



**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED
JUNE 30, 2007**



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, 2007

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

** a municipal water district*



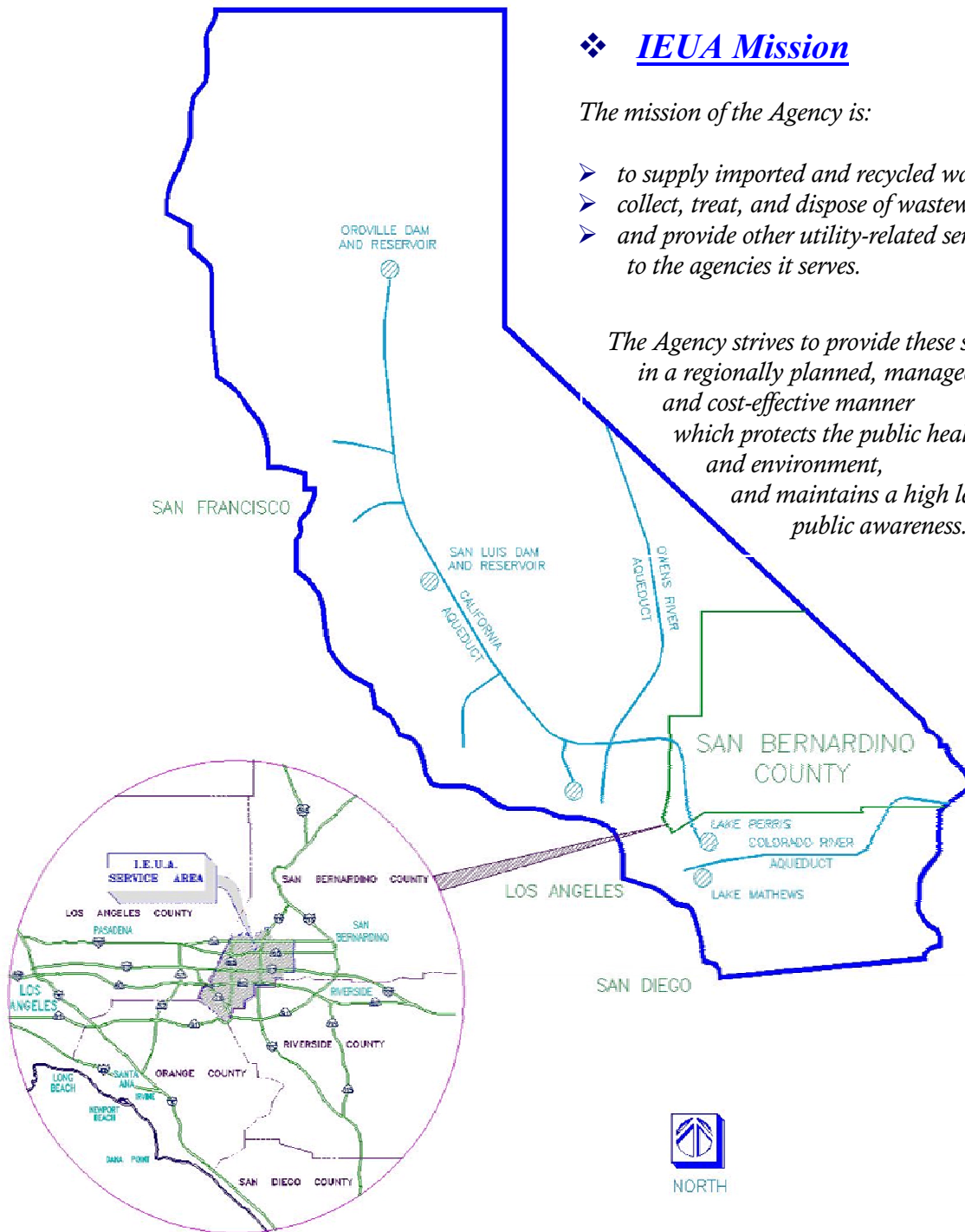
INLAND EMPIRE UTILITIES AGENCY

❖ 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, 2007

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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.



Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

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

December 19, 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, 2007. 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, 2007. 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 Statement #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. This section is now prepared in accordance with GASB Statement #44 requirements to include certain economic conditions within which the Agency operates.

