent assets		
Restricted assets (note 2 & 3)		
Deposits held by governmental agencies	5,669,408	0
Assets held for 401(a) plan (note 4)	0	0
Assets held with trustee/fiscal agent	12,874,687	0
Total restricted assets	18,544,095	0
Capital assets (note 8)		
Land	13,931,378	0
Jobs in progress	78,500,022	887,203
Capital assets, net of accumulated depreciation	260,909,884	4,475,760
Total capital assets	353,341,284	5,362,963
Other assets		
Long-term receivables (note 10)	0	205,806
Intangible assets, net of accumulated amortization (note 8)	6,727,389	23,071,666
Long-term investments (note 11)	0	0
Advances to other funds (note 14)	7,650,000	0
Deferred costs	1,429,289	0
Total other assets	15,806,678	23,277,472
Total noncurrent assets	387,692,057	28,640,435
Total assets	440,478,386	49,228,424

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

Recycled Water	Non-Major	Totals	
		2006	2005
\$0	\$6,921,108	\$6,921,108	\$1,985,986
1,252,044	15,367,121	69,518,431	101,409,250
2,339,643	7,868,990	20,845,686	16,175,731
0	197,654	1,945,553	1,860,613
0	229,857	3,183,517	2,393,729
0	62,987	85,415	83,890
0	25,477	5,025,477	38,617
0	1,904,863	1,904,863	1,826,519
3,500	118,713	236,225	179,949
3,595,187	32,696,770	109,666,275	125,954,284
0	0	5,669,408	43,687,063
0	655,828	655,828	449,923
419,505	22,891	13,317,083	11,951,785
419,505	678,719	19,642,319	56,088,771
0	4,215,819	18,147,196	18,147,196
14,510,125	46,720,043	140,617,394	117,669,810
28,061,915	28,819,996	322,267,555	283,592,371
42,572,040	79,755,858	481,032,145	419,409,377
0	40,392	246,198	281,842
44,069	68,217	29,911,341	28,245,850
0	39,737,131	39,737,131	30,337,131
0	0	7,650,000	8,500,000
0	304,986	1,734,275	1,747,303
44,069	40,150,726	79,278,945	69,112,126
43,035,614	120,585,303	579,953,409	544,610,274
46,630,801	153,282,073	689,619,684	670,564,558

(continued)

INLAND EMPIRE UTILITIES AGENCY
Statement of Net Assets (Continued from previous page)
June 30, 2006
(With Comparative Totals for June 30, 2005)

	Enterprise Fund Types	
	Regional Wastewater	Non Reclaimable Wastewater
LIABILITIES		
Current liabilities		
Accounts payable	9,700,984	297,530
Accrued liabilities	492,442	1,965,781
Due to other funds (note 15)	25,477	0
Compensated absences (note 1)	0	0
Retentions payable	1,531,365	133,459
Notes payable, due within one year (note 12)	89,063	178,125
Long-term debt, due within one year (note 12)	3,987,034	0
Interest payable	1,982,153	0
Retention deposits and escrows	1,765,606	0
Total current liabilities	19,574,124	2,574,895
Noncurrent liabilities		
Compensated absences (note 1)	0	0
Long-term debt, due in more than one year (note 12)	113,300,828	0
Notes payable, due in more than one year (note 12)	633,861	1,324,403
Liability for 401(a) plan (note 4)	0	0
Advances from other funds (note 14)	0	0
Other noncurrent liabilities	1,756,217	0
Total noncurrent liabilities	115,690,906	1,324,403
Total liabilities	135,265,030	3,899,298
NET ASSETS		
Invested in capital assets, net of related debt	242,057,887	26,932,101
Restricted for:		
Capital construction	20,590,368	0
Debt service	18,811,187	0
Bond operating contingency requirement	12,364,787	1,798,107
Total restricted	51,766,342	1,798,107
Unrestricted	11,389,127	16,598,918
Total net assets	\$305,213,356	\$45,329,126

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

Recycled Water	Non-Major	Totals	
		2006	2005
2,180,205	7,279,288	19,458,007	15,703,057
18,446	1,858,250	4,334,919	3,910,443
5,000,000	0	5,025,477	38,617
0	85,880	1,593,546	1,435,476
0	0	1,664,824	912,407
613,805	0	880,993	864,083
0	687,966	4,675,000	5,555,000
61,587	935,267	2,979,007	3,028,634
419,505	0	2,185,111	622,500
<u>8,293,548</u>	<u>10,846,651</u>	<u>42,796,884</u>	<u>32,070,217</u>
0	2,470,502	962,836	988,319
0	29,633,079	142,933,907	147,402,336
13,933,559	0	15,891,823	15,573,833
0	655,828	655,828	449,923
0	7,650,000	7,650,000	8,500,000
380,242	151,763	2,288,222	1,986,365
<u>14,313,801</u>	<u>40,561,172</u>	<u>170,382,616</u>	<u>174,900,776</u>
<u>22,607,349</u>	<u>51,407,823</u>	<u>213,179,500</u>	<u>206,970,993</u>
<u>20,826,953</u>	<u>49,503,030</u>	<u>339,319,971</u>	<u>300,869,289</u>
2,572,983	370,395	23,533,746	66,382,875
0	37,761	18,848,948	19,739,653
623,516	2,278,240	17,064,650	15,038,840
<u>3,196,499</u>	<u>2,686,396</u>	<u>59,447,344</u>	<u>101,161,368</u>
0	49,684,824	77,672,869	61,562,908
<u>\$24,023,452</u>	<u>\$101,874,250</u>	<u>\$476,440,184</u>	<u>\$463,593,565</u>

INLAND EMPIRE UTILITIES AGENCY
Statement of Revenues, Expenses, and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2006
(With Comparative Totals for June 30, 2005)

	Enterprise Fund Types	
	Regional Wastewater	Non Reclaimable Wastewater
OPERATING REVENUES		
Service charges	\$ 23,378,315	\$8,290,454
Other charges	0	0
Recycled water sales	0	0
Total operating revenues	23,378,315	8,290,454
OPERATING EXPENSES		
Wastewater collection	665,240	477,729
Wastewater treatment	19,445,657	3,248,119
Wastewater disposal	6,235,413	0
Operations and maintenance	0	0
Administration and general	10,748,950	1,668,472
Depreciation and amortization	15,345,727	1,014,804
Total operating expenses	52,440,987	6,409,124
Operating income (loss)	(29,062,672)	1,881,330
NONOPERATING REVENUES (EXPENSES)		
Interest income	2,522,211	573,503
Property tax revenue	18,450,106	25
Wastewater capital connection fees	20,895,635	0
Other nonoperating revenues	5,069,205	80,088
Interest on long-term debt	(6,403,238)	(89,602)
Other nonoperating expenses	(1,230,054)	(468)
Total nonoperating revenues (expenses)	39,303,865	563,546
Income (loss) before contributions and transfers	10,241,193	2,444,876
TRANSFERS AND CAPITAL CONTRIBUTIONS		
Transfers in (note 16)	1,753,161	0
Transfers out (note 16)	(16,673,129)	(703,769)
Capital grants	2,493,104	0
Contribution in aid	0	0
Change in net assets	(2,185,671)	1,741,107
Total net assets - beginning	307,399,027	43,588,019
Total net assets - ending	\$305,213,356	\$45,329,126

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

Recycled Water	Non-Major	Totals	
		2006	2005
\$0	\$ 2,167,753	\$ 33,836,522	\$ 29,193,606
0	0	0	1,754,653
1,147,241	0	1,147,241	652,897
1,147,241	2,167,753	34,983,763	31,601,156
0	0	1,142,969	1,051,905
0	0	22,693,776	19,193,678
0	0	6,235,413	5,850,988
0	67,404	67,404	1,687,958
1,870,548	9,280,245	23,568,215	20,605,025
450,180	1,908,644	18,719,355	16,310,680
2,320,728	11,256,293	72,427,132	64,700,234
(1,173,487)	(9,088,540)	(37,443,369)	(33,099,078)
16,877	755,315	3,867,906	2,902,608
0	1,619,515	20,069,646	16,673,512
0	0	20,895,635	27,957,765
36,886	2,821,365	8,007,544	4,194,772
(217,869)	(1,085,147)	(7,795,856)	(7,138,409)
0	(247,928)	(1,478,450)	(868,194)
(164,106)	3,863,120	43,566,425	43,722,054
(1,337,593)	(5,225,420)	6,123,056	10,622,976
1,606,943	15,225,061	18,585,165	80,888,456
(154,672)	(1,053,595)	(18,585,165)	(80,888,456)
3,765,554	397,120	6,655,778	4,219,952
0	67,785	67,785	26,009
3,880,232	9,410,951	12,846,619	14,868,937
20,143,220	92,463,299	463,593,565	448,724,628
\$24,023,452	\$101,874,250	\$476,440,184	\$463,593,565

INLAND EMPIRE UTILITIES AGENCY**Statement of Cash Flows****For the Fiscal Year ended June 30, 2006**

(With Comparative Totals for June 30, 2005)

	Enterprise Funds	
	Regional Wastewater	Non Reclaimable Wastewater
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$18,593,424	\$7,806,878
Cash received from interfund services provided	0	0
Cash payments to suppliers for goods and services	(1,623,410)	(4,770,491)
Cash payments to employees for services	(5,110,745)	(460,922)
Cash payments for interfund services used	(25,899,846)	(434,334)
Net cash provided by (used for) operating activities	(14,040,577)	2,141,131
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in	1,018,392	0
Transfers out	(15,938,359)	(703,769)
Tax revenues	18,450,106	25
Interfund borrowings received	5,544,322	0
Interfund borrowings paid	0	(5,544,322)
Long term receivable	0	22,428
Advances from other funds	836,860	0
Advances to other funds	(5,000,000)	0
Cash received from others	5,069,205	80,088
Net cash provided by (used for) noncapital financing activities	9,980,526	(6,145,550)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(66,193,120)	(1,865,625)
Proceeds from sale of assets	0	0
Proceeds from State Revolving Funds	0	0
Calls on deposits held by members	58,913,290	0
Capital grants received	2,493,104	0
Principal paid on capital debt	(4,737,201)	(88,522)
Interest paid on capital debt	(6,294,043)	(89,602)
Bond administration fees	(1,230,054)	0
Changes in contractor deposits/retentions	1,557,706	0
Net cash provided by (used for) capital and related financing activities	(15,490,318)	(2,043,749)

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

Recycled Water	Non-Major	Totals	
		2006	2005
\$1,407,150	\$1,722,133	\$29,529,585	\$53,180,248
0	19,257,765	19,257,765	17,070,502
(642,192)	(8,983,657)	(16,019,750)	(24,697,118)
(72,438)	(16,997,093)	(22,641,198)	(22,215,026)
(1,123,097)	(1,456,743)	(28,914,020)	(14,194,470)
(430,577)	(6,457,595)	(18,787,618)	9,144,136
1,643,829	15,225,061	17,887,282	80,888,880
(154,672)	(1,053,595)	(17,850,395)	(80,888,880)
0	1,619,515	20,069,646	16,733,346
0	0	5,544,322	0
0	0	(5,544,322)	0
0	13,215	35,643	(228,234)
5,000,000	(850,000)	4,986,860	0
0	13,140	(4,986,860)	0
0	1,181,609	6,330,902	4,089,069
6,489,157	16,148,945	26,473,078	20,594,181
(10,258,656)	(11,454,759)	(89,772,160)	(74,956,470)
0	1,230	1,230	341,271
1,073,233	0	1,073,233	7,009,372
0	0	58,913,290	51,199,999
3,765,554	472,120	6,730,778	4,219,952
(605,549)	(655,490)	(6,086,762)	(474,455)
(327,607)	(1,132,145)	(7,843,397)	(6,919,100)
0	(104,267)	(1,334,321)	(830,765)
323,211	(318,306)	1,562,611	(2,031,300)
(6,029,814)	(13,191,617)	(36,755,498)	(22,441,496)
			(Continued)

INLAND EMPIRE UTILITIES AGENCY
Statement of Cash Flows (Continued from previous page)
For the Fiscal Year ended June 30, 2006
(With Comparative Totals for June 30, 2005)

	Enterprise Funds	
	Regional Wastewater	Non Reclaimable Wastewater
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	2,497,321	540,851
Sale of investments	24,296,248	0
Purchase of investments	0	0
Net cash provided by (used for) investing activities	26,793,569	540,851
Net increase (decrease) in cash and cash equivalents	7,243,200	(5,507,317)
Cash and cash equivalents - beginning	(7,243,200)	17,947,417
Cash and cash equivalents - ending	\$0	\$12,440,100
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income (loss)	(\$29,062,673)	\$1,881,330
Adjustments to reconcile operating income to net cash provided by (used for) operating activities		
Depreciation and amortization	15,345,727	1,014,804
Changes in assets and liabilities		
(Increase) decrease in		
Accounts receivable	(4,058,502)	(482,915)
Other receivables	0	(662)
Due from other funds	0	0
Deposits receivable	0	0
Taxes Receivable	(726,388)	1
Inventory	0	0
Prepaid items	39,030	(96,454)
Deferred costs	0	0
Increase (decrease) in		
Accounts payable	3,502,131	33,763
Rententions payable	713,968	96,734
Accrued liabilities	57,053	(305,470)
Other liabilities	149,077	0
Compensated absences	0	0
Liability for 401(a) plan	0	0
Net cash provided by (used for) operating activities	(\$14,040,577)	\$2,141,131

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

Recycled Water	Non-Major	Totals	
		2006	2005
25,148	532,696	3,596,016	1,389,369
0	-	24,296,248	0
0	(116,377)	(116,377)	(21,686,597)
<u>25,148</u>	<u>416,319</u>	<u>27,775,887</u>	<u>(20,297,228)</u>
<u>53,914</u>	<u>(3,083,948)</u>	<u>(1,294,151)</u>	<u>(13,000,407)</u>
<u>1,617,635</u>	<u>25,395,068</u>	<u>37,716,920</u>	<u>50,717,327</u>
<u>\$1,671,549</u>	<u>\$22,311,120</u>	<u>\$36,422,769</u>	<u>\$37,716,920</u>
(\$1,173,487)	(\$9,088,540)	(\$37,443,370)	(\$33,099,078)
450,180	1,908,644	18,719,355	16,310,680
259,909	(388,447)	(4,669,955)	21,788,760
0	(863)	(1,525)	(17,605)
0	0	0	0
0	0	0	
0	(63,401)	(789,788)	(2)
0	(78,344)	(78,344)	(134,622)
0	1,148	(56,276)	814,373
0	6,333	6,333	7,091
(61,558)	280,614	3,754,950	405,465
0	(58,285)	752,417	0
(12,162)	685,054	424,475	2,723,556
106,541	0	255,618	132,400
0	132,587	132,587	213,118
0	205,905	205,905	0
<u>(\$430,577)</u>	<u>(\$6,457,595)</u>	<u>(\$18,787,618)</u>	<u>\$9,144,136</u>
(Continued)			

INLAND EMPIRE UTILITIES AGENCY
Statement of Cash Flows - (Continued from previous page)
For the Fiscal Year Ended June 30, 2006
(With Comparative Totals for June 30, 2005)

	Enterprise Funds	
	Regional	Non Reclaimable
	Wastewater	Wastewater
RECONCILIATION OF CASH & CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:		
Cash & cash equivalents at end of year	\$0	\$12,440,100
Investments	47,789,531	5,544,322
Total cash, short-term investments and restricted cash	<u>\$47,789,531</u>	<u>\$17,984,422</u>
Cash	\$0	\$0
Short-term investments	34,914,844	17,984,422
Restricted assets	12,874,687	0
Total cash, short-term investments and restricted cash	<u>\$47,789,531</u>	<u>\$17,984,422</u>
Noncash capital, financing and investing activities:		
	2006	2005
Upland Waste Treatment Facility	\$0	\$0
Wastewater Capital Connection Fees	0	0
Wastewater Capital Connection Fees, Prior year adjustment	0	(1,089,974)
Gain (Loss) on Long Term Investments	(205,905)	(28,500)

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

Recycled Water	Non-Major	Totals	
		2006	2005
\$1,252,044	\$22,288,229	\$35,980,373	\$37,716,920
419,505	22,891	53,776,249	77,630,099
<u>\$1,671,549</u>	<u>\$22,311,120</u>	<u>\$89,756,622</u>	<u>\$115,347,019</u>
\$0	\$6,921,108	6,921,108	\$1,985,986
1,252,044	15,367,121	69,518,431	101,409,250
419,505	22,891	13,317,083	11,951,785
<u>\$1,671,549</u>	<u>\$22,311,120</u>	<u>\$89,756,622</u>	<u>\$115,347,021</u>



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

June 30, 2006

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NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2006

(1) Summary of Significant Accounting Policies:

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 June 6, 1950. As defined by accounting principles generally accepted in the United States of America and the Governmental Accounting Standards Board, 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. The Agency's staff is led by the Board-appointed Chief Executive Officer/General Manager, Executive Manager of Finance and Administration, Executive Manager of Operations, the Executive Manager of Engineering, and the Executive Manager of Policy Development as of June 30, 2006. The Agency's staff consisted of 308 budgeted positions. 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. Enterprise funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Fund Accounting

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 and an Administrative Service Fund. These funds are included in the financial statements and have been grouped into fund types described as follows in the section to follow entitled "Proprietary Fund Types." For financial reporting purposes, the Agency has the following major funds: Nonreclaimable Wastewater, 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, "Individual Funds" section, beginning on pages 87, 79 and 75 respectively.

The composition of the non-major funds by sub-fund is indicated in the accompanying supplementary information statements, "Supplementary Schedules" section, and the "Individual Funds" section.

(1) Reporting Entity and Summary of Significant Accounting Policies (continued):

Measurement Focus

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 domestic wastewater flows based on Equivalent Dwelling Units (EDU's) connected to the Contracting Agencies local collection systems and the sale of potable water to member Agencies. The principal operating expenses include the costs associated with the primary and secondary treatment of domestic wastewater delivered to the regional sewage system, and the purchase of potable water from the Metropolitan Water District. 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 capital assets (net of related debt) and restricted and unrestricted net 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 enterprises, 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 Fund

The Regional Wastewater 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 wastewater 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.

Non-Reclaimable Wastewater Fund

The Non-Reclaimable Wastewater Fund records the transactions for the acquisition, construction, expansion and replacement of the Agency's non-reclaimable wastewater sewer lines, interceptors and appurtenant facilities as well as the revenues and operating costs directly related to providing collection services, pipeline transport and treatment. Revenue includes volumetric and capacity fees as well as excess use fees, capacity unit sales and other service charge revenue.

(1) Reporting Entity and Summary of Significant Accounting Policies (continued):

Measurement Focus (continued):

Recycled Water Fund

The Recycled Water Fund records the revenues and expenses associated with the operations and maintenance of the facilities used to distribute recycled water supplied from the Agency's recycling plants. Additionally, the Recycled Water Fund records all of the costs associated with the construction of recycled water capital projects.

Capital Revenue sources included \$21 million of loan proceeds from the State Revolving Fund (SRF) and \$9 million in State and local grants. A \$1 million operating transfer from the Regional Wastewater Fund, a MWD LLP credit of \$771,000 and \$775,000 from the sale of recycled water contribute to operating revenues.

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.

Recognition of Revenues and Expenses

The Agency began recognizes certain water sales and purchases as pass-through transactions. Instead of recording the water deliveries to contracting agencies as gross revenue and corresponding water purchases from Metropolitan Water District of Southern California as expenses, the Agency records only the transaction surcharge as operating revenue. For these transactions, the Agency is merely a conduit or accommodator for the transactions between the Metropolitan Water District and the contracting agencies. The Agency has no control over the pricing of the water delivered to the contracting agencies by Metropolitan Water District.

Wastewater Capital Connection Fees that are held by contracting agencies, on behalf of the Agency are recognized as revenue when the funds are received by each contracting agency, as opposed to recording it as revenue when the Agency calls for the funds.

(1) Reporting Entity and Summary of Significant Accounting Policies (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 potable and recycled water. Non-operating revenues are generated not directly relating to the Agency's core operations. Examples of non-operating revenues are: 1) property tax revenue; 2) interest income and 3) sewer capital connection fees.

The Agency classifies the type of expenses directly related to the operations of the Agency in providing the core services and/or goods to the public. Typical operating expenses include sewage treatment and disposal costs, cost of purchase of potable water. In contrast, non-operating expenses do not have direct impact on the operations of the agency. Expenses, such as interest expenses and financial services expenses are generally classified as non-operating expenses.

Budgetary Policy and Control

The Agency's Board approves each year's budget submitted by the Executive Manager of Finance and Administration 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. Because the Agency is not required to present budget comparisons, 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, except for unexpended appropriations for capital projects in excess of \$15,000 that are carried forward.

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 Combining Statement of Cash Flows at June 30, 2006, 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, and 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 deposit and investment balances. For financial presentation purposes, cash is shown within cash, short-term investments and restricted assets. Additionally, guidelines provided by GASB Statement No. 40 regarding risk disclosures on deposits and investments have been followed.

Interest Income Allocation Method

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

(1) Reporting Entity and Summary of Significant Accounting Policies (continued):

Vacation, Sick and Compensated Absences

A liability is recorded 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 un-represented employees and laboratory bargaining units to accrue up to a maximum of eighty (80) hours of compensatory time each calendar year. Members of the general and operators bargaining units accrue up to a maximum of seventy (70) 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 June 30, 2006, the accumulated vacation leave payable was \$1,283,058, an increase of \$78,000 over the previous fiscal year; the sick and compensatory leave balance was \$1,273,324, a decrease of \$54,587 over the previous fiscal year; and, has been recorded in the Administrative Service Fund as a combined total of \$2,556,382 payable in future years.

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 Public Employees' Retirement System (CalPERS) health program, as follows:

- Each employee hired on or after January 1, 1992, and who simultaneously retires from the Agency and CalPERS, who does not meet the requirements of C, D, or E following, will receive health benefits under the Public Employees' Medical and Hospital Care Act in an amount up to a maximum of \$111.41 per month, plus administrative costs.
- Each employee hired on or after July 1, 1980, and prior to January, 1992, and who simultaneously retires from the Agency and CalPERS, who does not meet the requirements of C, D, or E following, will receive health benefits under the Public Employees' Medical and Hospital Care Act in an amount up to a maximum of \$111.41 per month, plus administrative costs.
- Each employee hired on or prior to July 1, 1980, and who simultaneously retire from the Agency and CalPERS, who is a minimum age of 55, with a minimum of 15 years Agency service, and /or eligible dependents, will receive health benefits under the Public Employees' Medical and Hospital Care Act in an amount equal to 100% of the cost of the Agency's basic health plan (Kaiser South), plus administrative costs.
- Each employee hired on or after July 1, 1980, through December 31, 1991, and who simultaneously retires from the Agency and CalPERS, who is a minimum age of 55, with a minimum of 20 years Agency service, and/or eligible dependents, will receive health benefits under the Public Employees' Medical and Hospital Care Act in an amount equal to 50% of the cost of the Agency's basic health plan (Kaiser South), plus administrative costs.

(1) Reporting Entity and Summary of Significant Accounting Policies (continued):

Post - Employment Benefits (continued):

- Each employee retiring after July 4, 2004, and who simultaneously retires from the Agency and CalPERS, who is at a minimum age of 55, with a minimum of 12 years Agency service, who does not meet the requirements of C or D above, will receive health benefits under the Public Employees' Medical and Hospital Care Act in an amount equal to 50% of the cost of the Agency's basic health plan (Kaiser South), plus administrative costs for single party for the employee or surviving spouse.

In accordance with GASB Statement 12, the Agency's fixed fee contributions are financed on a pay-as-you-go basis for retired employees and their eligible dependents, based on the above provisions. Insurance premiums are reduced when a retiree becomes eligible for Medicare. Consequently, the Agency's payments are reduced accordingly. During the fiscal year ended June 30, 2006, the Agency paid \$148,125 for 35 retired employees.

Capital Assets

Property, plant and equipment are capitalized at cost. The cost of a capital investment includes purchase, rehabilitation or construction costs, 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	> 1 Year	Yes	-----
Maintenance & Repair Expenditures	≥ \$ 5,000	≥ 3 Years	-----	Yes
Capital Projects	≥ \$ 5,000	≥ 3 Years	N/A	N/A
Single Year Capital Projects	≥ \$ 5,000	≥ 3 Years	N/A	N/A
Multi-Year Capital Projects	≥ \$15,000	≥ 3 Years	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, 2006, no interest was capitalized on jobs in process related to either the 1994 or the 1999 Revenue Bonds proceeds, since proceeds were completely expended on projects that were placed in operation in prior fiscal years.

(1) Reporting Entity and Summary of Significant Accounting Policies (continued):

Capital Assets (continued):

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated, as applicable, over the remaining useful lives of the related capital assets.

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:	Ω Furniture, machinery and equipment	5 - 10 years
	 Improvements	15 years
	 Interceptors, buildings and plants	5 - 50 years

Inventories

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

Property Taxes

Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied 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 of San Bernardino 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 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.

Prior Year Data

The information included in the accompanying financial statements for the prior 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 have been made in order to enhance their comparability with current year figures.

(2) Cash and Investments:

Cash and investments as of June 30, 2006 are classified in the accompanying financial statement as follows:

Statement of net assets:	
Cash and investments	\$ 76,439,539
Cash and investments held by bond trustee	<u>13,317,083</u>
Total cash and investments	<u>\$ 89,756,622</u>

Cash and investments as of June 30, 2006 consist of the following:

Cash on hand	\$ 2,250
Deposits with financial institutions	9,126,258
Investments	<u>80,628,114</u>
Total cash and investments	<u>\$ 89,756,622</u>

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

The table below identifies the investment types that are authorized for the Agency by its Investment Policy. Based on the Agency's Investment Policy, the table also addresses the interest rate risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of the debt agreements of the Agency rather than 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	None	None
State and Local Agency Obligations	180 days	10%	None
Banker's Acceptances	180 days	None	10%
Commercial Paper	270 days	25%	None
Negotiable Certificate of Deposit	N/A	30%	None
Repurchase Agreements	90 days	50%	None
Medium-Term Notes	5 years	15%	None
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	N/A	20%	None
Local Agency Investment Fund	N/A	None	None

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements rather than the Agency's investment policy.

(2) Cash and Investments (continued):

Investments Authorized by Debt Agreements (continued):

The table below identifies the investment types that are authorized for investments held by bond trustee. 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.

Authorized Investment Type	Minimum Rating	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment In One Issuer
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
Banker's Acceptances	A-1 / Prime-1	1 Year	None	None
Repurchase agreements	A	30 days	None	None
LAIF	None	N/A	None	None

Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the Agency's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investment by maturity:

		Remaining Maturity (in Months)			
Investment Type	Value	12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
U.S. Agency Securities	\$ 52,703,541	\$39,565,121	\$13,138,420	\$0	\$0
State Investment Pool	16,814,890	16,814,890	0	0	0
Held by Bond Trustee:					
Debt Service Money					
Market Funds	11,109,683	11,109,683	0	0	0
Total	\$80,628,114	\$67,489,694	\$13,138,420	\$0	\$0

(2) 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.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the Agency's investment policy, and the actual rating as of fiscal year ended June 30, 2006 for each investment type:

Investment Type		Minimum Legal Rating	Not Required To Be Rated	Rating as of June 30, 2006		
				AAA	A-1+	Unrated
U.S. Agency Securities	\$ 52,703,541	N/A	\$0	\$52,703,541	\$ 0	\$ 0
State Investment Pool	16,814,890	N/A	0	0	0	16,814,890
Held by Bond Trustee:						
Investment Contracts & Debt Service Money						
Market Funds	11,109,683	N/A	0	0	0	11,109,683
Total	\$80,628,114		\$0	\$52,703,541	\$0	\$27,924,573

Concentration of Credit Risk

The investment policy of the Agency contains no limitations on the amount that can be invested in 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>
Federal Home Loan	Bonds and Discount Notes	\$ 29,717,158
Freddie Mac	Bonds and Discount Notes	11,914,290
Federal Farm Credit	Bonds	8,098,343
Ambac GIC	Investment Contracts/GIC	6,556,500

Custodial Credit Risk

The Agency does not have any investments that are uninsured and unregistered which are held by the counterparty or trust department not in the Agency's name.

(2) Cash and Investments (continued):

Investment in State Investment Pool

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. Included in LAIF's investment portfolio are mortgage-backed securities, other asset-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured notes.

(3) Restricted Assets

Restricted assets consist of deposits held in short-term investments and assets held 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 in a workers compensation bank account for the use of a third party administrator to fund claims resulting from work related incidents; (d) deposits held by contracting agencies for Wastewater Capital Connection Fees collected on behalf of the Agency to fund regional capital construction expenditures, and (e) 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.

(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.

Effective July 1, 1998, the Agency adopted GASB Statement 32 "Accounting and Financial Reporting for Internal Revenue Code (IRC) Section 457 Deferred Compensation Plans." The implementation of GASB Statement 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). The plan is designed for executive management personnel only. Each participant is expected to contribute up to 10% of their employee's earnings up to a maximum of \$45,000 per year. 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.

(4) Deferred Compensation Plan (continued):

Unlike the Deferred Compensation Plan under IRC Section 457, the IRC Section 401(a) Deferred Compensation Plan must be reported in the financial statements. The reported balances were \$655,828 and \$449,923 at fiscal years ended June 30, 2006 and 2005, respectively.

(5) Pension Plan

Plan Description

The Agency's defined benefit pension plan, Miscellaneous Plan of the Inland Empire Utilities Agency (Agency's Plan), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Agency's Plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS which acts as a common investment and administrative agent for participating public employers 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 P Street - Sacramento, CA 95814.

Funding Policy

Agency employees are required to contribute 7% of their annual covered salary to CalPERS. The Agency makes the contributions required of Agency employees on their behalf and for their account. 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. The required employer contribution rate for the fiscal year ended June 30, 2006 was 9.339%. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS.

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 who retire at or after age 55 are eligible for annual retirement benefits, payable monthly for life, in an amount equal to 2% of their average salary during the period of 12 consecutive months in which they earned their highest salary.

Annual Pension Costs

The Agency's annual pension cost (employer portion), for the fiscal year ended June 30, 2006 was \$3,034,119. The employee portion paid by the Agency was \$3,093,213 and was equal to the Agency's required and actual contributions. The required contributions were determined as part of the June 30, 2003 actuarial valuation.

(5) Pension Plan (continued):

CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. A summary of the principle assumptions and methods used to determine the annual required contribution are shown below.

Valuation Date	June 30, 2003
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percentage of Payroll
Average Remaining Period	22 Years as of the Valuation Date
Asset Valuation Method	3 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administration expenses)
Projected Salary Increases	3.25% 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%

Three-year Trend information for the IEUA CalPERS

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2004	\$ 1,034,278	100%	0
6/30/2005	2,179,171	100%	0
6/30/2006	3,093,213	100%	0

Required Supplementary Information – Schedule of Funding Progress for the IEUA CalPERS

The Table below displays a short history of the Entry Age Normal Accrued Liability, the Actuarial Value of Assets, the Unfunded Liability (Excess Assets), Funded 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.

Valuation Date	Entry Age Normal Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (Excess Assets) (a-b)	Funded Ratio Status (b/a)	Annual Covered Payroll (c)	UAAL as a % of Payroll [(a) - (b)]/c
6/30/2002	\$37,782,491	\$41,018,695	\$(3,236,204)	108.60%	\$12,667,634	(25.500)
6/30/2003	44,955,352	42,432,976	2,522,376	94.40%	14,596,253	17.300
6/30/2004	50,086,060	45,803,619	4,282,441	91.40%	15,946,929	26.900

(5) Pension Plan (continued):

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 rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization period may not be lower than the payment calculated over a 30 year amortization period. The unfunded actuarial liability is amortized over a period ending June 30, 2033.

(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. The Agency retains the risk of loss for general liability, and, errors and omissions claims of up to \$250,000 per person per occurrence. The Agency also retains the risk of loss for automobile liability and property damage claims of up to \$25,000. Property damage has a \$50,000,000 per occurrence coverage limit. All other claims categories provide coverage up to \$9,000,000 on an annual aggregate basis.

In fiscal year 1993/94, the Agency adopted a self-insurance program for risks associated with workers' compensation; accounting for, and financing 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 \$350,000 per person per occurrence. The current commercial insurance provides coverage for workers' compensation claims up to \$10,000,000. 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.

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 charge allocated to each fund 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. As of June 30, 2006, the interfund premiums did not exceed reimbursable expenditures.

Settled claims from the risks discussed herein have not exceeded commercial insurance coverage for the past three years. Additionally, there have been no reductions in insurance coverage since the establishment of the risk management program.

(6) Risk Management

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 layouts, 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	
	2005/06	2004/05	2005/06	2004/05
Unpaid Claims, beginning of fiscal year	77,974	97,423	0	0
Incurred claims (including IBNRs)	78,140	21,612	40,575	36,687
Claim payments	(82,882)	(41,061)	(40,575)	(36,687)
Unpaid claims, end of fiscal year	\$73,232	\$77,974	\$0	\$0

(7) 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 Inland Empire Utilities Agency expects such amounts, if any, to be immaterial.

At June 30, 2006, 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. It is the opinion of the Agency's legal counsel that the potential losses and/or resolution of these matters will not materially affect the financial condition of the Agency.

(8) Changes in Capital Assets and Intangible Assets

The following is a summary of property, plant and equipment, net jobs in progress and intangible assets at June 30, 2006:

Capital Assets

Capital Assets	Balance at 6/30/05	Additions	Transfers & Retirements	Balance at 06/30/06	Accumulated Depreciation at 6/30/06	Net Book Value at 6/30/06
Capital Assets-not being depreciated:						
Land	\$ 18,147,196	\$ 0	\$ 0	\$ 18,147,196	\$ 0	\$ 18,147,196
Jobs in progress	117,669,810	83,010,767	(60,063,183)	140,617,394	0	140,617,394
Total capital assets, not being depreciated	\$135,817,006	\$ 83,010,767	\$(60,060,183)	\$158,764,590	\$ 0	\$158,764,590
Capital Assets- being depreciated:						
Interceptors, trunk lines and inter-ties	\$ 9,976,049	\$ 8,986	\$ 0	\$ 9,985,035	\$ (3,845,255)	\$ 6,139,780
Office facilities	15,509,893	0	(79,348)	15,430,545	(2,925,558)	12,504,987
Collection, outfall, and transmission lines	74,559,405	10,155,788	0	84,715,193	(24,890,031)	59,825,162
Reservoirs, settling basins, ponds, and chlorination stations	33,359,284	4,819,734	0	38,179,018	(4,245,133)	33,933,885
Recycled water distribution systems	6,468,240	20,215,399	0	26,683,639	(1,172,097)	25,511,542
Treatment plants, pump stations and office buildings	280,018,251	18,613,056	(2,630,352)	296,000,955	(126,108,623)	169,892,332
Equipment	21,794,004	2,976,756	(288,311)	24,482,449	(13,647,913)	10,834,536
Land improvement	5,839,614	785,227	0	6,624,841	(2,999,510)	3,625,331
Total capital assets, being depreciated	\$447,524,740	\$ 57,574,946	\$ (2,998,011)	\$502,101,675	\$(179,834,120)	\$ 322,267,555
Less accumulated depreciation for:						
Interceptors, trunk lines and inter-ties	\$ (3,556,582)	\$ (288,673)	\$ 0	(3,845,255)		
Office facilities	(2,470,878)	(457,060)	2,380	(2,925,558)		
Collection, outfall, and transmission lines	(22,748,255)	(2,141,776)	0	(24,890,031)		
Reservoirs, settling basins, ponds, and chlorination stations	(3,288,863)	(956,270)	0	(4,245,133)		
Recycled water distribution systems	(805,285)	(366,812)		(1,172,097)		
Treatment plants, pump stations and office buildings	(116,975,194)	(10,788,621)	1,655,192	(126,108,623)		
Equipment	(11,399,985)	(2,499,298)	251,370	(13,647,913)		
Land improvement	(2,687,327)	(312,183)		(2,999,510)		
Total accumulated depreciation	(163,932,369)	(17,810,693)	1,908,942	(179,834,120)		
Total capital assets, being depreciated, net	\$283,592,371	\$ 39,764,253	\$ (1,089,069)	\$322,267,555		
Total capital assets-Enterprise Funds, net	\$419,409,377	\$122,775,020	\$(61,152,252)	\$481,032,145		

(8) Changes in Capital Assets and Intangible Assets (continued):

Intangible Assets

Intangible Assets	Balance at 6/30/05	Additions	Transfers & Retirements	Balance at 06/30/06	Accumulated Amortization at 6/30/06	Net Book Value at 6/30/06
Metropolitan Water District connections	\$ 198,891	\$ 0	\$ 0	\$ 198,891	\$ (141,213)	\$ 57,678
Corps of Engineers-Cucamonga Creek	43,489	0	0	43,489	(18,619)	24,870
San Bernardino County Flood Control- Chino Road Barrier	91,917	0	0	91,917	(21,982)	69,935
County Sanitation Districts of Los Angeles County's facilities and capacity rights	27,284,378	1,134,473	0	28,418,851	(8,946,036)	19,472,815
Santa Ana Watershed Project Authority capacity rights	12,467,002	0	0	12,467,002	(3,716,490)	8,750,512
Organization and master planning	1,519,890	1,447,712	0	2,967,602	(1,432,073)	1,535,529
Total intangible assets being amortized	<u>\$ 41,605,567</u>	<u>\$ 2,582,185</u>	<u>\$ 0</u>	<u>\$ 44,187,752</u>	<u>\$(14,276,413)</u>	<u>\$29,911,339</u>
Less accumulated amortization for:						
Metropolitan Water District connections	\$ (137,235)	\$ (3,978)	\$ 0	\$ (141,213)		
Corps of Engineers-Cucamonga Creek berm	(17,750)	(869)	0	(18,619)		
San Bernardino County Flood Control- Chino Road Barrier	(19,502)	(2,480)	0	(21,982)		
County Sanitation Districts of Los Angeles County's facilities and capacity rights	(8,367,320)	(578,716)	0	(8,946,036)		
Santa Ana Watershed Project Authority capacity rights	(3,418,906)	(297,584)	0	(3,716,490)		
Organization and master planning	(1,399,006)	(33,067)	0	(1,432,073)		
Total accumulated amortization	<u>(13,359,719)</u>	<u>(916,694)</u>	<u>0</u>	<u>(14,276,413)</u>		
Total Intangible Assets-Enterprise Funds, net	<u>\$ 28,245,848</u>	<u>\$ 1,665,491</u>	<u>\$ 0</u>	<u>\$ 29,911,339</u>		

Note:

Amortization of intangible assets has been computed on a straight-line basis over various estimated useful lives ranging from thirty to fifty years. One-half year amortization is recorded in the year of acquisition and disposal.

Intangible Asset Acquisition/CSDLAC Capital Replacements Cost -4R FY 05/06 valued at \$1,134,476.

Ending balance of accumulated depreciation for intangible assets has been adjusted to the Statement of Net Assets for 2006 (rounding difference).

For the fiscal year ended June 30, 2006, depreciation and amortization expense was \$16,818,447.

(8) Changes in Capital Assets and Intangible Assets (continued):

Jobs in Progress

At the fiscal year ended June 30, 2006 the Agency had several jobs in progress that would expand or enhance the treatment capacities for wastewater flows, provide for the disposition of wastewater by-products and provide for ancillary facilities that support Agency activities.

The jobs in progress at June 30, 2006 were as follows:

Other Projects (less than \$1,000,000 each)	\$30,188,193
RP4 Liquid Expansion to 14 MGD	24,966,740
RP1 to RP5 By-Pass	23,899,917
Edison-Merrill Recyc Wtr Piplin	7,422,442
RP5 Renewable Energy Efficiency	5,346,038
RP3 Basin	4,641,971
CB Recharge Facility Improvement	4,601,168
SCADA Systems	4,506,421
RP5 System Fac Upgrade & Imprv	3,614,656
Jurupa Force Main Pipeline	3,281,333
Jurupa Basin	2,972,100
RP1 Odor Control-Phase I	2,956,762
College Heights Basin	2,200,640
RP4 Land Acquisition	2,017,515
New Administration Center-Furniture	2,004,573
8th Street Basins No. 1 & No. 2	1,942,406
CB MWD Turnouts	1,553,399
Turner Basins No. 2, 3, 4	1,504,266
Turner Basin No. 1	1,497,187
CCWRF Chlorination Facility	1,495,930
Wineville Ave Reg Pipeline Phase I	1,376,020
MWD/IEUA/CBWM Dry Year Storage	1,298,374
RP5/RP2 Recycled Water Pipelines	1,108,478
Rec. Water System Etiwanda Power Plant	1,108,029
Victoria Basin	1,089,040
Lower Day Creek Basin 1 & 2	1,016,336
Brooks Street Basin	1,007,460
TOTAL JOBS IN PROGRESS	\$140,617,394

(9) Construction Commitments

The Agency is committed to several material construction contracts. Total outstanding obligation was \$28,992,978 at June 30, 2006. Some of the more significant contracts are as follows:

- There are several projects on-going throughout the Agency's regional plants, with three major projects on-going at RP4 and RP5, and several small projects at each facility with a remaining combined obligation of \$1,839,257. The major projects include: 1) **EN04011**-RP-4 Liquid Expansion to 14 mgd – to increase the plant capacity to meet area growth forecasts with outstanding obligation of \$11,231,680. 2) **EN03029**-RP5 Renewable Energy Efficiency-This project will design and construction multiple renewable energy projects that will conjunctively create a energy efficient, environmentally friendly project at Regional Water Recycling Plant No. 5 and help to advance the development of renewable power. This project is funded in part with grants from the Department of Energy as well as from the PIER program managed by CH2M-Hill, with an outstanding obligation of \$7,036,850.