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

Wyatt L. Troxel
President

Terry Catlin
Vice President

Gene Koopman
Secretary/Treasurer

Angel Santiago
Director

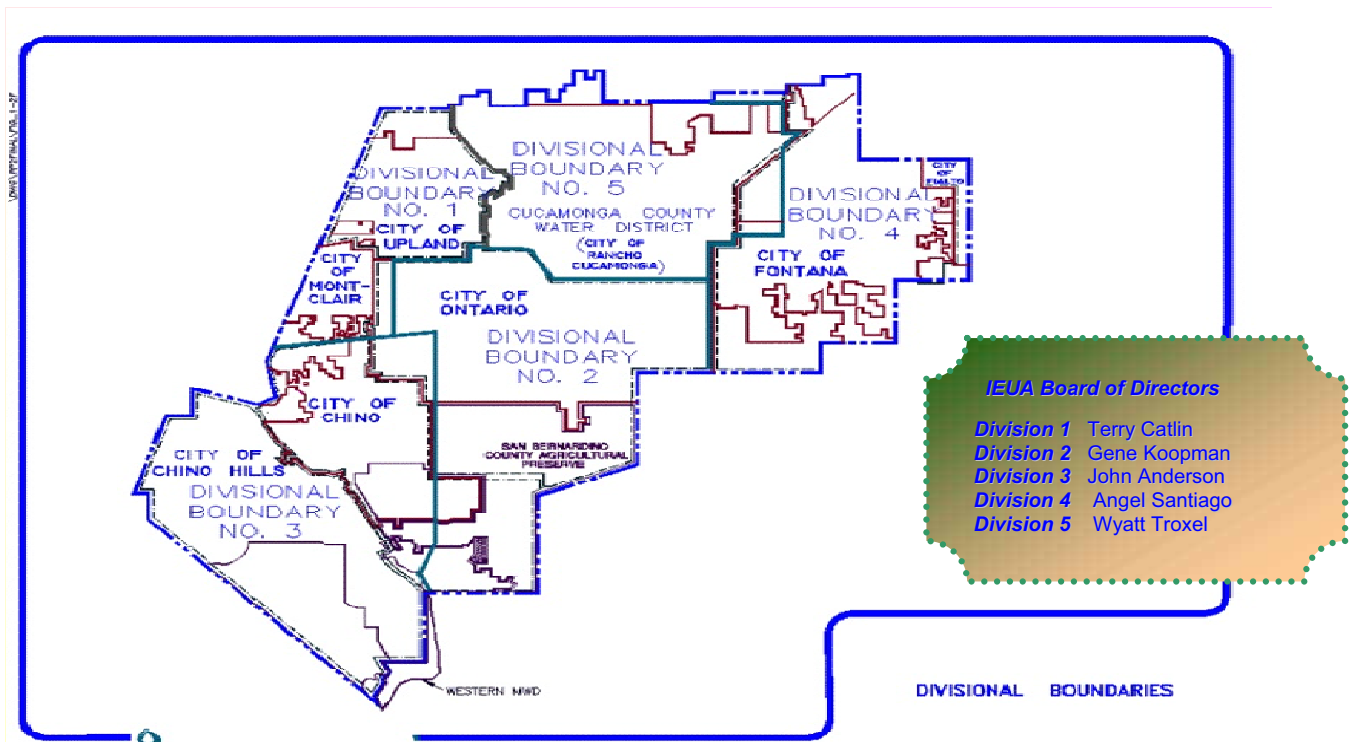
John L. Anderson
Director

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 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 40.4 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 10.2 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 7.2 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 6.9 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.

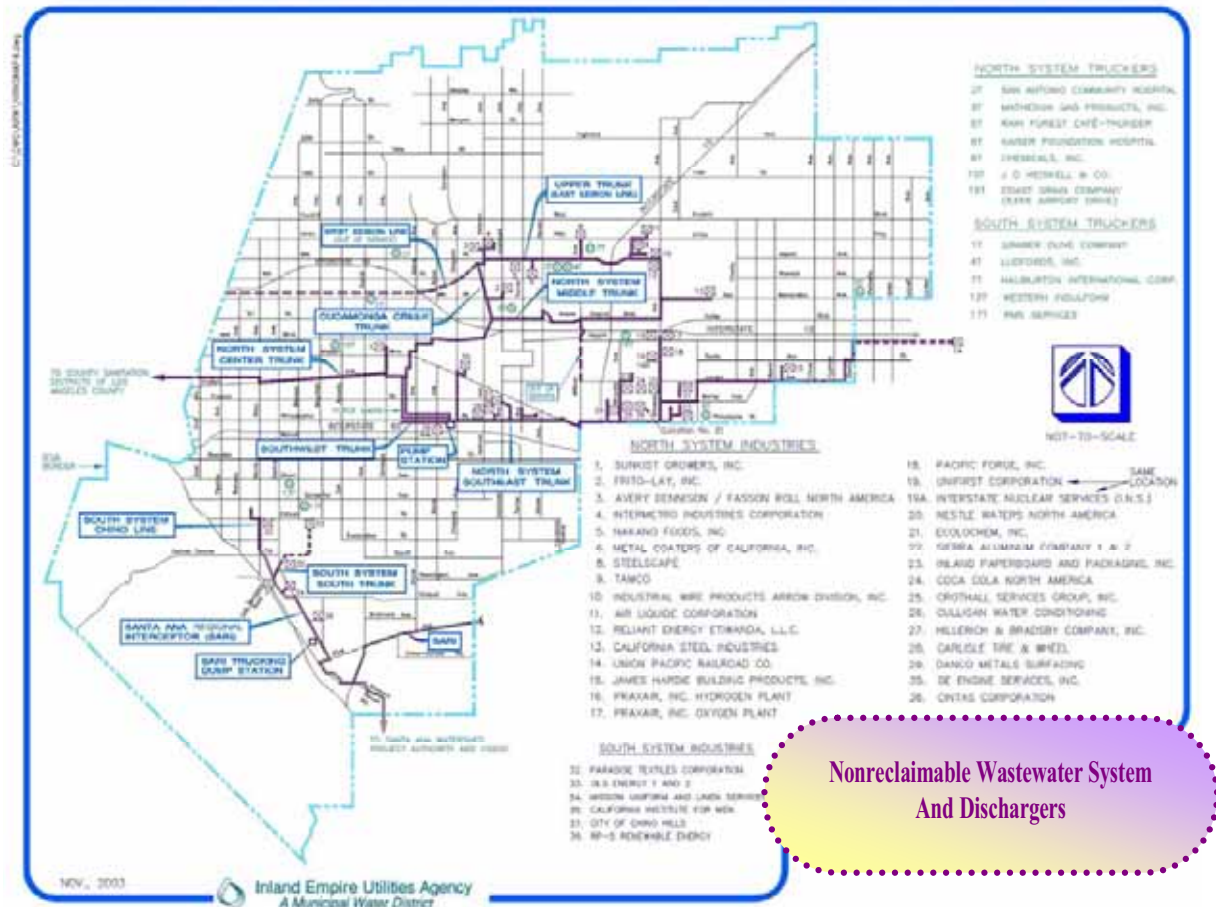
As of June 30, 2007, 56 companies discharged industrial wastewater to the Agency's Nonreclaimable Wastewater System. Some of the largest companies are California Steel Industries, Inland Paperboard and Packaging Inc., Frito Lay Inc., Mission Linen Companies, Crothall/Tartan Textile Services (Westar Linen), 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 15 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.