(9) Construction Commitments (continued)

- 3) **WR04445**-The Regional Recycled Water Distribution System Phase 2 for West Edison Regional Recycled
- Water Pipeline has an outstanding obligation of \$4,701,754. 4) **PL03005**-RP5 Solids Handling Phase II has an outstanding obligation of \$4,183,437. This project will demonstrate this European technology for agriculture digestion. Evaluation will be made on the efficiency of the process to treat dairy manure and power generation.
- **EN05038**-The Edison-Merrill Recycled Water Pipeline has an outstanding obligation of \$1,078,377. This project will plan, design and construct a recycled “backbone” water pipeline using recycled water from the Carbon Canyon Water Recycling Facility and Regional Water Recycling Plant No. 1. The planned alignment will run west to east along Edison and Merrill Avenues to interconnect the Carbon Canyon Recycled Water Distribution System and the TP1 Outfall Pipeline. The project consists of approximately 29,000 linear feet of pipeline, and other facilities including connection and metering facilities.
- **EN05057**-RP5/RP2 Recycled Water Pipelines-This project will construct RP2/RP5 recycled water pipelines and filtrate pipeline modification from Regional Water Recycling Plant No. 2. This project will also include Recycled water lines on Bickmore, IEUA to Reimburse Chino Developers constructing. This project makes possible use of available recycled water from CCWRF and RP5 to feed Prado Lake, Prado Golf Course, and RP2. As the project is designed to utilize gravity to pressurize the pipelines, the project will save the energy costs after pressurizing the TP1 Outfall with the RP1 South Zone Recycled Water Pumping Station. The project has an outstanding obligation of \$440,638.
- **EN06020**-RP5 Systems Facilities Upgrades and Improvements-This project has an outstanding obligation of \$179,062, and project will replace the air ducting inside the solids building with miscellaneous improvements.
- **EN03013**-RP2 Solids Loading Conveyor Relocation has an outstanding obligation of \$67,131. This project would relocate the solids truck Conveyor from RP4 to RP2. When this project is completed the solids facility at RP-2 will no longer require staffing to continually move trucks under the loading hopper. The four port horizontal truck loading conveyor, currently located at RP4, would evenly load a truck without moving the truck. This will allow the solids facility to be operated unattended for a much longer duration.
- **EN02037**-The Chlorination Facilities Upgrade project, at the Carbon Canyon Facility, has an outstanding obligation of \$41,240. The dangerous chlorine bulk storage tanks are being replaced with facilities for Sodium Hypochlorite.
- **PL02012**-Bypass from RP-1 to RP-5 to allow peak flow from RP-1 to be treated at RP-5, and extend the connection of developing areas to facilitate future growth. This will be partially reimbursed by the City of Ontario as connection is made and has an outstanding obligation of \$32,809.
- **EN05057**-RP5/RP2 Recycled Water Pipelines. This project has an outstanding obligation of \$440,638. This project includes the construction of RP2/RP5 recycled water pipelines and filtrate pipeline modification from the Regional Water Recycling Plant No. 2, also included Recycled water lines on Bickmore and IEUA to Reimburse Chino Developers constructing. And makes possible use of available recycled water from CCWRF and RP5 to feed Prado Lake, Prado Golf Course, and RP2. This project will save the energy costs after pressurizing the TP1 Outfall with the RP1 South Zone Recycled Water Pumping Station.

(9) Construction Commitments (continued)

- **EN06020-RP5 Systems Facilities Upgrades and Improvements.** This project has an outstanding obligation of \$179,062. This project will replace the air ducting inside the solids building.

(10) Long-Term Receivables

North Perimeter Annexation

In 1968, the Agency annexed 680 acres on its northern perimeter. To provide services to that area, an assessment was levied in the form of annexation fees, in the amount of \$100 per acre. A 4% per annum interest rate on the unpaid balance was stipulated. The annexation fees were to be paid to the Agency through a \$0.0625 tax levy. As of June 30, 2006, \$159,206 has been collected through the taxing process, and interest has accrued in the amount of \$131,597. The receivable amount is \$40,392 and is recorded in the Administrative Services 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 Nonreclaimable 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. The initial payment on this loan is due June 1, 2005. As of June 30, 2006, the receivable amount is \$205,806 and is recorded in the Nonreclaimable Wastewater Capital Improvement 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. Since the Agency does not have any equity interests in these joint ventures, and GASB Statement No. 14 provides the guidance on the accounting of joint ventures, these projects are not subject to the equity method of accounting.

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 a governing Board of the Authority. 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. The Agency's share of ownership has not been determined. Financial data is available at the Agency's main office.

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

Santa Ana Watershed Project Authority

Unaudited financial information for the operation of SAWPA as of and for the fiscal year ended June 30, 2006, the most recent reporting period available, is summarized as follows:

Cash and investments	\$ 60,347,899
Other assets	120,567,867
Total assets	<u>\$180,915,766</u>
Total liabilities	\$127,682,373
Total equity	53,233,393
Total liabilities and equity	<u>\$180,915,766</u>
Total revenues	27,910,035
Total expenses	<u>39,085,983</u>
Net decrease in equity	<u><u>\$(11,175,948)</u></u>

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

- Nonreclaimable 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 IEUA share of the construction costs not funded by grants was \$1,179,204.
- Over the course of time, IEUA has purchased capacity from SAWPA in the Santa Ana Regional Interceptor (SARI) System. As of June 30, 2005, IEUA 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 Nonreclaimable Capital Improvement 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 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 Capital Improvement Fund, purchased .5 mgd. The remaining 1.0 mgd was purchased with monies from the Nonreclaimable Capital Improvement 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 Nonreclaimable Wastewater Fund. The agreement called for a 5% down payment of \$187,500, and the balance of \$3,562,500 to be financed by SAWPA for a 20 year-period at a 6% interest rate. This note was paid in full as approved by the Board on May 21, 2003 for a principal balance of \$2,961,171 plus accrued interest of \$167,935.
- (F) On April 21, 2004, the Agency Board of Directors approved the sale of 2.10 mgd of pipeline capacity and 2.05 mgd of treatment and disposal capacity to Chino Desalter Authority. The sale price totals \$14.25 million payable in three equal installments within one year. The sale has been recorded in two separate funds with \$4.73 million going to the Regional Capital Improvement Fund and \$9.52 million going to the Non-reclaimable Capital Improvement 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 SAWPA's 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 handles all Finance and Accounting functions for the JPA.

As of June 30, 2006, the Desalter delivered 6,367.6 acre feet of water under IEUA to Cities of Chino and Chino Hills and 5,512.3 under the MWD to Jurupa Community Services District and the City of Norco. 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, Inland Empire Utilities Agency (IEUA) entered into a Joint Power Authority Agreement (JPA) with the County Sanitation District No. 2 of Los Angeles County (CSDLAC). The purpose of the JPA is to acquire properties within the IEUA service area to build a fully enclosed Biosolid composting facility. The JPA Agreement calls for 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 was acquired in December, 2001. The cost of the property was \$14,983,738. Subsequent to the property acquisition, preliminary and final designs were launched to modify the property. As of June 30, 2006, the IEUA's share of the total costs is \$39,737,131 recorded in the Organics Management Fund. 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 part of a judgment resulting from a lawsuit by the Orange County Water District, the Superior Court of California, in the County of Orange. The Watermaster primarily administers the provisions of the judgment. It also 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. The Santa Ana River Watermaster is composed of a committee of five representatives from four water districts. Two representatives serve from Orange County Water District and one representative each serves from Inland Empire Utilities Agency, Western Municipal Water District and the San Bernardino Valley Municipal Water District. 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 the water districts. Collective Watermaster costs and expenses are budgeted and paid for by the Watermaster after receiving contributions from the water districts. Financial data is available at the Agency's main office. The Agency's share of assets, liabilities, fund equity and changes therein during the year is 20 percent.

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

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

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

Santa Ana River Watermaster (continued):

Summary of unaudited financial information for the fiscal year ended June 30, 2005, the most recent reporting period available, is as follows:

Total assets - cash	\$9,508
Fund balance	\$9,508
Total revenues	\$12,008
Total expenses	(12,695)
Net increase/(decrease) in equity	\$ (687)

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, 2006

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due After One Year
<u>Bonds Payable:</u>						
1994 Revenue Bonds	\$ 69,110,648	\$ 0	\$ 2,073,631	\$ 67,037,017	\$2,345,000	\$ 64,692,017
1999 Revenue Bonds	4,880,912	0	884,440	3,996,472	945,000	3,051,472
2002A Variable Rate Revenue Bonds	55,382,289	0	1,171,937	54,210,352	1,230,000	52,980,352
2005A Revenue Bonds (1999 refinancing)	23,583,487	0	1,218,421	22,365,066	155,000	22,210,066
	\$152,957,336	\$0	\$5,348,429	\$147,608,907	\$4,675,000	\$142,933,907

1994 Revenue Bonds

- Effective May 1, 1994, the Chino Basin Regional Financing Authority (members: Inland Empire Utilities Agency and Cucamonga Valley Water District) issued the Chino Basin Regional Financing Authority Revenue Bonds, Series 1994 (Chino Basin Municipal Water District Wastewater System Project) in the total amount of \$87,140,000. The 1994 Bonds provided funding for two separate financing efforts. The first was the advance refunding of the 1987 Certificates of Participation.

In addition to the refunding, the 1994 Bonds provided proceeds in the amount of \$59,000,000 to finance a portion of the costs of the 1994 Project. The 1994 Project was comprised of 4 components: (a) a new wastewater treatment facility, Regional Plant No. 4; (b) digester improvements to the Agency's principal wastewater treatment facility, Regional Plant No. 1; (c) odor control improvements at Regional Plant No. 1; and, (d) a Power Reliability Study and co-generation improvements, also at Regional Plant No. 1.

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

Long-term Debt (continued):

1994 Revenue Bonds (continued):

The bonds maturing through 2011 are serial bonds payable in annual installments ranging from \$1,320,000 to \$3,290,000 with interest rates from 3.75% to 5.90% due on August 1. The bonds maturing between 2012 and 2016 are fixed rate bonds with an interest rate of 6.0% and annual installments ranging from \$3,485,000 and \$4,435,000. The bonds maturing between 2017 and 2022 are equally split as Auction Rate Certificates (ARCs) and Leveraged Reverse Rate Securities (LevRRS) and bear interest at a linked rate of 5.75% with annual sinking fund payments ranging from \$2,300,000 and \$3,100,000 due on August 1. The balance outstanding at June 30, 2006 was \$67,037,017.

On May 19, 2005 the Agency entered into a SWAP transaction that has been rated AAA by Standard & Poor's and AAA by Moody's Investors Service. (Refer to note on Interest Rate SWAP).

1999 Revenue Bonds

- On November 1, 1999, the Chino Basin Regional Financing Authority issued the Chino Basin Regional Financing Authority Revenue Bonds, Series 1999 (Chino Basin Municipal Water District Wastewater System Project) in the total amount of \$29,860,000.

The 1999 Bonds provided funding to finance a portion of the following projects: (a) A new wastewater treatment facility, Regional Plant No. 5; (b) construction of the Kimball Interceptor; (c) construction of the Archibald/Turner/Cucamonga Relief Wastewater; (d) acquisition of the Etiwanda Trunk wastewater; and, (e) the acquisition of 1.0 mgd of additional nonreclaimable waste capacity.

The bonds maturing through 2009 are serial bonds payable in annual installments ranging from \$905,000 to \$1,090,000 and interest rates ranging from 4.50% to 5.00% on November 1. Bonds maturing in years 2010 through 2022 were refinanced on May 1, 2005, in the amount of \$20,895,000 with a portion of the proceeds of the 2005 Bonds. (Refer to note on 2005 Bonds). The balance outstanding at June 30, 2006 was \$3,996,472.

2002A Variable Rate Revenue Bonds

- On July 18, 2002, the Chino Basin Regional Financing Authority issued the Inland Empire Utilities Agency Variable Rate Revenue Bonds, Series 2002A in the total amount of \$59,000,000.

The bonds were issued to finance the:

- a) Acquisition and construction of certain improvements (the Regional Wastewater System Improvements) to the wastewater system (the Wastewater System) of the Inland Empire Utilities Agency.
- b) Agency's share of the acquisition and construction of a composting facility, the Inland Empire Regional Composting Authority (RCA).

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

Long-term Debt (continued):

2002A Variable Rate Revenue Bonds (continued):

- c) Agency's and the Chino Basin Watermaster's share of certain improvements to groundwater recharge facilities (The Chino Basin Recharge Facility Improvement Project) and the issuing costs of the bonds.

The variable rate bonds are due in annual installments through June 1, 2032. Interest is calculated based on a Weekly Interest Rate Period with maximum rate of 12.0% per annum or the maximum rate permitted by law. Interest rates between July 2005 and June 2006 ranged from 2.185% and 3.745% with a fiscal year average of 2.92%. The balance outstanding at June 30, 2006 was \$54,210,352.

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 total 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. This is a current refunding.

The bonds maturing through 2008 are Uninsured Serial Bonds payable in annual installments ranging from \$155,000 to \$1,285,000 with interest ranging from 3.00% to 3.50% on November 1. The bonds maturing between 2009 and 2022 are Insured Serial Bonds payable in annual installments ranging from \$1,290,000 to \$2,120,000 with interest rates from 3.00% to 5.00%. The balance outstanding at June 30, 2006 was \$22,365,066.

- On May 19, 2005, the Agency entered into a SWAP agreement with an AA rated counterpart subsequent to the sale of the bonds. (Refer to note on Interest Rate SWAP.)

Aggregate Long Term Debt

As of June 30, 2006 the aggregate debt service requirements on bonded indebtedness to maturity are summarized as follows:

Year Ending June 30	Principal Payments	Interest Payments	Total
2007	\$ 4,675,000	\$7,150,308	\$11,825,308
2008	4,940,000	7,019,760	11,959,760
2009	5,225,000	6,740,264	11,965,264
2010	6,685,000	6,414,760	13,099,760
2011	5,825,000	6,094,685	11,919,685
2012 / 2016	33,955,000	25,613,940	59,568,940
2017 / 2021	43,240,000	12,467,842	55,707,842
2022 / 2026	28,130,000	4,936,625	33,066,625
2027 / 2031	14,565,000	2,293,688	16,858,688
2032	3,270,000	122,625	3,392,625
Subtotal	150,510,000	78,854,495	229,364,495
Less: Deferred amount on refunding	(2,501,996)	0	(2,501,996)
Less: Discount	(399,097)	0	(399,097)
Total debt service payable	\$147,608,907	\$78,854,495	\$226,463,402

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

Long-term Debt (continued):

Debt Covenants

In accordance with bond covenants, property tax revenues are committed to bond debt service. San Bernardino County property tax revenues are distributed December through June annually. Each fiscal year end the agency is required to reserve six months of tax receipts to fund debt service requirements July through November in the following fiscal year. The Agency has complied with all covenants related to the outstanding debt issues as of June 30, 2006 (Refer to the bond disclosures in the statistical section).

Interest Rate SWAP

Interest rate SWAP are contracts in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged.

■ 1994 Bonds

On May 19, 2005 the Agency entered into a SWAP transaction for the notional amount of \$70,760,000. The notional amount of the SWAP and the par amount of the bonds each decline according to the same schedule through 2022. Under the SWAP agreement, the Agency payments are linked to the USD-BMA Municipal SWAP Index, and the Agency receives payment at the rate of the sum of (i) 62.40% of USD-LIBOR BBA and (ii) 0.604%. The interest rate swap will expire on August 1, 2022. As of June 30, 2006 the 1994 SWAP agreement had generated revenues in the amount of \$244,524.

■ 2005 Bonds

On May 19, 2005 the Agency entered into a SWAP transaction for the notional amount of \$24,735,000. The notional amount of the SWAP and the par amount of the bonds each decline according to the same schedule through 2022. Under the SWAP agreement, the Agency payments are linked to the USD-BMA Municipal SWAP Index, and the Agency receives payment at the rate of the sum of (i) 62.40% of USD-LIBOR BBA and (ii) 0.664%. The interest rate swap will expire on November 1, 2022. As of June 30, 2006 the 2005 SWAP agreement had generated revenues in the amount of \$96,103.

Associated Bond Issue	Notional Amounts	Effective Date	Variable Rate Paid	Variable Rate Received	Fair Values as of June 30	Swap Termination Date	Counterparty Credit Rating (*)
1994 Bond	\$68,575,000	5/19/2005	BMA	62.4%LIBOR + 0.604	\$ 67,450	8/1/2022	AA/Aa1
2005 Bond	23,450,000	5/19/2005	BMA	62.4%LIBOR + 0.664	(16,035)	11/1/2022	AA/Aa1
\$92,025,000					\$51,415		

(*) Credit Ratins: Standard and Poor's and Moody's

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

Long-term Debt (continued):

Interest Rate SWAP (continued):

■ Fair Value

As of June 30, 2006, the SWAP had a positive fair value of \$51,415 (\$67,450 for 1994 Bonds SWAP and negative fair value of \$16,035 for the 2005 Bonds SWAP). The fair values were estimated on the basis of mid market levels and included accrued interest.

■ Credit risk

The SWAP's fair values represent the Agency's credit exposure to the counterparties as of June 30, 2006. Should the counterparty to this transactions fail to perform according to the terms of the swap contract, the Agency would face a maximum possible loss equivalent to the SWAP's fair value. As of June 30, 2006, the counterparty was rated AA by Standard and Poor's and Aa1 by Moody's.

■ Basis Risk

Since the payment received by the Agency for the basis SWAP transaction is based on a percentage of a taxable index and the payment made by the Agency is based on a tax-exempt index, the trading relationship exposes the Agency to basis risk as payments received by the Agency could be less than payments made by the Agency to the counterparty.

■ Tax Risk

As with other forms of variable rate exposure and the relationship between the taxable and the tax-exempt markets, the Agency is exposed to tax risk should tax-exempt interest rates rise faster than taxable rates thereby resulting in narrower spreads between taxable and tax-exempt indices over the term of the swap agreement.

Notes Payable:

Summary of notes payable activity for the fiscal year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due After One Year
Notes Payable:						
SARI Pipeline Capacity -1.5 mgd	\$ 2,365,327	\$ 0	\$139,876	2,225,451	\$267,188	\$ 1,958,263
State Revolving Fund Loan	14,079,679	1,073,233	605,546	14,547,366	613,805	13,933,561
Total Notes Payable	\$16,445,006	\$1,073,233	\$745,422	\$16,772,817	\$880,993	\$15,891,824

The Agency's participation in the joint ventures referenced in Note 11 has resulted in the following notes payable.

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

Notes Payable (continued):

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 ninth installment is due on July 15, 2006. This is a combined note payable from the Nonreclaimable Wastewater and Regional Wastewater Funds.

As of June 30, 2006 the future payments for the remaining note payable obligation by year is as follows:

Year Ending June 30	Principal Payments	Imputed Interest	Total
2007	\$132,784	\$134,404	\$ 267,188
2008	140,751	126,437	267,188
2009	149,196	117,992	267,188
2010	158,148	109,040	267,188
2011	167,637	99,551	267,188
2012/2016	1,001,685	334,254	1,335,939
2017/2018	475,251	44,515	519,700
Total notes payable - SAWPA	\$2,225,452	\$966,193	\$3,191,645

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, 2006, four of the five projects in Phase I had been completed and received \$15,152,912 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, 2006 the future payments for the remaining loan obligation by year are as follows:

Year Ending June 30	Principal Payments	Interest Payment	Total Payment
2007	\$ 613,839	\$ 358,392	\$ 972,231
2008	627,602	344,629	972,231
2009	643,122	329,106	972,228
2010	659,028	313,200	972,228
2011	675,328	296,900	972,228
2012-2016	3,635,609	1,225,532	4,861,141
2017-2021	4,108,046	753,096	4,861,142
2022-2025	3,584,790	221,304	3,806,094
Total notes payable - SRF Loans	\$14,547,364	\$3,842,159	\$18,389,523

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

Compensated Absences

The Agency's policies relating to compensated absences are described in Note 1 of the Notes to Financial Statements. This liability will be paid in future years from the Administrative Services Fund.

Long Term Debt and Notes Payable:

A summary of long-term debt and notes payable activity for the fiscal year ended June 30, 2006 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due After One Year
1994 Revenue Bonds	\$69,110,648	\$ 0	\$2,073,631	\$67,037,017	\$2,345,000	\$64,692,017
1999 Revenue Bonds	4,880,912	0	884,440	3,996,475	945,000	3,051,472
2002A Variable Rate Bonds	55,382,289	0	1,171,937	54,210,352	1,230,000	52,980,352
2005A Bonds (1999 refinancing)	23,583,487	0	1,218,421	22,365,066	155,000	22,210,066
SARI Pipeline Capacity -1.5 mgd	2,365,327	0	139,876	2,225,452	267,188	1,958,264
State Revolving Fund Loan	14,079,680	1,073,233	605,546	14,547,364	613,805	13,933,559
Compensated Absences	2,423,795	290,657	158,070	2,556,382	1,593,546	962,836
Total Long-term Debt and Notes Payable	\$171,826,138	\$1,363,890	\$ 6,251,920	\$166,938,107	\$7,149,539	\$159,788,568

(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 1994, 1999 Revenue and 2002A, 2005A Variable Rate Bonds are all subject to arbitrage limitations. As such, the initial arbitrage rebate installment on the 1994 Revenue Bonds was made in September 1998, and the second installment was paid on September 2003. The initial arbitrage rebate on the 1999 Revenue Bonds was made November, 2004. The initial arbitrage rebate on the 2002A and 2005A Variable Rate Revenue Bonds will be due July 2007 and May 2010, respectively. The Agency's arbitrage rebate liability was calculated by MuniFinancial Inc. and is reflected on the Statement of Net Assets at June 30, 2006 as a combined total of \$246,080.

(14) Advances to/from Other Funds

Regional Capital Improvement Fund & Organics Management Fund

On November 21, 2001 the Board of Directors approved a loan from the Regional Capital Improvement Fund to the Organics Management Fund, for the purchase of land for the Inland Empire Regional Composting Authority, plus engineering and CEQA (California Environmental Quality Act) compliance activities. At June 30, 2006, the loan principal was \$7,650,000.

(15) Due to/from Other Funds

Regional Wastewater & Administrative Services Funds

To properly reflect the cash balance of the Agency's Funds, monthly entries are recorded to account for property tax surcharges that have been invoiced but are not collected at year-end. As of June 30, 2006, the balances were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Non-major Funds	Regional Wastewater	\$ 25,477
Regional Wastewater	Recycled Water	5,000,000
	Total	\$ 5,025,477

The due to/from other funds represent short-term interfund borrowings to cover negative cash.

(16) Transfers In/Out

The following table reflects the interfund transfer balances in and out by fund as of June 30, 2006.

	Transfers in:			
	<u>Regional Wastewater</u>	<u>Recycled Water</u>	<u>Non-Major Enterprise Funds</u>	<u>Total</u>
Transfers out:				
Regional Wastewater Fund	\$0	\$1,606,943	\$15,066,186	\$16,673,129
Nonreclaimable Wastewater Fund	626,958		76,811	703,769
Recycled Water Fund	141,432	0	13,240	154,672
Non-major Funds	984,771	0	68,824	1,053,595
Total Transfers	\$1,753,161	\$1,606,943	\$15,225,061	\$18,585,165

The Transfers reported in the Regional Wastewater Funds are primarily for debt service reserves maintained in the Obligation Payment Fund (OP) and funded by the Regional Capital Improvement Fund (RC) and Regional and Maintenance Fund (RO).

The Recycled Water Fund received administrative and capital support from the Regional Capital Improvement Fund in the amount of \$1,606,943.

Non-Major Enterprise Funds received transfers in the amount of \$15,225,061 including \$15,066,186 from the Regional Wastewater Funds. These transfers included \$12,462,420 in capital support from the RC Fund to the Organics Management Fund (OM), Recharge Water Fund (RW), and Administrative Service Fund (GG). The remaining amount of \$2,603,766 primarily consisted of operational support to the Water Fund (WW) Organics Management and debt service from the OP and GG Fund.

(17) Operating Leases

The Agency has one operating lease at June 30, 2006:

- One postage meter lease extending to August, 2009.

Total operating lease costs were \$42,598 for the year ended June 30, 2006. The future minimum lease payments for equipment leases are as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2007	\$2,852
2008	2,852
2009	2,852
2010	475
2011	0
Total	<u>\$9,031</u>



INLAND EMPIRE UTILITIES AGENCY
SUPPLEMENTARY INFORMATION – ALL FUNDS

SUPPLEMENTARY SCHEDULES -

Non-Major Enterprise Funds Statements.

INDIVIDUAL FUNDS -

Individual Schedules of all funds are provided as supplementary information.

INLAND EMPIRE UTILITIES AGENCY
Combining Statement of Net Assets
June 30, 2006

(With Comparative Totals for June 30, 2005)

	Non-Major Enterprise Funds	
		Recharge
ASSETS	Water	Water
Current assets		
Cash	\$0	\$0
Short-term investments	4,740,131	581,458
Accounts receivable	4,723,317	1,437,739
Interest receivable	54,438	6,083
Taxes receivable	0	0
Other receivables	0	0
Due from other funds	0	0
Inventory	0	0
Prepaid items	0	800
	<u>9,517,886</u>	<u>2,026,080</u>
Total current assets		
Noncurrent assets		
Restricted assets		
Assets held for 401(a) plan	0	0
Assets held with trustee/fiscal agent	0	0
Deposit held for retentions	0	365
	<u>0</u>	<u>365</u>
Total restricted assets		
Capital assets		
Land	0	0
Jobs in progress	1,298,374	41,675,377
Capital assets, net of accumulated depreciation	33,091	84,073
	<u>1,331,465</u>	<u>41,759,450</u>
Total capital assets		
Other assets		
Long-term investments	0	0
Long-term receivables	0	0
Intangible assets, net of accumulated amortization	68,217	
Deferred costs	0	184,398
	<u>68,217</u>	<u>184,398</u>
Total other assets		
Total noncurrent assets	<u>1,399,682</u>	<u>41,944,213</u>
Total assets	<u>10,917,568</u>	<u>43,970,293</u>

Organics Management	Administrative Services	Totals	
		2006	2005
\$0	\$6,921,108	\$6,921,108	\$1,985,986
719,072	9,326,460	15,367,121	23,059,183
1,358,819	349,115	7,868,990	7,480,543
9,430	127,703	197,654	161,985
0	229,857	229,857	166,456
0	62,987	62,987	62,124
0	25,477	25,477	38,617
0	1,904,863	1,904,863	1,826,519
8,911	109,002	118,713	119,861
<u>2,096,232</u>	<u>19,056,572</u>	<u>32,696,770</u>	<u>34,901,274</u>
0	655,828	655,828	449,923
0	22,289	22,289	31,587
<u>237</u>	<u>0</u>	<u>602</u>	<u>318,312</u>
<u>237</u>	<u>678,117</u>	<u>678,719</u>	<u>799,822</u>
4,194,990	20,829	4,215,819	4,215,818
7,552	3,738,740	46,720,043	44,258,351
<u>12,923,347</u>	<u>15,779,485</u>	<u>28,819,996</u>	<u>29,494,831</u>
<u>17,125,889</u>	<u>19,539,054</u>	<u>79,755,858</u>	<u>77,969,000</u>
39,737,131	0	39,737,131	30,337,131
0	40,392	40,392	53,608
0	0	68,217	73,038
<u>119,830</u>	<u>758</u>	<u>304,986</u>	<u>315,928</u>
<u>39,856,961</u>	<u>41,150</u>	<u>40,150,726</u>	<u>30,779,705</u>
<u>56,983,087</u>	<u>20,258,321</u>	<u>120,585,303</u>	<u>109,548,527</u>
<u>59,079,319</u>	<u>39,314,893</u>	<u>153,282,073</u>	<u>144,449,801</u>
(continued)			

INLAND EMPIRE UTILITIES AGENCY
Combining Statement of Net Assets (Continued from previous page)
June 30, 2006
(With Comparative Totals for June 30, 2005)

	Non-Major Enterprise Funds	
	Water	Recharge Water
LIABILITIES		
Current liabilities		
Accounts payable	5,238,594	1,182,887
Accrued liabilities	621,089	0
Compensated absences	0	0
Retentions payable	0	0
Notes payable, due within one year	0	416,949
Interest payable	0	45,174
Retentions deposits and escrows	0	0
Total current liabilities	<u>5,859,683</u>	<u>1,645,010</u>
Noncurrent liabilities		
Compensated absences	0	0
Notes payable, due in more than one year	0	17,959,442
Liability for 401(a) plan	0	0
Advances from other funds	0	0
Other noncurrent liabilities	0	0
Total noncurrent liabilities	<u>0</u>	<u>17,959,442</u>
Total liabilities	<u>5,859,683</u>	<u>19,604,452</u>
NET ASSETS		
Invested in capital assets, net of related debt	<u>1,399,681</u>	<u>23,383,060</u>
Restricted for:		
Capital construction	0	114,974
Debt service	0	0
Reserved for self-insured claims	0	0
Bond operating contingency requirement	0	867,807
Total restricted	<u>0</u>	<u>982,781</u>
Unrestricted	<u>3,658,204</u>	<u>0</u>
Total net assets	<u>\$5,057,885</u>	<u>\$24,365,841</u>

Organics Management	Administrative Services	Totals	
		2006	2005
66,040	791,767	7,279,288	6,998,674
0	1,237,161	1,858,250	1,173,195
0	85,880	85,880	1,435,476
0	0	0	58,285
271,017	0	687,966	660,000
890,093	0	935,267	982,265
0	0	0	318,306
1,227,150	2,114,808	10,846,651	11,626,201
0	2,470,502	2,470,502	988,319
11,673,637	0	29,633,079	30,316,535
0	655,828	655,828	449,923
7,650,000	0	7,650,000	8,500,000
37,524	114,239	151,763	105,524
19,361,161	3,240,569	40,561,172	40,360,301
20,588,311	5,355,377	51,407,823	51,986,502
5,181,235	19,539,054	49,503,030	59,423,611
255,421	0	370,395	3,707,718
37,761	0	37,761	0
0	0	0	0
416,492	993,941	2,278,240	2,086,069
709,674	993,941	2,686,396	5,793,787
32,600,099	13,426,521	49,684,824	27,245,901
<u>\$38,491,008</u>	<u>\$33,959,516</u>	<u>\$101,874,250</u>	<u>\$92,463,299</u>

INLAND EMPIRE UTILITIES AGENCY
Combining Statement of Revenues, Expenses, and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2006
(With Comparative Totals for June 30, 2005)

	<u>Non-Major Enterprise Funds</u>	
	<u>Water</u>	<u>Recharge Water</u>
OPERATING REVENUES		
Service charges	<u>\$2,120,666</u>	<u>\$0</u>
Total operating revenues	<u>2,120,666</u>	<u>0</u>
OPERATING EXPENSES		
Operations and maintenance	25,441	0
Administration and general	2,487,489	2,603,418
Depreciation and amortization	<u>1,359</u>	<u>6,467</u>
Total operating expenses	<u>2,514,289</u>	<u>2,609,885</u>
Operating income (loss)	<u>(393,623)</u>	<u>(2,609,885)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	147,774	33,430
Property tax revenue	0	0
Other nonoperating revenues	28,306	1,639,756
Interest on long-term debt	0	(549,182)
Other nonoperating expenses	<u>0</u>	<u>(63,193)</u>
Total nonoperating revenues (expenses)	<u>176,080</u>	<u>1,060,811</u>
Income (loss) before contributions and transfers	(217,543)	(1,549,074)
TRANSFERS AND CAPITAL CONTRIBUTIONS		
Transfers in	218,820	1,435,428
Transfers out	0	0
Capital grants	185,269	211,851
Contribution in aid	<u>(7,215)</u>	<u>0</u>
Change in net assets	<u>179,331</u>	<u>98,205</u>
Total net assets - beginning	<u>4,878,554</u>	<u>24,267,636</u>
Total net assets - ending	<u>\$5,057,885</u>	<u>\$24,365,841</u>

Organics Management	Administrative Services	Totals	
		2006	2005
\$47,087	\$0	\$2,167,753	\$2,441,527
47,087	0	2,167,753	2,441,527
41,963	0	67,404	1,687,958
1,207,514	2,981,824	9,280,245	7,758,301
421,289	1,479,529	1,908,644	1,679,718
1,670,766	4,461,353	11,256,293	11,125,977
(1,623,679)	(4,461,353)	(9,088,540)	(8,684,450)
61,634	512,477	755,315	539,188
0	1,619,515	1,619,515	1,346,820
135,253	1,018,050	2,821,365	2,324,133
(535,965)	0	(1,085,147)	(699,888)
(41,074)	(143,661)	(247,928)	(137,017)
(380,152)	3,006,381	3,863,120	3,373,236
(2,003,831)	(1,454,972)	(5,225,420)	(5,311,214)
11,258,821	2,311,992	15,225,061	29,606,809
0	(1,053,595)	(1,053,595)	(2,906,681)
0	0	397,120	719,025
75,000	0	67,785	26,009
9,329,990	(196,575)	9,410,951	22,133,948
29,161,018	34,156,091	92,463,299	70,329,351
\$38,491,008	\$33,959,516	\$101,874,250	\$92,463,299

INLAND EMPIRE UTILITIES AGENCY
Statement of Cash Flows
For the Fiscal Year ended June 30, 2006

(With Comparative Totals for June 30, 2005)

		Non-Major Enterprise Funds	
		Recharge	Organics
	Water	Water	Management
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$2,124,835	(\$693,019)	(\$91,454)
Cash received from interfund services provided	0	0	0
Cash payments to suppliers for goods and services	(395,038)	(2,617,360)	(715,696)
Cash payments to employees for services	(187,253)	(239,672)	(155,535)
Cash payments for interfund services used	<u>(203,312)</u>	<u>(485,232)</u>	<u>(768,199)</u>
Net cash provided by (used for) operating activities	<u>1,339,232</u>	<u>(4,035,283)</u>	<u>(1,730,884)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	218,820	1,435,428	11,258,821
Transfers out	0	0	0
Tax revenues	0	0	0
Long term receivable	0	0	0
Advances from other funds	0	0	(850,000)
Advances to other funds	0	0	0
Cash received from others	<u>28,306</u>	<u>0</u>	<u>135,253</u>
Net cash provided by (used for) noncapital financing activities	<u>247,126</u>	<u>1,435,428</u>	<u>10,544,074</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	0	(668,387)	(9,402,718)
Proceeds from sale of assets	1,230	0	0
Capital grants	185,269	211,851	75,000
Contribution in Aid	(7,215)	0	0
Principal paid on capital debt	0	(397,266)	(258,224)
Interest paid on capital debt	0	(540,267)	(591,878)
Bond administration fees	0	(63,193)	(41,074)
Changes in contractor deposits/retentions	<u>0</u>	<u>(291,448)</u>	<u>0</u>
Net cash provided by (used for) capital and related financing activities	<u>179,284</u>	<u>(1,748,710)</u>	<u>(10,218,894)</u>

Administrative Services	Totals	
	2006	2005
\$381,771	\$1,722,133	\$16,358,749
19,257,765	19,257,765	17,070,502
(5,255,563)	(8,983,657)	(10,555,950)
(16,414,633)	(16,997,093)	(17,339,948)
0	(1,456,743)	(934,306)
(2,030,660)	(6,457,595)	4,599,047
2,311,992	15,225,061	29,606,809
(1,053,595)	(1,053,595)	(2,907,105)
1,619,515	1,619,515	1,356,890
13,215	13,215	0
0	(850,000)	0
13,140	13,140	0
1,018,050	1,181,609	2,323,622
3,922,317	16,148,945	30,380,216
(1,376,439)	(11,447,544)	(32,295,345)
0	1,230	0
0	472,120	719,025
0	(7,215)	26,009
0	(655,490)	(629,301)
0	(1,132,145)	250,941
0	(104,267)	(99,588)
(26,858)	(318,306)	(475,905)
(1,403,297)	(13,191,617)	(32,504,164)
		(Continued)

INLAND EMPIRE UTILITIES AGENCY
Statement of Cash Flows (Continued from previous page)
For the Fiscal Year ended June 30, 2006

(With Comparative Totals for June 30, 2005)

	Non-Major Enterprise Funds		
	Water	Recharge Water	Organics Management
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	111,376	64,293	59,180
Gain (loss) on fair value of long term investments	0	0	0
Purchase of investments	0	0	0
Net cash provided by (used for) investing activities	111,376	64,293	59,180
Net increase (decrease) in cash and cash equivalents	1,877,018	(4,284,272)	(1,346,524)
Cash and cash equivalents - beginning	2,863,113	4,866,095	2,065,833
Cash and cash equivalents - ending	\$4,740,131	\$581,823	\$719,309
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES			
Operating income (loss)	(\$393,623)	(\$2,609,885)	(\$1,623,679)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities			
Depreciation and amortization	1,359	6,467	421,289
Changes in assets and liabilities			
(Increase) decrease in			
Accounts receivable	4,169	(700,110)	(138,541)
Other receivables	0	0	0
Taxes Receivable	0	0	0
Inventory	0	0	0
Prepaid items	0	0	(7,600)
Deferred costs	0	7,091	0
Increase (decrease) in			
Accounts payable	1,187,474	(738,846)	(324,068)
Retention payable			(58,285)
Accrued liabilities	539,853	0	0
Compensated absences	0	0	0
Liability for 401(a) plan	0		0
Net cash provided by (used for) operating activities	\$1,339,232	(\$4,035,283)	(\$1,730,884)

Administrative Services	Totals	
	2006	2005
503,752	738,601	486,979
(116,377)	(116,377)	(28,500)
(205,905)	(205,905)	0
181,470	416,319	458,479
669,830	(3,083,948)	2,933,578
15,600,027	25,395,068	22,461,490
<u>\$16,269,857</u>	<u>\$22,311,120</u>	<u>\$25,395,068</u>
(\$4,461,353)	(9,088,540)	(\$8,684,450)
1,479,529	1,908,644	1,679,718
446,035	(388,447)	13,178,032
(863)	(863)	4,161
(63,401)	(63,401)	0
(78,344)	(78,344)	(134,622)
8,748	1,148	728,959
(758)	6,333	7,091
156,054	280,614	(2,066,334)
	(58,285)	0
145,201	685,054	(326,626)
132,587	132,587	213,118
205,905	205,905	0
<u>(\$2,030,660)</u>	<u>(\$6,457,595)</u>	<u>\$4,599,047</u>
		(Continued)

INLAND EMPIRE UTILITIES AGENCY

Statement of Cash Flows - (Continued from previous page)

For the Fiscal Year Ended June 30, 2006

(With Comparative Totals for June 30, 2005)

	Non-Major Enterprise Funds			
	Water	Recharge Water	Organics Management	Administrative Services
RECONCILIATION OF CASH & CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:				
Cash & cash equivalents at end of year	\$4,740,131	\$581,823	\$719,309	\$16,269,857
Investments		0	0	0
Total cash, short-term investments and restricted cash	<u>\$4,740,131</u>	<u>\$581,823</u>	<u>\$719,309</u>	<u>\$16,269,857</u>
Cash	\$0	\$0	\$0	\$6,921,108
Short-term investments	4,740,131	581,458	719,072	9,326,460
Restricted assets	0	365	237	22,289
Total cash, short-term investments and restricted cash	<u>\$4,740,131</u>	<u>\$581,823</u>	<u>\$719,309</u>	<u>\$16,269,857</u>

Total Non-Major Funds	
2006	2005
\$22,311,120	\$25,395,068
0	0
<u>\$22,311,120</u>	<u>\$25,395,068</u>
\$6,921,108	\$1,985,986
15,367,121	23,059,183
22,891	349,899
<u>\$22,311,120</u>	<u>\$25,395,068</u>



INLAND EMPIRE UTILITIES AGENCY

WATER FUND

COMPARATIVE SCHEDULES

Water Fund

The Water Resources Program fund records the revenue and expenses associated with providing water resource programs within the Agency's service area. These programs include management and distribution of imported water supplies, development and implementation of regional water conservation initiatives, water resource planning and provision of support for regional water supply programs including recycled water, groundwater recharge, and storm water management.

The objectives of the Fund are to provide supplemental water supplies, at the lowest possible cost, to the Agency's member agencies; to develop and expand water conservation efforts, and to identify and develop water quality improvement projects that have regional benefits.

The Agency adds a surcharge onto each acre-foot of imported water sold by the Agency. In FY 2004/05 the surcharge increased from \$8 to \$9, with the additional \$1 being added to the existing \$3 acre-foot surcharge dedicated to funding water conservation programs consistent with the Agency's Urban Water Management Plan. The Urban Water Management Plan is updated every five years.



Consider native and drought-tolerant plants and grasses when making landscape choices.



Use a broom or rake rather than a hose to remove leaves and debris from driveway, walk, patio, and pool decks.



In Fiscal Year 2005/06, the conservation programs distributed and/or rebated 9,304 Ultra Low Flush (ULF) Toilets.

INLAND EMPIRE UTILITIES AGENCY
Water Fund
Schedule of Net Assets
June 30, 2006
(With Comparative Totals for June 30, 2005)

	Totals	
	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Short-term investments	\$4,740,131	\$2,863,113
Accounts receivable	4,723,317	4,727,486
Interest receivable	<u>54,438</u>	<u>18,040</u>
Total current assets	<u>9,517,886</u>	<u>7,608,639</u>
Noncurrent assets		
Capital assets		
Jobs in progress	1,298,374	1,293,949
Capital assets, net of accumulated depreciation	<u>33,091</u>	<u>35,283</u>
Total capital assets	<u>1,331,465</u>	<u>1,329,232</u>
Other assets		
Intangible assets, net of accumulated amortization	<u>68,217</u>	<u>73,038</u>
Total other assets	<u>68,217</u>	<u>73,038</u>
Total noncurrent assets	<u>1,399,682</u>	<u>1,402,270</u>
Total assets	<u>10,917,568</u>	<u>9,010,909</u>
LIABILITIES		
Accounts payable	5,238,594	4,051,120
Accrued liabilities	<u>621,089</u>	<u>81,235</u>
Total liabilities	<u>5,859,683</u>	<u>4,132,355</u>
NET ASSETS		
Invested in capital assets, net of related debt	1,399,681	1,402,270
Unrestricted	3,658,204	3,476,284
Total net assets	<u>\$5,057,885</u>	<u>\$4,878,554</u>

INLAND EMPIRE UTILITIES AGENCY
Water Fund
Schedule of Revenues, Expenses, and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2006
(With Comparative Totals for June 30, 2005)

	Totals	
	2006	2005
OPERATING REVENUES		
Service charges	\$2,120,666	\$2,103,086
Total operating revenues	2,120,666	2,103,086
OPERATING EXPENSES		
Operations and maintenance	25,441	30,842
Administration and general	2,487,489	2,449,881
Depreciation and amortization	1,359	10,279
Total operating expenses	2,514,289	2,491,002
Operating income (loss)	(393,623)	(387,916)
NONOPERATING REVENUES (EXPENSES)		
Interest income	147,774	72,239
Other nonoperating revenues	28,306	713,388
Total nonoperating revenues (expenses)	176,080	785,627
Income (loss) before contributions and transfers	(217,543)	397,711
TRANSFERS AND CAPITAL CONTRIBUTIONS		
Transfers in	218,820	125,000
Capital grants	185,269	889
Contribution in aid	(7,215)	26,009
Change in net assets	179,331	549,609
Total net assets - beginning	4,878,554	4,328,945
Total net assets - ending	\$5,057,885	\$4,878,554



INLAND EMPIRE UTILITIES AGENCY

RECYCLED WATER FUND

COMBINING SCHEDULES

Recycled Water Fund:

Accounts for the development costs associated with the Agency's Regional Recycled Water System and the various funding sources. It also accounts for revenues and operating expenses associated with the operation of specific facilities to distribute recycled water supplied from the Agency's water recycling facilities. This program, currently include the operation of the Carbon Canyon and other Regional Plants distribution systems, and the Ely Basin Groundwater Recharge Project.

Phase I Etiwanda Recycled Water Pipeline



INLAND EMPIRE UTILITIES AGENCY
Recycled Water Fund
Schedule of Net Assets by Subfund
June 30, 2006
(With Comparative Totals for June 30, 2005)

	Totals	
	2006	2005
ASSETS		
Current assets		
Short-term investments	\$1,252,044	\$1,521,341
Accounts receivable	2,339,643	2,599,552
Interest receivable	0	8,271
Prepaid items	3,500	3,500
Total current assets	3,595,187	4,132,664
Noncurrent assets		
Restricted assets		
Assets held with trustee/fiscal agents	419,505	96,294
Total restricted assets	419,505	96,294
Capital assets		
Jobs in progress	14,510,125	27,292,482
Capital assets, net of accumulated depreciation	28,061,915	5,469,479
Total capital assets	42,572,040	32,761,961
Other assets		
Intangible assets, net of accumulated amortization	44,069	45,672
Total other assets	44,069	45,672
Total noncurrent assets	43,035,614	32,903,927
Total assets	46,630,801	37,036,591

(Continued)

	Totals	
	2006	2005
LIABILITIES		
Current liabilities		
Accounts payable	2,180,205	2,241,763
Accrued liabilities	18,446	30,608
Notes payable, due within one year	613,805	596,895
Interest payable	61,587	171,325
Due to other funds	5,000,000	0
Retention deposits and escrows	419,505	96,294
Total current liabilities	8,293,548	3,136,885
Noncurrent liabilities		
Notes payable, due in more than one year	13,933,559	13,482,785
Other non current liabilities	380,242	273,701
Total noncurrent liabilities	14,313,801	13,756,486
Total liabilities	22,607,349	16,893,371
NET ASSETS		
Invested in capital assets, net of related debt	20,826,953	18,556,628
Restricted for		
Capital construction	2,572,983	50,000
Bond operating contingency requirement	623,516	649,890
Total restricted	3,196,499	699,890
Unrestricted	0	(36,149,889)
Total net assets	\$24,023,452	\$20,143,220

INLAND EMPIRE UTILITIES AGENCY
Recycled Water Fund
Schedule of Revenues, Expenses, and
Changes in Fund Net Assets by Subfund
For the Fiscal Year Ended June 30, 2006
(With Comparative Totals for June 30, 2005)

	Totals	
	2006	2005
OPERATING REVENUES		
Recycled water sales	\$1,147,241	\$652,897
Total operating revenue	1,147,241	652,897
OPERATING EXPENSES		
Administration and general	1,870,548	2,034,654
Depreciation and amortization	450,180	140,270
Total operating expenses	2,320,728	2,174,924
Operating income (loss)	(1,173,487)	(1,522,027)
NONOPERATING REVENUES (EXPENSES)		
Interest income	16,877	17,737
Other nonoperating revenues	36,886	87,091
Interest on long-term debt	(217,869)	(180,199)
Total nonoperating revenues (expenses)	(164,106)	(75,371)
Income (loss) before contributions and transfers	(1,337,593)	(1,597,398)
TRANSFERS AND CAPITAL CONTRIBUTIONS		
Transfers in	1,606,943	3,995,428
Transfers out	(154,672)	(257,052)
Capital grants	3,765,554	2,570,589
Change in net assets	3,880,232	4,711,567
Total net assets - beginning	20,143,220	15,431,653
Total net assets - ending	\$24,023,452	\$20,143,220

INLAND EMPIRE UTILITIES AGENCY

REGIONAL WASTEWATER FUND

COMBINING SCHEDULES

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

Regional Capital Improvement

Accounts for the financial transactions of acquiring, constructing, upgrading and expanding of the Agency's domestic wastewater treatment plant facilities, under the 1972 Regional Sewage Service Contract; and includes principal, interest and related administrative costs associated with the debt service required for the Series 1994, 1999, and 2002 Revenue Bonds.

Regional Operations and Maintenance

Accounts for the revenues and operating costs directly related to providing primary and secondary treatment of domestic wastewater delivered by the contracting agencies to the Agency's interceptors and wastewater treatment facilities.

Obligation Payment

Accounts for the monthly deposit of debt service reserves as required by the Agency's Master Resolution.



Regional Water Recycling Plant No. 1

Carbon Canyon Waste Reclamation Facility



INLAND EMPIRE UTILITIES AGENCY
Regional Wastewater Fund
Combining Schedule of Net Assets by Subfund
June 30, 2006
(With Comparative Totals for June 30, 2005)

	Regional Capital Improvement	Regional Operations & Maintenance	Obligation Payment	Eliminations	Totals	
					2006	2005
ASSETS						
Current assets						
Short-term investments	\$8,195,367	\$19,017,845	\$7,701,632	\$0	\$34,914,844	\$58,881,309
Accounts receivable	4,860,830	3,460,609	0	0	8,321,439	4,262,937
Interest receivable	1,442,845	162,743	0	0	1,605,588	1,580,698
Taxes receivable	2,147,327	779,573	0	0	2,926,900	2,200,512
Due from other funds	5,176,149	6,047,935	0	(6,224,084)	5,000,000	0
Prepaid items	16,603	955	0	0	17,558	56,588
Total current assets	21,839,121	29,469,660	7,701,632	(6,224,084)	52,786,329	66,982,044
Noncurrent assets						
Restricted assets						
Deposits held by governmental agencies	5,669,408	0	0	0	5,669,408	43,687,063
Deposits held by retentions	1,765,606	0	0	0	1,765,606	207,900
Assets held with trustee/fiscal agents	11,109,081	0	0	0	11,109,081	11,297,692
Total restricted assets	18,544,095	0	0	0	18,544,095	55,192,655
Capital assets						
Land	13,931,378	0	0	0	13,931,378	13,931,378
Jobs in progress	78,500,022	0	0	0	78,500,022	44,787,100
Capital assets, net of accumulated depreciation	260,909,884	0	0	0	260,909,884	245,051,996
Total capital assets	353,341,284	0	0	0	353,341,284	303,770,474
Other assets						
Intangible assets, net of accumulated amortization	6,727,389	0	0	0	6,727,389	5,450,806
Advance to other funds	7,650,000	0	0	0	7,650,000	8,500,000
Deferred costs	1,429,289	0	0	0	1,429,289	1,431,375
Total other assets	15,806,678	0	0	0	15,806,678	15,382,181
Total noncurrent assets	387,692,057	0	0	0	387,692,057	374,345,310
Total assets	409,531,178	29,469,660	7,701,632	(6,224,084)	440,478,386	441,327,354

(Continued)

	Regional Capital Improvement	Regional Operations & Maintenance	Obligation Payment	Eliminations	Totals	
					2006	2005
LIABILITIES						
Current liabilities						
Accounts payable	7,865,376	1,835,608	0	0	9,700,984	6,198,853
Accrued liabilities	56,252	436,190	0	0	492,442	435,389
Due to other funds	6,000,000	249,561	0	(6,224,084)	25,477	38,617
Retentions payable	1,531,365	0	0	0	1,531,365	817,397
Notes payable, due within one year	89,063	0	0	0	89,063	89,063
Long-term debt, due within one year	3,987,034	0	0	0	3,987,034	4,895,000
Interest payable	1,982,153	0	0	0	1,982,153	1,875,044
Retention deposits and escrows	1,765,606	0	0	0	1,765,606	207,900
Total current liabilities	23,276,849	2,521,359	0	(6,224,084)	19,574,124	14,557,263
Noncurrent liabilities						
Long-term debt, due in more than one year	113,300,828	0	0	0	113,300,828	117,085,801
Notes payable, due in more than one year	633,861	0	0	0	633,861	678,123
Other noncurrent liabilities	246,080	1,510,137	0	0	1,756,217	1,607,140
Total noncurrent liabilities	114,180,769	1,510,137	0	0	115,690,906	119,371,064
Total liabilities	137,457,618	4,031,496	0	(6,224,084)	135,265,030	133,928,327
NET ASSETS						
Invested in capital assets, net of related debt	242,057,887	0	0	0	242,057,887	196,895,824
Restricted for						
Capital construction	5,669,408	14,920,960	0	0	20,590,368	62,625,157
Debt service	11,109,555	0	7,701,632	0	18,811,187	19,739,653
Bond operating contingency requirement	1,847,583	10,517,204	0	0	12,364,787	10,982,385
Unrestricted	11,389,127	0	0	0	11,389,127	17,156,008
Total net assets	\$272,073,560	\$25,438,164	\$7,701,632	\$0	\$305,213,356	\$307,399,027

INLAND EMPIRE UTILITIES AGENCY
Regional Wastewater Fund
Schedule of Revenues, Expenses and
Changes in Fund Net Assets by Subfund
For the Fiscal Year Ended June 30, 2005
(With Comparative Totals for June 30, 2005)

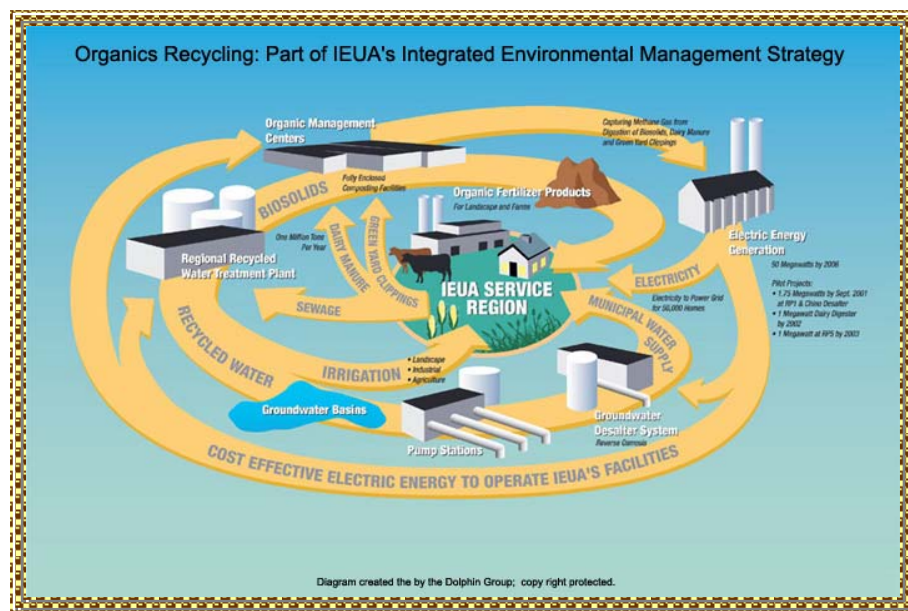
	Regional Capital Improvement	Regional Operations & Maintenance	Obligation Payment	Eliminations	Totals	
					2006	2005
OPERATING REVENUES						
Service charges	\$11,798	\$23,366,517	\$0	\$0	\$23,378,315	\$21,137,602
Other charges	0	0	0	0	0	1,754,653
Total operating revenues	11,798	23,366,517	0	0	23,378,315	22,892,255
OPERATING EXPENSES						
Wastewater collection	0	665,240	0	0	665,240	513,019
Wastewater treatment	0	19,445,657	0	0	19,445,657	16,765,602
Wastewater disposal	0	6,235,413	0	0	6,235,413	5,850,988
Administration and general	5,543,648	5,205,302	0	0	10,748,950	9,817,545
Depreciation and amortization	15,345,727	0	0	0	15,345,727	13,493,263
Total operating expenses	20,889,375	31,551,612	0	0	52,440,987	46,440,417
Operating income (loss)	(20,877,577)	(8,185,095)	0	0	(29,062,672)	(23,548,162)
NONOPERATING REVENUES (EXPENSES)						
Interest income	1,693,565	828,646	0	0	2,522,211	1,958,635
Property tax revenue	12,945,498	5,504,608	0	0	18,450,106	15,326,666
Wastewater capital connection fees	20,895,635	0	0	0	20,895,635	27,957,765
Other nonoperating revenues	4,653,664	415,541	0	0	5,069,205	1,401,043
Interest on long-term debt	(6,403,238)	0	0	0	(6,403,238)	(6,163,709)
Other nonoperating expenses	(1,230,054)	0	0	0	(1,230,054)	(731,177)
Total nonoperating revenues (expenses)	32,555,070	6,748,795	0	0	39,303,865	39,749,223
Income (loss) before capital contributions and transfers	11,677,493	(1,436,300)	0	0	10,241,193	16,201,061
TRANSFERS AND CAPITAL CONTRIBUTIONS						
Transfers in	15,009,714	3,549,896	18,076,762	(34,883,211)	1,753,161	45,640,302
Transfers out	(27,852,890)	(5,027,460)	(18,675,990)	34,883,211	(16,673,129)	(76,791,234)
Capital grants	2,473,760	19,344	0	0	2,493,104	930,338
Contribution in aid	0	0	0	0	0	0
Change in net assets	1,308,077	(2,894,520)	(599,228)	0	(2,185,671)	(14,019,533)
Total net assets - beginning	270,765,483	28,332,684	8,300,860	0	307,399,027	321,418,560
Total net assets - ending	\$ 272,073,560	\$ 25,438,164	\$ 7,701,632	\$0	\$ 305,213,356	\$ 307,399,027

INLAND EMPIRE UTILITIES AGENCY ORGANICS MANAGEMENT FUND COMPARATIVE SCHEDULES

The Organics Management Fund consists of the following:

Accounts for the transactions related to capital acquisition, construction, and receipts for the organics related program. The objectives of this Fund are to improve the availability, quantity and quality of water delivered within the Agency's service area. It also accounts for the receipts and expenses associated with the organics management activities.

This Fund focuses on those projects which include addressing the problem of excess salts (nitrogen salts) in the domestic wastewater system, the groundwater basin, and in the imported water supplies; and the production of clean, renewable electric energy from methane gas produced by anaerobic manure digesters.



INLAND EMPIRE UTILITIES AGENCY
Organics Management Fund
Schedule of Net Assets by Subfund
June 30, 2006
(With Comparative Totals for June 30, 2005)

	Totals	
	2006	2005
ASSETS		
Current assets		
Short-term investments	\$719,072	\$2,065,831
Accounts receivable	1,358,819	1,220,278
Interest receivable	9,430	6,976
Prepaid items	8,911	1,311
Total current assets	2,096,232	3,294,396
Noncurrent assets		
Restricted assets		
Assets held with trustee/fiscal agents	237	0
Total restricted assets	237	0
Capital assets		
Land and improvements	4,194,990	4,194,990
Jobs in progress	7,552	225
Capital assets, net of accumulated depreciation	12,923,347	13,344,636
Total capital assets	17,125,889	17,539,851
Other assets		
Investment in joint venture	39,737,131	30,337,131
Deferred costs	119,830	124,439
Total other assets	39,856,961	30,461,570
Total noncurrent assets	56,983,087	48,001,421
Total assets	59,079,319	51,295,817
		(Continued)

	Totals	
	2006	2005
LIABILITIES		
Current liabilities		
Accounts payable	66,040	390,108
Long-term debt, due within one year	271,017	260,000
Interest payable	890,093	946,006
Retentions Payable	0	58,285
Total current liabilities	1,227,150	1,654,399
Noncurrent liabilities		
Long-term debt, due in more than one year	11,673,637	11,942,878
Advances from other funds	7,650,000	8,500,000
Other noncurrent liabilities	37,524	37,524
Total noncurrent liabilities	19,361,161	20,480,402
Total liabilities	20,588,311	22,134,801
NET ASSETS		
Invested in capital assets, net of related debt	5,181,235	17,539,851
Restricted for		
Bond operating contingency requirement	416,492	760,252
Debt service	37,761	0
Capital construction	255,421	543,576
Total restricted	709,674	1,303,828
Unrestricted	32,600,099	10,317,339
Total net assets	\$38,491,008	\$29,161,018

INLAND EMPIRE UTILITIES AGENCY
Organics Management Fund
Schedule of Revenues, Expenses and
Changes in Fund Net Assets by Subfund
For the Fiscal Year Ended June 30, 2006
(With Comparative Totals for June 30, 2005)

	Totals	
	2006	2005
OPERATING REVENUES		
Service charges	\$47,087	\$338,127
Total operating revenues	47,087	338,127
OPERATING EXPENSES		
Operations and maintenance	41,963	1,066,872
Administration and general	1,207,514	2,234,126
Depreciation and amortization	421,289	419,605
Total operating expenses	1,670,766	3,720,603
Operating income (loss)	(1,623,679)	(3,382,476)
NONOPERATING REVENUES (EXPENSES)		
Interest income	61,634	11,474
Other nonoperating revenues	135,253	20,398
Other nonoperating (expenses)	(41,074)	(41,747)
Interest on long-term debt	(535,965)	(354,635)
Total nonoperating revenues (expenses)	(380,152)	(364,510)
Income (loss) before contributions and transfers	(2,003,831)	(3,746,986)
TRANSFERS AND CAPITAL CONTRIBUTIONS		
Transfers in	11,258,821	23,291,362
Transfers out	0	(520,000)
Contribution in aid	75,000	0
Change in net assets	9,329,990	19,024,376
Total net assets - beginning	29,161,018	10,136,642
Total net assets - ending	\$38,491,008	\$29,161,018

INLAND EMPIRE UTILITIES AGENCY

NONRECLAIMABLE WASTEWATER FUND

COMBINING SCHEDULES

The Nonreclaimable Wastewater Fund consists of the following:

Accounts for the financial transactions of acquisition, expansion and construction of wastewater lines, interceptors and appurtenant facilities and treatment capacity. Additionally, administrative costs associated with the implementation of the capital projects required for the expansion and development of the Nonreclaimable Wastewater System are recorded in this Fund. It also accounts for the revenues and costs attributable to the operations and maintenance of the Agency's nonreclaimable wastewater system. In addition to the operating and maintenance costs of the pipelines, lift stations, and appurtenances, this Fund maintains necessary reserves to make the prepayment of the Annual Wastewater Disposal Charge to the County Sanitation Districts of the Los Angeles County (CSDLAC).



INLAND EMPIRE UTILITIES AGENCY
Nonreclaimable Wastewater Fund
Schedule of Net Assets by Subfund
June 30, 2006
(With Comparative Totals for June 30, 2005)

	Totals	
	2006	2005
ASSETS		
Current assets		
Short-term investments	\$17,984,422	\$17,947,417
Accounts receivable	2,315,614	1,832,699
Interest receivable	142,311	109,659
Taxes receivable	26,760	26,761
Other receivable	22,428	21,766
Prepaid items	96,454	0
Total current assets	20,587,989	19,938,302
Noncurrent assets		
Capital assets		
Jobs in progress	887,203	1,331,877
Capital assets, net of accumulated depreciation	4,475,760	3,576,065
Total capital assets	5,362,963	4,907,942
Other assets		
Long-term receivables	205,806	228,234
Intangible assets, net of accumulated amortization	23,071,666	22,676,334
Total other assets	23,277,472	22,904,568
Total noncurrent assets	28,640,435	27,812,510
Total assets	49,228,424	47,750,812

(Continued)

	Totals	
	2006	2005
LIABILITIES		
Current liabilities		
Accounts payable	297,530	263,767
Accrued liabilities	1,965,781	2,271,251
Retentions payable	133,459	36,725
Notes payable, due within one year	178,125	178,125
Total current liabilities	2,574,895	2,749,868
Noncurrent liabilities		
Notes payable, due in more than one year	1,324,403	1,412,925
Total noncurrent liabilities	1,324,403	1,412,925
Total liabilities	3,899,298	4,162,793
NET ASSETS		
Invested in capital assets, net of related debt	26,932,101	25,993,226
Restricted for		
Bond operating contingency requirement	1,798,107	1,320,496
Total restricted	1,798,107	1,320,496
Unrestricted	16,598,918	16,274,297
Total net assets	\$45,329,126	\$43,588,019

INLAND EMPIRE UTILITIES AGENCY
Nonreclaimable Wastewater Fund
Schedule of Revenues, Expenses and
Changes in Fund Net Assets by Subfund
For the Fiscal Year Ended June 30, 2006
(With Comparative Totals for June 30, 2005)

	Totals	
	2006	2005
OPERATING REVENUES		
Service charges	\$8,290,454	\$5,614,477
Total operating revenues	8,290,454	5,614,477
OPERATING EXPENSES		
Wastewater collection	477,729	538,886
Wastewater treatment	3,248,119	2,428,076
Administration and general	1,668,472	994,525
Depreciation and amortization	1,014,804	997,429
Total operating expenses	6,409,124	4,958,916
Operating income (loss)	1,881,330	655,561
NONOPERATING REVENUES (EXPENSES)		
Interest income	573,503	387,048
Property tax revenue	25	26
Other nonoperating revenues	80,088	382,505
Interest on long-term debt	(89,602)	(94,613)
Other nonoperating expenses	(468)	0
Total nonoperating revenues (expenses)	563,546	674,966
Income (loss) before contributions and transfers	2,444,876	1,330,527
TRANSFERS		
Transfers in	0	1,645,917
Transfers out	(703,769)	(933,489)
Change in net assets	1,741,107	2,042,955
Total net assets - beginning	43,588,019	41,545,064
Total net assets - ending	\$45,329,126	\$43,588,019

INLAND EMPIRE UTILITIES AGENCY

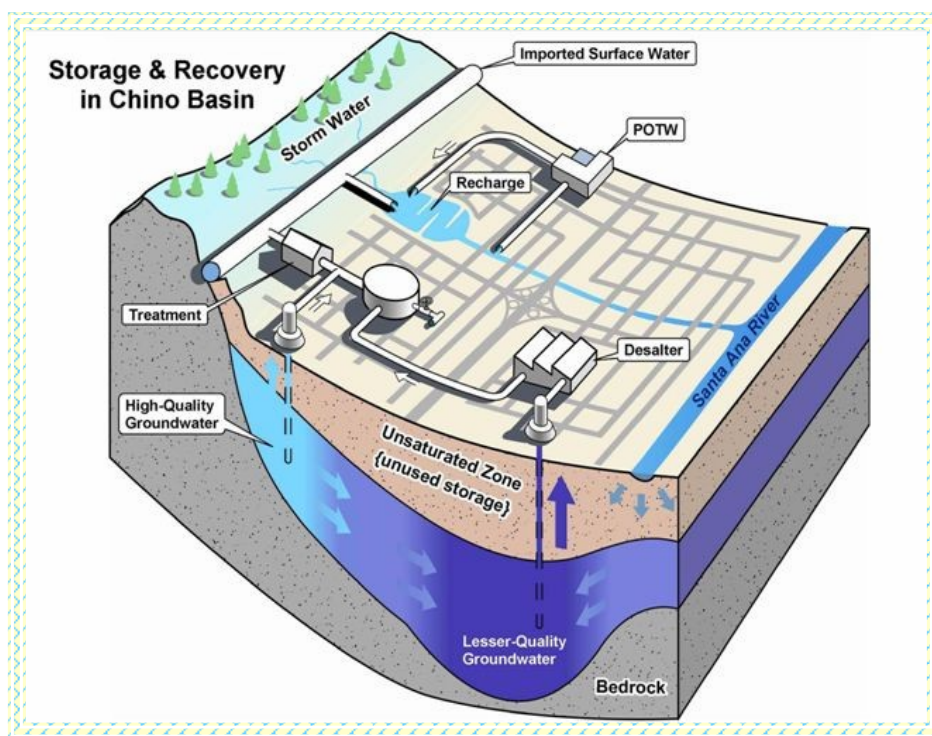
RECHARGE WATER FUND

COMPARATIVE SCHEDULES

Recharge Water Fund

Established in FY 2002/03, the Recharge Water Fund accounts for the receipts and expenditures associated with the Chino Basin Recharge Facilities Improvement Project, (CBFIP): a joint effort of the Chino Basin Watermaster (CBWM), the Chino Basin Water Conservation District (CBWCD), the San Bernardino County Flood Control Department (SBFCD), and the Agency.

The program includes proposed improvements to 18 existing recharge basin sites and 2 new sites. Once completed, the improvements will be completed and the fully developed groundwater recharge sites will allow for a total annual recharge capacity of 120,000 to 170,000 acre feet (AF).



INLAND EMPIRE UTILITIES AGENCY**Recharge Water Fund****Schedule of Net Assets****38,898**

(With Comparative Totals for June 30, 2005)

	Totals	
	2006	2005
ASSETS		
Current assets		
Short-term investments	\$581,458	\$4,574,643
Accounts receivable	1,437,739	737,629
Interest receivable	6,083	36,946
Prepaid items	800	800
Total current assets	2,026,080	5,350,018
Noncurrent assets		
Restricted assets		
Assets held with trustee/fiscal agents	365	291,452
Total restricted assets	365	291,452
Capital assets		
Capital assets, net of accumulated depreciation	84,073	0
Jobs in progress	41,675,377	39,457,774
Total capital assets	41,759,450	39,457,774
Other assets		
Deferred costs	184,398	191,489
Total other assets	184,398	191,489
Total noncurrent assets	41,944,213	39,940,715
Total assets	43,970,293	45,290,733

(Continued)

	Totals	
	2006	2005
LIABILITIES		
Current liabilities		
Accounts payable	1,182,887	1,921,733
Long-term debt, due within one year	416,949	400,000
Interest payable	45,174	36,259
Retention deposits and escrows	0	291,448
Total current liabilities	1,645,010	2,649,440
Noncurrent liabilities		
Long-term debt, due in more than one year	17,959,442	18,373,657
Total noncurrent liabilities	17,959,442	18,373,657
Total liabilities	19,604,452	21,023,097
NET ASSETS		
Invested in capital assets, net of related debt	23,383,060	20,839,347
Restricted for		
Capital construction	114,974	3,164,142
Bond operating contingency requirement	867,807	173,442
Total Restricted	982,781	3,337,584
Unrestricted	0	90,705
Total net assets	\$24,365,841	\$24,267,636

INLAND EMPIRE UTILITIES AGENCY
Recharge Water Fund
Schedule of Revenues, Expenses
and Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2006
(With Comparative Totals for June 30, 2005)

	Totals	
	2006	2005
OPERATING REVENUES		
Recycled water sales	\$0	\$0
Total operating revenues	0	0
OPERATING EXPENSES		
Administration and general	2,603,418	520,327
Depreciation and amortization	6,467	0
Total operating expenses	2,609,885	520,327
Operating income (loss)	(2,609,885)	(520,327)
NONOPERATING REVENUES (EXPENSES)		
Interest income	33,430	170,173
Other nonoperating revenues	1,639,756	676,246
Other nonoperating expenses	(63,193)	(64,227)
Interest on long-term debt	(549,182)	(345,253)
Total nonoperating revenues (expenses)	1,060,811	436,939
Income (loss) before contributions and transfers	(1,549,074)	(83,388)
TRANSFERS AND CAPITAL CONTRIBUTIONS		
Transfers in	1,435,428	3,631,939
Transfers out	0	(1,371,133)
Capital grants	211,851	673,686
Change in net assets	98,205	2,851,104
Total net assets - beginning	24,267,636	21,416,532
Total net assets - ending	\$24,365,841	\$24,267,636

INLAND EMPIRE UTILITIES AGENCY

ADMINISTRATIVE SERVICES FUND

COMPARATIVE SCHEDULES

Administrative Services Fund

The Administrative Services Fund accounts for the administrative and overhead expenses for the various departments and cost centers, the costs of performing certain contracts on a cost-reimbursable basis and the acquisition of common Agency assets.

This Fund records the costs of the main office assets, multi-purpose assets, and, general and administrative expenses of various cost centers. The cost centers reflect the costs for the administration of the Agency's many activities as well as the overhead costs of various departments and work centers, which are structured to allow allocation of appropriate and pertinent expenses to other Agency Funds.



Headquarter Building A



Headquarters Connecting Bridge



Headquarters Building B

INLAND EMPIRE UTILITIES AGENCY
Administrative Services Fund
Schedule of Net Assets
June 30, 2006
(With Comparative Totals for June 30, 2005)

	Totals	
	2006	2005
ASSETS		
Current assets		
Cash	\$6,921,108	\$1,985,986
Short-term investments	9,326,460	13,555,596
Accounts receivable	349,115	795,150
Interest receivable	127,703	100,023
Taxes receivable	229,857	166,456
Other receivables	62,987	62,124
Due from other funds	25,477	38,617
Inventory	1,904,863	1,826,519
Prepaid items	109,002	117,750
Total current assets	19,056,572	18,648,221
Noncurrent assets		
Restricted assets		
Assets held for 401(a) plan	655,828	449,923
Deposit held for retentions	0	26,858
Assets held with trustee/fiscal agent	22,289	31,587
Total restricted assets	678,117	508,368
Capital assets		
Land	20,829	20,828
Jobs in progress	3,738,740	3,506,403
Capital assets, net of accumulated depreciation	15,779,485	16,114,912
Total capital assets	19,539,054	19,642,143
Other assets		
Long-term receivables	40,392	53,608
Deferred costs	758	0
Total other assets	41,150	53,608
Total noncurrent assets	20,258,321	20,204,119
Total assets	39,314,893	38,852,340

(Continued)

	Totals	
	2006	2005
LIABILITIES		
Current liabilities		
Accounts payable	791,767	635,713
Accrued liabilities	1,237,161	1,091,960
Compensated absences	85,880	1,435,476
Retention deposits and escrows	0	26,858
Current liabilities	2,114,808	3,190,007
Noncurrent liabilities		
Compensated absences	2,470,502	988,319
Liability for 401(a) plan	655,828	449,923
Other noncurrent liabilities	114,239	68,000
Total noncurrent liabilities	3,240,569	1,506,242
Total liabilities	5,355,377	4,696,249
NET ASSETS		
Invested in capital assets, net of related debt	19,539,054	19,634,455
Restricted for		
Bond operating contingency requirement	993,941	1,152,375
Total Restricted	993,941	1,152,375
Unrestricted	13,426,521	12,816,890
Total net assets	\$33,959,516	\$34,156,091

INLAND EMPIRE UTILITIES AGENCY
Administrative Services Fund
Schedule of Revenues, Expenses and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2006
(With Comparative Totals for June 30, 2005)

	Totals	
	2006	2005
OPERATING REVENUES		
Service charges	\$0	\$314
Total operating revenues	0	314
OPERATING EXPENSES		
Operation and Maintenance	0	590,244
Administration and general	2,981,824	2,553,967
Depreciation and amortization	1,479,529	1,249,834
Total operating expenses	4,461,353	4,394,045
Operating income (loss)	(4,461,353)	(4,393,731)
NONOPERATING REVENUES (EXPENSES)		
Interest income	512,477	285,302
Property tax revenue	1,619,515	1,346,820
Other nonoperating revenues	1,018,050	914,101
Other nonoperating expenses	(143,661)	(31,043)
Total nonoperating revenues (expenses)	3,006,381	2,515,180
Income (loss) before contributions and transfers	(1,454,972)	(1,878,551)
TRANSFERS AND CAPITAL CONTRIBUTIONS		
Transfers in	2,311,992	2,558,508
Transfers out	(1,053,595)	(1,015,548)
Capital grants	0	44,450
Change in net assets	(196,575)	(291,141)
Total net assets - beginning	34,156,091	34,447,232
Total net assets - ending	\$33,959,516	\$34,156,091

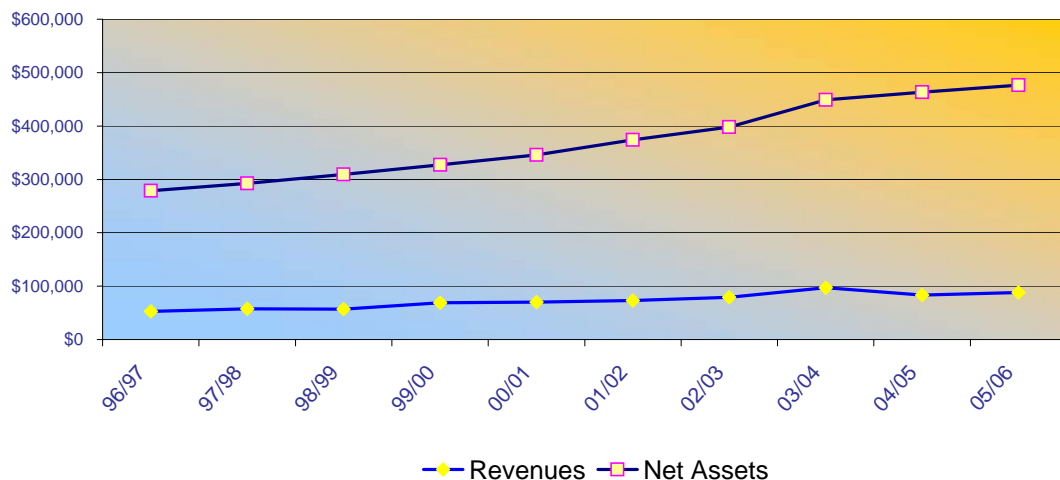
INLAND EMPIRE UTILITIES AGENCY
Historical Operating Results
Wastewater Revenue Funds' Combined Statement of Revenues, Expenses
and Changes in Fund Net Assets
Fiscal Years Ended June 30, 2002 through 2006
(Dollars in Thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenues					
Service charges	\$31,716	\$27,091	\$25,579	\$25,253	\$24,768
Other charges	0	1,755	1,707	1,677	1,609
Total operating revenues	<u>31,716</u>	<u>28,845</u>	<u>27,286</u>	<u>26,930</u>	<u>26,376</u>
Operating Expenses					
Wastewater collection	1,143	1,052	967	1,521	875
Wastewater treatment	22,694	19,194	18,677	15,790	15,876
Wastewater disposal	6,235	5,851	4,749	4,663	4,037
Operations and maintenance	42	1,067	0	0	0
Administration and general	16,607	15,483	11,997	10,937	8,514
Depreciation and amortization	18,261	16,160	14,178	13,614	13,555
Total operating expenses	<u>64,982</u>	<u>58,807</u>	<u>50,568</u>	<u>46,525</u>	<u>42,857</u>
Operating income (loss)	<u>(33,266)</u>	<u>(29,962)</u>	<u>(23,282)</u>	<u>(19,595)</u>	<u>(16,481)</u>
Nonoperating Revenues (Expenses)					
Interest income	3,670	2,642	2,693	3,735	4,449
Property tax revenue	20,070	16,674	21,508	19,292	17,269
Wastewater Capital Connection Fees	20,896	27,958	28,451	23,999	20,135
Other nonoperating revenues	6,302	2,005	12,780	935	963
Interest on long-term debt	(7,029)	(6,613)	(6,669)	(7,134)	(7,038)
Other nonoperating expenses	(1,415)	(804)	(3,152)	(908)	(86)
Total nonoperating revenues (expenses)	<u>42,494</u>	<u>41,862</u>	<u>55,612</u>	<u>39,919</u>	<u>35,693</u>
Income (loss) before contributions and transfers	9,228	11,900	32,329	20,324	19,212
Capital Grants	2,493	975	221	79	1,010
Contribution in Aid	75	0	1,225	0	0
Transfers (to non-sewer funds)	<u>(3,107)</u>	<u>(6,124)</u>	<u>(4,838)</u>	<u>(3,888)</u>	<u>(4,080)</u>
Change in net assets	8,689	6,751	28,938	16,515	16,142
Total net assets - beginning	<u>413,752</u>	<u>407,001</u>	<u>378,063</u>	<u>361,548</u>	<u>345,406</u>
Total net assets - ending	<u>\$422,441</u>	<u>\$413,752</u>	<u>\$407,001</u>	<u>\$378,063</u>	<u>\$361,548</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)

	2005/06	2004/05	2003/04	2002/03	2001/02
Operating revenues					
Service charges	\$33,837	\$29,194	\$27,509	\$26,586	\$25,781
Other Charges	0	1,755	1,707	1,677	1,608
Recycled water sales	1,147	653	589	586	1,642
Total operating revenues	34,984	31,601	29,805	28,849	29,031
Operating expenses					
Wastewater collection	1,143	1,052	967	1,521	875
Wastewater treatment	22,694	19,194	18,677	15,790	15,876
Wastewater disposal	6,236	5,851	4,749	4,663	4,037
Administration and general	23,568	20,605	14,415	13,515	11,898
Depreciation and amortization	18,719	16,311	14,328	13,769	13,700
Operations and maintenance	67	1,688	1,788	1,367	1,606
Total operating expenses	72,427	64,700	54,924	50,625	47,992
Operating income (loss)	(37,443)	(33,099)	(25,119)	(21,776)	(18,961)
Nonoperating revenues (expenses)					
Interest income	3,868	2,903	2,874	4,246	4,657
Property tax revenue	20,070	16,674	21,508	19,292	17,269
Wastewater capital connection fees	20,895	27,958	28,451	23,999	20,135
Other nonoperating revenues	8,007	4,195	14,288	2,848	2,013
Interest on long-term debt	(7,796)	(7,138)	(6,876)	(7,355)	(7,037)
Other nonoperating expenses	(1,478)	(868)	(3,211)	(1,176)	(160)
Total nonoperating revenues (expenses)	43,566	43,722	57,034	41,854	36,877
Income (loss) before contributions and transfers	6,123	10,623	31,915	20,078	17,916
Capital grants	6,656	4,220	17,480	3,104	9,679
Contributions in aid	68	26	1,482	866	188
Change in net assets	12,847	14,869	50,877	24,048	27,783
Net assets by component:					
Invested in capital assets, net of related debt	339,320	300,869	256,642	219,305	234,640
Restricted for Debt service & Capital construction	59,447	101,162	138,875	127,349	102,648
Unrestricted	77,673	61,563	53,208	51,193	36,511
Total net assets	\$476,440	\$463,594	\$448,725	\$397,847	\$373,799

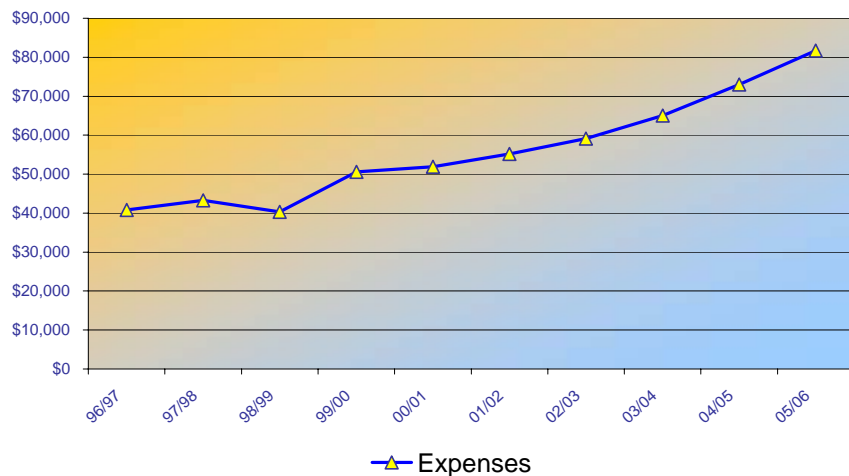
Operating & Nonoperating Revenues & Net Assets
Trends For the Past Ten Fiscal Years



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)

2000/01	1999/00	1998/99	1997/98	1996/97
\$23,963	\$29,387	\$22,567	\$24,992	\$20,763
1,590	1,568	1,499	1,977	1,983
1,809	985	599	0	0
<u>27,362</u>	<u>31,940</u>	<u>24,665</u>	<u>26,969</u>	<u>22,746</u>
584	670	467	537	801
13,472	12,591	12,511	13,157	12,188
3,735	3,942	3,771	4,042	3,863
11,128	13,783	7,023	10,534	10,465
13,310	12,483	10,667	9,417	9,006
1,808	116	121	133	115
<u>44,037</u>	<u>43,585</u>	<u>34,560</u>	<u>37,820</u>	<u>36,438</u>
<u>(16,675)</u>	<u>(11,645)</u>	<u>(9,895)</u>	<u>(10,851)</u>	<u>(13,692)</u>
6,601	5,753	3,941	3,855	4,231
15,934	15,135	14,268	13,125	13,397
17,672	15,028	13,367	12,539	11,161
2,850	993	530	776	1,462
(7,153)	(6,921)	(5,644)	(5,467)	(4,400)
<u>(668)</u>	<u>(113)</u>	<u>(106)</u>	<u>(7)</u>	<u>(7)</u>
<u>35,236</u>	<u>29,875</u>	<u>26,356</u>	<u>24,821</u>	<u>25,844</u>
18,561	18,230	16,461	13,970	12,152
0	0	0	0	0
75	0	0	0	0
<u>18,636</u>	<u>18,230</u>	<u>16,461</u>	<u>13,970</u>	<u>12,152</u>
198,171	171,249	217,581	200,358	182,686
97,913	89,535	60,047	56,559	49,027
6,488	18,424	31,522	35,772	47,006
<u>\$302,572</u>	<u>\$279,208</u>	<u>\$309,150</u>	<u>\$292,689</u>	<u>\$278,719</u>

Operating & Nonoperating Expense Trends
Trends For the Past Ten Fiscal Years

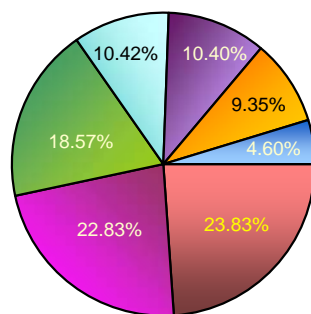


INLAND EMPIRE UTILITIES AGENCY
Regional Wastewater Funds
Service Charge Revenue and Rates by Contracting Agency
For the Fiscal Year Ended June 30, 2006

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 the fiscal year 2005/2006.

Contracting Agency	Total EDU's	Rate	Service Charge Revenue	% of Service Charge Revenue
Cucamonga Valley Water District	709,550	7.69	\$5,456,440	23.83%
City of Ontario	679,753	7.69	\$5,227,302	22.83%
City of Fontana	552,916	7.69	\$4,251,921	18.57%
City of Upland	310,436	7.69	\$2,387,250	10.42%
City of Chino	309,609	7.69	\$2,380,892	10.40%
City of Chino Hills	278,568	7.69	\$2,142,190	9.35%
City of Montclair	136,945	7.69	\$1,053,110	4.60%
Total Contracting Agencies' Service Charge Revenue	2,977,777		22,899,105	100.00%

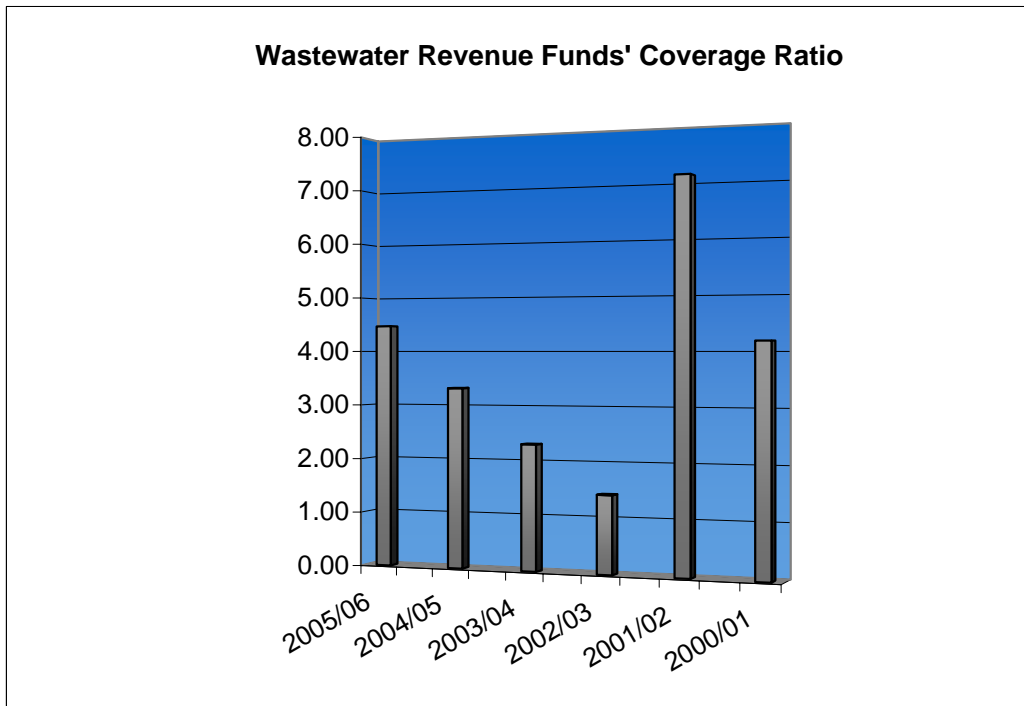
Total Service Charge Revenue by Contracting Agency
For the Fiscal Year Ended June 30, 2006



- City of Ontario
- City of Fontana
- City of Upland
- City of Chino
- City of Chino Hills
- City of Montclair

INLAND EMPIRE UTILITIES AGENCY
Wastewater Revenue Funds' Coverage Ratio
For the Past Six Fiscal Years

Fiscal Year	Funds Available	Debt Service Payments	Debt Coverage Ratio
2005/06	33,979,005	7,594,944	4.47
2004/05	29,252,674	8,802,369	3.32
2003/04	21,156,935	9,160,462	2.31
2002/03	13,197,518	9,230,628	1.43
2001/02	64,609,982	9,076,101	7.12
2000/01	36,553,279	8,723,391	4.19



The table and chart above reflects the debt coverage ratio of the Agency's wastewater funds for the past six years. As required by the 1994 & 1999 Revenue Bond Debentures, we must reflect more than 1.20 times the sum of all obligation service on all parity obligations in the sewer fund.

INLAND EMPIRE UTILITIES AGENCY
Computation of Direct and Overlapping Bonded Debt
As of June 30, 2006

2005/2006 Assessed Valuation: \$43,255,921,611 (after deducting \$18,569,933,731 Redevelopment Incremental Valuation)

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable (1)</u>	<u>Debt 6/30/06</u>
Metropolitan Water District	2.960%	\$11,531,124
Chaffey Community College District	99.544	112,534,492
San Bernardino Community College District	0.227	152,754
Chino Valley Unified School District	100.	96,545,000
Colton Joint Unified School District	2.295	2,304,407
Fontana Unified School District	96.925	52,929,146
Rialto Unified School District	0.115	62,658
Upland Unified School District	99.802	32,440,972
Chaffey Union High School District	99.735	112,027,339
Alta Loma School District	99.821	25,953,333
Central School District	100.	15,179,342
Mountain View School District & School Facilities Improvement District No. 1	100.	16,629,416
Ontario-Montclair School District	100.	16,475,000
Inland Empire Utilities Agency	100.	0 (2)
City of Chino Community Facilities Districts	100.	91,585,000
City of Chino Hills Community Facilities Districts	100.	31,225,000
Chino Valley Unified School District Community Facilities Districts	100.	185,000
Etiwanda School District Community Facilities Districts	100.	79,345,000
Upland Unified School District Community Facilities District No. 99-1	100.	2,359,000
City of Fontana Community Facilities Districts	4.930-100.	79,357,156
Mountain View School District Community Facilities District	100.	8,140,000
San Bernardino County Community Facilities Districts No. 2002-1	100.	23,575,000
City of Ontario Community Facilities District	100.	9,992,885
City of Rancho Cucamonga Community Facilities Districts	100.	55,890,000
City of Upland Community Facilities Districts	100.	43,900,000
City of Chino 1915 Act Bonds	100.	5,315,000
City of Chino Hills 1915 Act Bonds	100.	10,812,000
City of Fontana 1915 Act Bonds	100.	4,810,000
City of Ontario 1915 Act Bonds	100.	31,123,677
City of Rancho Cucamonga 1915 Act Bonds	100.	5,075,000
City of Upland 1915 Act Bonds	100.	<u>650,000</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		<u>978,104,701</u>
<u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
San Bernardino County General Fund Obligations	45.696	404,553,542
San Bernardino County Pension Obligations	45.696	347,911,336
Chaffey Community College District Certificates of Participation	99.544	2,608,053
Chino Valley Unified School District Certificates of Participation	100.	49,380,000
Colton Joint Unified School District Certificates of Participation	2.295	186,125
Fontana Unified School District Certificates of Participation	96.925	39,521,169
Rialto Unified School District Certificates of Participation	0.115	18,377
Upland Unified School District Certificate of Participation	99.802	5,993,110
Cucamonga School District Certificate of Participation	100.	13,320,000
Ontario-Montclair School District Certificate of Participation	100.	5,370,000
Chaffey Union High School District Certificates of Participation	99.735	1,486,052
City of Fontana Certificates of Participation	92.172	19,872,283
City of Montclair General Fund Obligations	100.	31,300,000
City of Ontario General Fund Obligations	100.	29,997,290
Other City General Fund Obligations	4.878 & 100.	2,492,681
Monte Vista County Water Authority	100.	530,000
West Valley Vector Control District Certificates of Participation	100.	<u>4,190,000</u>
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		<u>958,730,018</u>
COMBINED TOTAL DEBT		<u>\$1,936,834,719</u> (3)

INLAND EMPIRE UTILITIES AGENCY
Computation of Direct and Overlapping Bonded Debt, (continued)
As of June 30, 2006

Ratios to 2005-06 Assessed Valuation:

Direct Debt	0.00%
Total Direct and Overlapping Tax and Assessment Debt	1.58%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt	4.48%
----------------------------	-------

State School Building Aid Repayable As Of 6/30/06: \$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, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations

INLAND EMPIRE UTILITIES AGENCY
Wastewater Revenue Funds' Coverage Ratio
For Fiscal Year Ended June 30, 2006
(With Comparative Totals for the Fiscal Year Ended June 30, 2005)

	<u>2005/06</u>	<u>2004/05</u>
Operating revenues		
Service charges	\$31,715,856	\$27,030,443
Other Charges	0	1,754,653
	<hr/>	<hr/>
Total operating revenues	31,715,856	28,785,096
	<hr/>	<hr/>
Nonoperating revenues		
Interest income	3,669,825	2,633,705
Property tax revenue	20,069,646	16,673,512
* Wastewater capital connection fees	20,895,635	27,957,765
Other nonoperating revenues	6,302,596	1,994,758
Capital Contributions	2,493,104	974,788
	<hr/>	<hr/>
Total nonoperating revenues	53,430,806	50,234,528
	<hr/>	<hr/>
Operating expenses		
Wastewater collection	1,142,969	1,051,905
Wastewater treatment	22,693,776	19,193,678
Wastewater disposal	6,235,413	5,850,988
Administration and general	16,648,723	14,746,405
Depreciation and amortization	18,261,349	15,899,148
	<hr/>	<hr/>
Total operating expenses	64,982,230	56,742,124
	<hr/>	<hr/>
Nonoperating expenses		
Interest on long-term debt	7,028,805	6,612,957
Other nonoperating expenses	1,415,257	803,967
Transfers	3,031,519	8,120,007
Total nonoperating expenses	11,475,581	15,536,931
	<hr/>	<hr/>
Change in net assets	8,688,851	6,740,569
	<hr/>	<hr/>
Total net assets - Beginning of Year	309,467,503	330,684,699
Total net assets - End of Year	318,156,354	337,425,268
	<hr/>	<hr/>
*Less: Wastewater capital connection fees	(20,895,635)	(27,957,765)
	<hr/>	<hr/>
Total adjusted net assets	\$297,260,719	\$309,467,503

INLAND EMPIRE UTILITIES AGENCY
Wastewater Revenue Funds' Coverage Ratio
For Fiscal Year Ended June 30, 2006
(With Comparative Totals for the Fiscal Year Ended June 30, 2005)

	<u>2005/06</u>	<u>2004/05</u>
Funds available for coverage		
Net income	\$29,584,486	\$34,698,334
Less: Wastewater capital connection fees	(20,895,635)	(27,957,765)
Add: Interest on long-term debt	7,028,805	6,612,957
Depreciation and Amortization	18,261,349	15,899,148
	<u>\$33,979,005</u>	<u>\$29,252,674</u>
Total funds available for coverage		
	<u>\$33,979,005</u>	<u>\$29,252,674</u>
 Debt service payments		
Interest expense	\$4,504,944	\$5,882,369
Principal payments	3,090,000	2,920,000
	<u>\$7,594,944</u>	<u>\$8,802,369</u>
 Total debt service		
	<u>\$7,594,944</u>	<u>\$8,802,369</u>
 Debt coverage ratio	<u>4.47</u>	<u>3.32</u>

The Agency's wastewater funds, per the 1994 & 1999 Revenue Bond Debentures, are required to maintain a minimum specified debt coverage ratio. This ratio must be at least 1.20 times the sum of all obligation service on all parity obligations in the sewer funds. As reflected in the above calculation, the Agency met this requirement with a ratio of 4.47 and 3.32 for the Fiscal Years Ended June 30, 2006 and June 30, 2005, respectively.

In July 2003, the Agency issued the Chino Basin Regional Financing Variable Rate Demand Revenue Bonds (Inland Empire Utility Agency), Series 2002A. This issuance is subordinate to the pledge thereon securing the outstanding 1994 & 1999 Revenue Bonds. The Subordinate debt coverage ratio must be at least 1.20 times the sum of all obligations on all parity and subordinate debt. Refer to Agency System Subordinate Debt Coverage Ratio schedule.

In May 2005, the Agency issued the Chino Basin Regional Financing Revenue Bonds (Inland Empire Utility Agency), Series 2005A. This issuance is subordinate to the pledge thereon securing the outstanding 1994 & 1999 Revenue Bonds. The Subordinate debt coverage ratio must be at least 1.15 times the sum of all obligations on all parity and subordinate debt. Refer to Agency System Subordinate Debt Coverage Ratio schedule.

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 Fiscal Year 2005/06 amended budget for operating and maintenance expenses for four months was \$16,894,297
- > As of the Fiscal Year Ended June 30, 2006, the Agency had reserves of \$26,187,869. This balance exceeded the stated minimum requirement.

INLAND EMPIRE UTILITIES AGENCY
Agency System Subordinate Debt Coverage Ratio
For the Fiscal Year Ended June 30, 2006
(With Comparative Totals for the Fiscal Year Ended June 30, 2005)

	<u>2005/06</u>	<u>2004/05</u>
Operating revenues		
Recycled water sales	\$1,147,241	\$652,897
Service charges	31,715,861	27,090,520
Property tax recovery surcharge	0	1,754,653
	<hr/>	<hr/>
Total operating revenues	32,863,102	29,498,070
	<hr/>	<hr/>
Nonoperating revenues		
Interest income	3,720,135	2,828,911
Property tax revenue	20,069,646	16,673,512
*Wastewater Connection Fees	20,895,635	27,957,765
Other nonoperating revenues	7,593,441	2,790,361
Capital Contributions	0	4,197,088
	<hr/>	<hr/>
Total nonoperating revenues	52,278,857	54,447,637
	<hr/>	<hr/>
Operating expenses		
Wastewater collection	1,142,969	1,051,905
Wastewater treatment	22,693,776	19,193,678
Wastewater disposal	6,235,413	5,850,988
Administration and general	21,083,261	17,301,391
Operations and maintenance	39,420	1,803,540
Depreciation and amortization	18,717,996	16,300,401
	<hr/>	<hr/>
Total operating expenses	69,912,835	61,501,903
	<hr/>	<hr/>
Nonoperating expenses		
Interest on long-term debt	7,795,856	7,136,951
Other nonoperating expenses	1,478,451	868,194
Transfers	(218,824)	(23,437,352)
	<hr/>	<hr/>
Total nonoperating expenses	9,055,483	(15,432,207)
	<hr/>	<hr/>
Changes in net assets	6,173,641	37,876,011
	<hr/>	<hr/>
Total net assets - Beginning of Year	385,747,951	375,829,705
Total net assets - End of Year	391,921,592	413,705,716
	<hr/>	<hr/>
*Less: Wastewater capital connection fees	(20,895,635)	(27,957,765)
	<hr/>	<hr/>
Total adjusted net assets	\$371,025,957	\$385,747,951

** Wastewater capital connection fees are deposits held by other governmental agencies, (i.e. members of the Regional Sewage Contract). These connection fee deposits are restricted for capital construction costs associated with the regional program, and not available for debt coverage*

INLAND EMPIRE UTILITIES AGENCY
Agency System Subordinate Debt Coverage Ratio
For the Fiscal Year Ended June 30, 2006
(With Comparative Totals for the Fiscal Year Ended June 30, 2005)

	<u>2005/06</u>	<u>2003/04</u>
Funds available for coverage		
Net income	\$6,173,641	\$37,876,011
Less: Wasterwater capital connection fees	(20,895,635)	(27,957,765)
Add: Interest on long-term debt	7,795,856	7,136,951
Depreciation and Amortization	18,717,996	16,300,401
	<u>\$11,791,858</u>	<u>\$33,355,598</u>
 Total funds available for coverage		
	<u>\$11,791,858</u>	<u>\$33,355,598</u>
 Debt service payments		
Interest expense	\$2,759,643	\$7,298,580
Principal payments	2,465,000	4,377,921
	<u>\$5,224,643</u>	<u>\$11,676,501</u>
 Total debt service		
	<u>\$5,224,643</u>	<u>\$11,676,501</u>
 Debt coverage ratio		
	<u>2.26</u>	<u>3.92</u>

In July 2003, the Agency issued the Chino Basin Regional Financing Variable Rate Demand Revenue Bonds (Inland Empire Utilities Agency), Series 2002A. This issuance is subordinate to the pledge thereon securing the outstanding 1994 & 1999 Revenue Bonds. Pursuant to the 2002 Installation Purchase Agreement, the debt ratio must be at least 1.2 times the sum of all obligation service on all parity and subordinate debt. The Agency met this requirement with a ratio of 2.26 and 3.92 for Fiscal Years Ended June 30, 2006, and June 30, 2005, respectively.

INLAND EMPIRE UTILITIES AGENCY
Wastewater Revenue Funds' Capital Requirements
'For the Ten Fiscal Years Ending June 30, 2015*
'(Dollars in Thousands)

<u>Project Description</u>	<u>Actual Thru</u>	<u>Projected</u>	
	<u>05/06</u>	<u>06/07</u>	<u>07/08</u>
Replacement Projects			
RP1-Condition Assessment	\$0	\$3,500	\$3,500
Regional Facility Chemical & Control Automation	0	947	5,367
Various Replacement Projects	4,075	8,477	2,315
Total Replacement Projects	4,075	12,924	11,182
Equipment Projects			
Install Blower #4 at RP-1	27	826	0
Various Equipment Projects	1,104	681	0
Total Replacement Projects	1,131	1,507	0
Construction Projects			
RP5 Phase II Expansion	1	1,915	4,603
RP4: Energy Load Reduction Facilities	10,012	0	0
Complete Mix Digestion Technology	468	4,235	0
Chino Creek Park	948	2,923	0
San Bernardino Ave. Pump Station	429	13,000	300
RP5 Renewable Energy Generation Efficiency Project	5,346	15,655	0
RP4- Liquids Expansion to 14 MGD	24,967	20,000	0
RP5 System Facility Upgrade & Improvement	3,615	9,788	1,408
RP1 Dewatering Facilities Expansion	29	2,300	8,513
Westside Interceptor	0	0	0
New Operations Laboratory	0	0	0
RP1 Secondary Treatment System Modifications	0	0	0
RP1 Facilities Improvements	0	2,158	8,413
Upland Interceptor Relief, Phase II	844	13,780	0
RP1 & RP2 Digester Gas System Modification	806	1,500	6,229
RP5 Warehouse/Maintenance Facility	0	0	0
CCWRF Aeration System Modification	832	2000	2,200
CCWRF Filter & Contact Tank Exchange	279	1,000	4,500
RP1 Odor Control - Phase I	2,957	3,317	0
RP1 to RP5 By Pass	23,900	750	0
RP1 3-Phase Digestion Improvement	561	2,724	908
RP1 Modernization	132	0	0
RP4 Land Acquisition	2,017	1,853	0
Various Construction Projects	28,600	6,411	2,377
Total Construction Projects	106,743	105,309	39,451
Total Projected Capital Costs	\$111,949	\$119,740	\$50,633

* Source: Projections were derived from the IEUA Ten Year Capital Improvement Plan.
As of the date of this publication, the most current Ten Year Capital Improvement
Plan provides projections through the Fiscal Year 2014/15.

INLAND EMPIRE UTILITIES AGENCY
Wastewater Revenue Funds' Capital Requirements
For the Ten Fiscal Years Ending June 30, 2015* (continued)
(Dollars in Thousands)

Projected							Total
08/09	09/10	10/11	11/12	12/13	13/14	14/15	
\$2,900	\$2,900	\$2,800	\$2,500	\$2,500	\$2,500	\$2,231	\$25,331
0	0	0	0	0	0	0	6,314
2,677	6,378	1,255	0	161	919	166	26,423
5,577	9,278	4,055	2,500	2,661	3,419	2,397	58,068
0	0	0	0	0	0	0	853
254	0	345	0	0	0	0	2,384
254	0	345	0	0	0	0	3,237
21,630	21,630	16,222	0	0	0	0	66,001
0	0	0	0	0	0	0	10,012
0	0	0	0	0	0	0	4,703
0	0	0	0	0	0	0	3,871
0	0	0	0	0	0	0	13,729
0	0	0	0	0	0	0	21,001
0	0	0	0	0	0	0	44,967
0	0	0	0	0	0	0	14,811
0	0	0	0	0	0	0	10,842
0	0	500	5,000	10,500	4,000	0	20,000
0	0	0	15,500	4,500	0	0	20,000
0	0	0	0	500	1,500	12,600	14,600
4,547	133	0	0	0	0	0	15,251
0	0	0	0	0	0	0	14,624
0	0	0	0	0	0	0	8,535
0	0	0	0	500	2,500	2,978	5,978
2,200	0	0	0	0	0	0	7,232
4,500	234	0	0	0	0	0	10,513
0	0	0	0	0	0	0	6,274
0	0	0	0	0	0	0	24,650
0	0	0	0	0	0	0	4,193
0	0	90	0	0	2,161	2,161	4,544
0	200	2,000	1,860	0	0	0	7,930
2,310	4,872	2,601	2,532	1,105	3,344	9,593	63,745
35,187	27,069	21,413	24,892	17,105	13,505	27,332	418,006
\$41,018	\$36,347	\$25,813	\$27,392	\$19,766	\$16,924	\$29,729	\$479,311

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

Fiscal Year	CVWD*	Chino	Chino Hills	Fontana
1996/97	10,146,157	3,624,144	11,262,056	11,589,567
1997/98	8,355,789	2,508,563	7,125,472	9,672,510
1998/99	8,236,580	2,273,096	6,988,151	10,467,774
1999/00	11,609,500	2,970,900	8,341,223	14,805,620
2000/01	13,715,384	2,288,452	5,190,571	12,556,458
2001/02	5,265,645	1,273,911	1,426,677	4,069,138
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
Percentage	29.8%	17.2%	4.5%	28.2%

Wastewater Capital Connection Fee Agreement

On April 12, 1984, an Amendment was made to the Chino Basin Regional Sewage Service Contract (the 1984 Amendment), 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. 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. Such funds deposited into the Capital Capacity Reimbursement Account 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 Contributions which will be necessary for each Contracting Agency to contribute in order for IEUA to maintain a minimum Regional Wastewater Capital Improvement Fund balance of \$1,000,000.

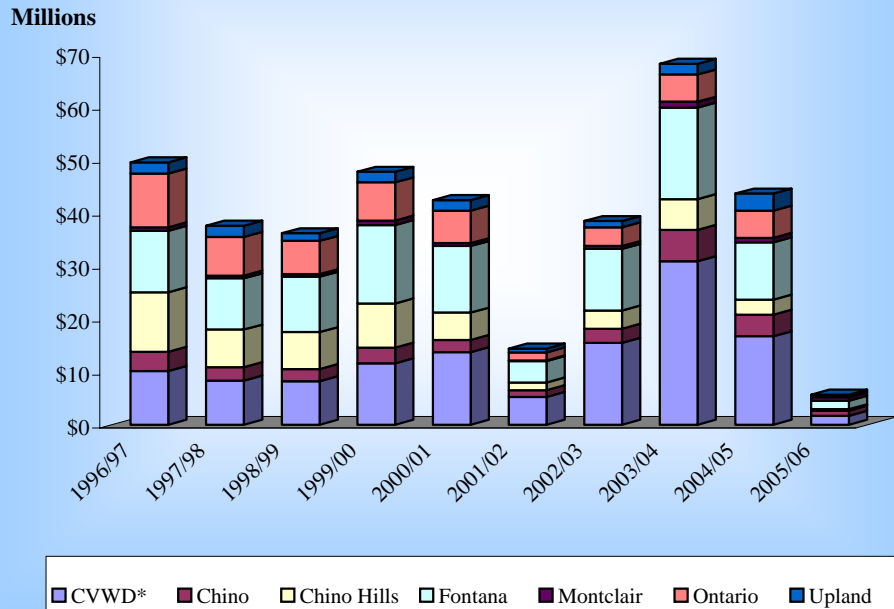
Connection fee payments to IEUA are calculated based on the percentage of each Contracting Agency's Reimbursement Account balance relative to the total balance of all Contracting Agency held funds. That percentage is then utilized to calculate each Contracting Agency's (pro rata) contribution of an IEUA "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 fiscal year 2005/06 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
1996/97	660,089	10,158,646	2,144,114	49,584,773
1997/98	510,257	7,296,189	2,144,114	37,612,894
1998/99	483,396	6,279,099	1,449,551	36,177,647
1999/00	827,955	7,236,695	1,991,221	47,783,114
2000/01	561,524	6,144,974	1,991,221	42,448,584
2001/02	100,714	1,517,605	734,711	14,388,401
2002/03	560,484	3,531,167	1,177,653	38,478,058
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
Percentage	11.4%	4.3%	4.6%	100.0%

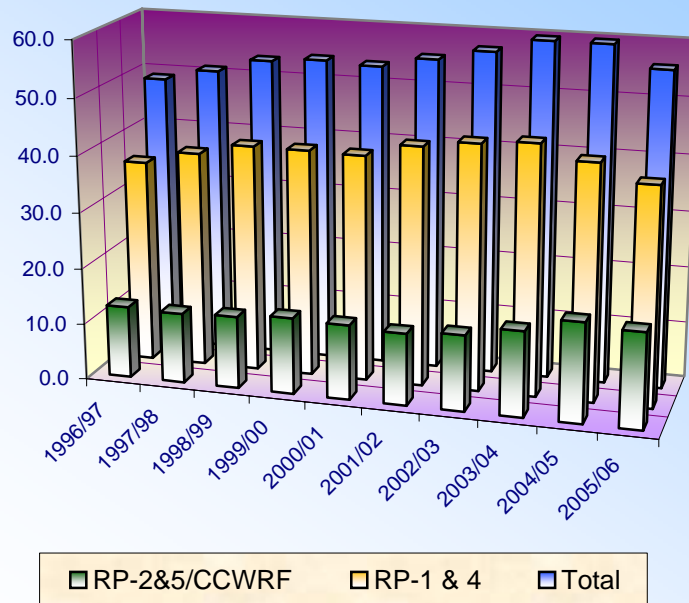
**Contracting Agencies Wastewater Capital
Connection Fee Deposits Held**
For the Past Ten Fiscal Years



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

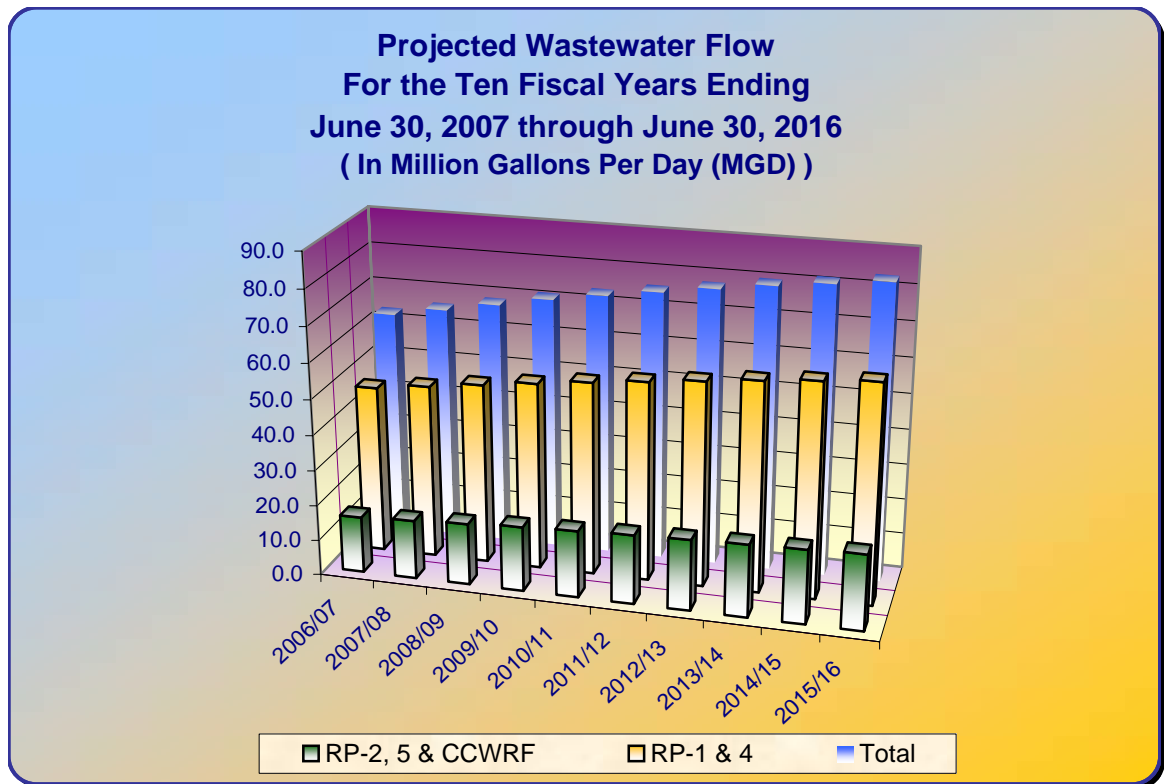
Fiscal Year	RP-1 & 4 (MGD)	RP-2&5/CCWRF (MGD)	Total (MGD)
1996/97	36.1	12.8	48.9
1997/98	38.4	12.5	50.9
1998/99	40.4	12.9	53.3
1999/00	40.4	13.6	54.0
2000/01	40.2	13.3	53.5
2001/02	42.5	12.8	55.3
2002/03	43.7	13.5	57.2
2003/04	44.4	15.2	59.6
2004/05	41.9	17.7	59.6
2005/06	38.8	17.0	55.8

Actual Wastewater Flow
For the Past Ten Fiscal Years
(In Million Gallons Per Day (MGD))



INLAND EMPIRE UTILITIES AGENCY
Operating Indicator - Projected Wastewater Flow
For the Ten Fiscal Years Ending June 30, 2007 through June 30, 2016*
(In Million Gallons Per Day (MGD))

Fiscal Year	RP-1 & 4 (MGD)	RP-2, 5 & CCWRF (MGD)	Total (MGD)
2006/07	47.6	17.1	64.7
2007/08	48.9	18.7	67.6
2008/09	49.8	20.4	70.2
2009/10	50.8	22.0	72.8
2010/11	51.6	23.3	74.9
2011/12	52.5	24.5	77.0
2012/13	53.2	25.6	78.8
2013/14	54.0	26.6	80.6
2014/15	54.7	27.6	82.3
2015/16	55.4	28.6	84.0

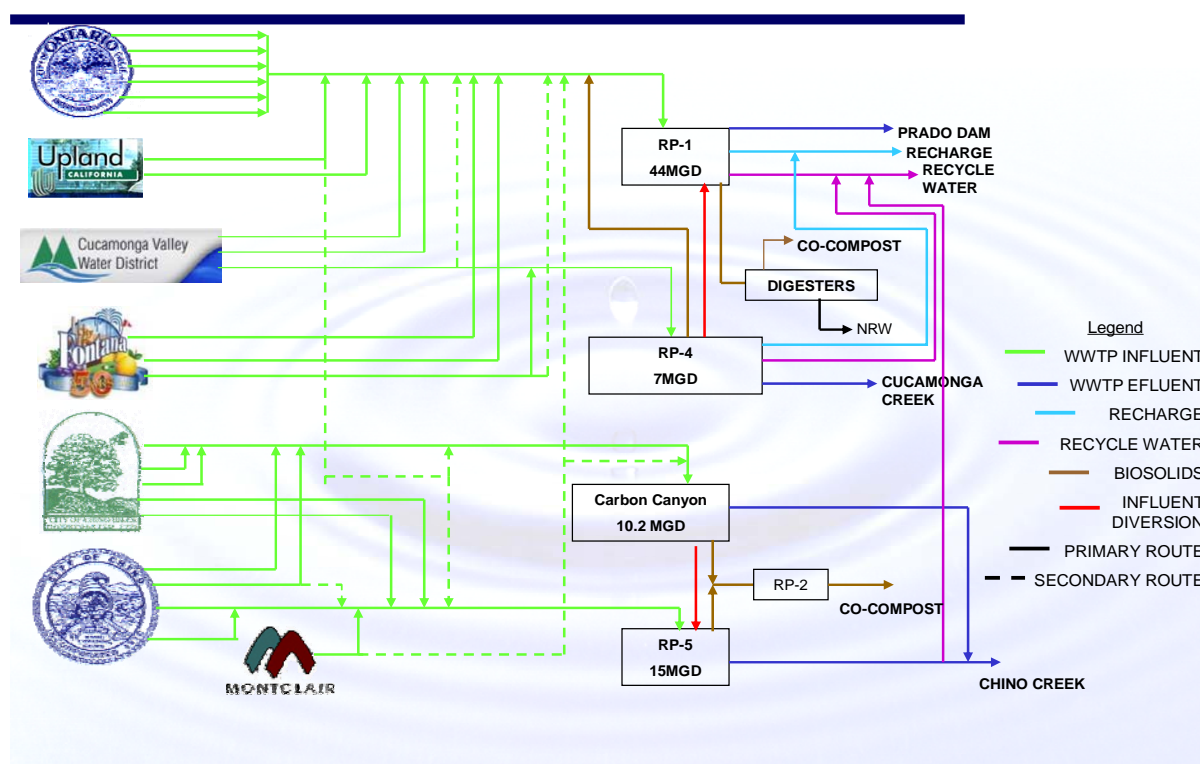


* Source: Statistics were derived from IEUA Ten Year Capital Plan.

INLAND EMPIRE UTILITIES AGENCY **Operating Indicators - Wastewater Facilities -** **Design Capacity and Average Flow** **As of June 30, 2006**

Currently, the Agency operates five wastewater treatment plants: Regional Plant No. 1 (RP-1) is located in the City of Ontario, Regional Plant No. 2 (RP-2) is located in the southern area of the City of Chino, 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 System

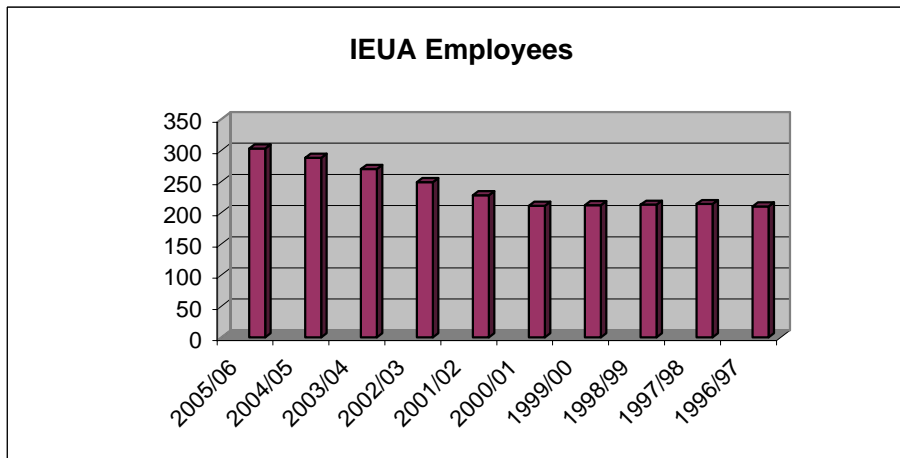


The following table presents the current design capacities and flows of the Agency's wastewater treatment as of June 30, 2006:

Facility	Design Capacity (MGD)	Average Flow (MGD)	Average Flow as % of Design Capacity
RP-1	44.0	39.6	90.9%
RP-2/RP-5	15.0	8.1	54.0
RP-4	7.0	2.3	32.9
CCWRF	11.4	9.6	84.2
Total	77.4	59.6	77.0 %

INLAND EMPIRE UTILITIES AGENCY
Operating and Capacity Indicators
For the Past Ten Fiscal Years

<u>Fiscal Year</u>	<u>Number of Employees</u>
2005/06	303
2004/05	288
2003/04	270
2002/03	249
2001/02	228
2000/01	211
1999/00	212
1998/99	213
1997/98	214
1996/97	210



The chart and table above reflect the number of employees at fiscal year end employed by the Inland Empire Utilities Agency for the past ten years.

Pipeline System

	<u>Miles</u>	<u>Percentage</u>
Regional Domestic Sewer	86.60	41.49%
NRW Lines	65.72	31.48%
SARI Lines	4.91	2.35%
Desalter Lines	3.96	1.90%
Recycled Water Lines	47.55	22.78%
TOTAL	<u>208.74</u>	<u>100.00%</u>

Note: No data available prior to current year.

INLAND EMPIRE UTILITIES AGENCY
Operating Indicators
FY 2005/06 Staffing Allocations
As of June 30, 2006

Total staffing positions: 303

FTE

Regional Operations	144.5
Regional Capital Programs	52.2
Recycled Programs	18.7
IERCA Operations	13.0
NRWS Programs	12.7
Desalter Operations & Capital Programs	7.2
Recharge Water Programs	6.7
Composting/Organics Management Programs	6.3
RP5 Digester Capital	6.2
Water Related Activities & Conservation Programs	2.3
General Administration	6.2
Total Staffing in FTE *	276

Source: IEUA FY 2005/06 Adopted Budget

The above allocations are based on the FY 2005/06 labor distribution for all departments and staffing positions.

Budgeted employee = 303, FTE = 276

Remaining 27 FTE represents staff time allocated for estimated vacation, sick leave, training, and safety training:

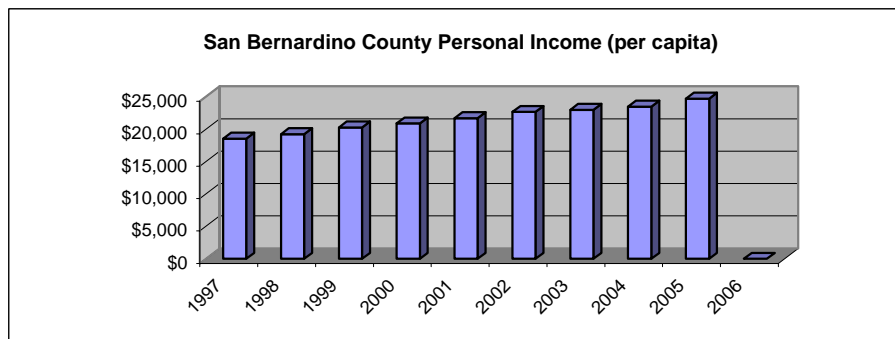
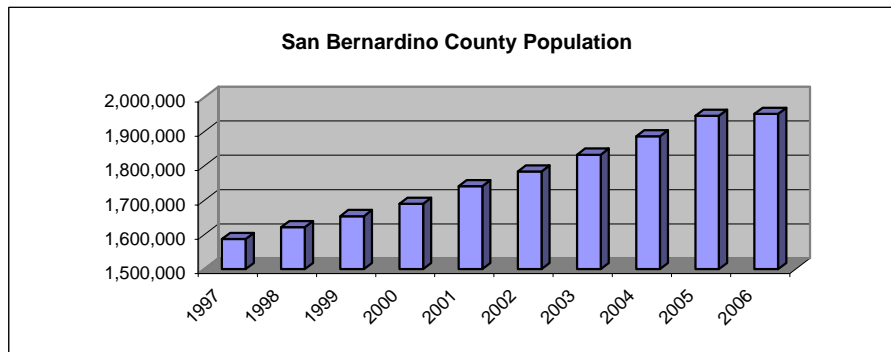
Average range -
 Vacation leave: 10 to 20 days
 Holidays: 10 to 12 days
 Sick leave: 8 to 10 days
 Training 2 to 6 days
Safety 2 to 4 days
Total 32 to 53 days

Remaining days for leaves = 7022 days/303 employees
 = 23 days per employee

****FTE- Full Time Equivalent***

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

San Bernardino County (1)			
Year	Population	Personal Income (thousands of dollars)	Personal Income (per capita)
1997	1,587,400	\$29,449,680	\$18,552
1998	1,621,900	31,179,596	19,224
1999	1,654,007	33,523,751	20,268
2000	1,689,600	35,314,519	20,901
2001	1,741,100	37,772,136	21,694
2002	1,783,656	40,431,224	22,668
2003	1,833,000	42,140,603	22,990
2004	1,886,500	44,290,373	23,478
2005	1,946,200	48,116,593	24,723
2006 (2)	1,952,000	N/A	N/A



Notes:

1. The Agency has chose to use the County data since it believes that the County data is representative of the conditions and experience of the Agency.
2. N/A - Data not available for the time period.

INLAND EMPIRE UTILITIES AGENCY
Demographic and Economic Statistics
As of June 30, 2006

Area's largest public and private employers:

FIRM	LOCATION	NUMBER OF EMPLOYEES
Ontario International Airport	Ontario	6,200
Kaiser Medical Center	Fontana	5,400
United Parcel Service	Ontario	4,000
Fontana Unified School District	Fontana	3,300
Chino Unified School District	Chino	3,000
San Antonio Community Hospital	Upland	1,950
California Institution for Men	Chino	1,900
North American Medical Management	Ontario	1,300
Target Distribution Center	Fontana	1,200
California Steel Industries	Fontana	1,000

Sources: San Bernardino Area Chamber of Commerce



Inland Empire Utilities Agency

A MUNICIPAL WATER DISTRICT

6075 Kimball Avenue
Chino, CA 91708
(909) 993-1600 · Fax: (909) 357-3870

Mailing Address
Post Office Box 9020
Chino Hills, CA 91709