*December 19, 2007
To the President and Members of
The Board of Inland Empire Utilities Agency*

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). The Agency's has replaced the existing facility with an indoor composting facility constructed by the RCA. The new facility started operation in March of 2007. The previous composting site was sold to a local developer.

Economic Condition and Outlook

Fast Facts

Looking ahead, the Inland Empire (IE) region continues to be a vibrant economy. Developers remain optimistic despite the increased foreclosures in both Riverside and San Bernardino counties. A surge in construction completions has nudged the vacancy rate for commercial properties to 9.3% - up from 7.6% from the previous year. The long term forecast still points to IE to generate more jobs. This trend will continue in the future for both white and blue collar workers. Concurrently, population growth will sustain demand on housing, utilities, transportation, and public infrastructure.

What does this mean to those residing in the Inland Empire region? It means a higher demand on energy and utilities. IEUA will continue to strive to provide cost effective water and wastewater utility services.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

Fiscal year 2006/07 was another busy year for IEUA. The Agency opted to issue commercial paper. Total capital expenditures came to \$95.7 million. The completion of some of the major projects include: The Design and Construction of the Fully Enclosed Regional Composting Facility; Recycled Water System for the Etiwanda Power Plant; RP-1 Digesters 5, 6, and 7 Seismic Retrofit; Groundwater Hydraulic Monitoring Wells; and the Recharge Capital Improvement Project, Phase I. The Enterprise Resources Planning (ERP) project entered into the implementation phase with the aid of a team of external consultants. Phase I of the ERP project went 'LIVE' in the beginning of fiscal year 2007/08. The highlights of major activities and accomplishments are as follows:

Major Accomplishments for FY 2006/2007

- IEUA appeared on the U.S. Environmental Protection Agency's (EPA) top 10 list of local government Green Power Partners. The top 10 list highlights local government agencies within EPA's Green Power Partnership that have purchased or generated renewable energy.
- Completed the Garden in Every School Program promoting California friendly landscapes and coordinated garden dedication ceremonies with the seven participating schools.
- Finalized the accounting for the Groundwater Recharge Improvement Project Phase I which resulted in \$19.7 million going to participating government agencies as contribution in aid.
- Executed contracts simultaneously with a major ERP software company (SAP) and an Implementation Partner to begin Phase I of the ERP project. SAP went 'LIVE' on July 2, 2007.
- The Agency secured commitments for the following grants/State Revolving Loans applications which include: 1) \$1.0 million from the State Water Resources Control Board for the Magnolia Channel Project; 2) \$14.8 million from State Water Resources Control Board for the Recycled Water Distribution System, Phase II.

Future Years

Since record drought conditions have been experienced in the region, the Agency's priorities remain focused on the Urban Water Management Plan to assure reliable water supply in future years. Utilizing the Agency's drought groundwater storage account with Metropolitan Water District of Southern California, increasing recycled water use and promoting additional conservation measures will be critical to assuring adequate supply to our 800,000 residents. Meeting this challenge will be the goal of this Agency for many years to come.

Vision

The IEUA's vision statement states that the Agency will strive to enhance the quality of life in the Inland Empire by providing the optimum water resources management for our customers while promoting conservation and environmental protection.

This vision statement unequivocally states the Agency's intent to be a major contributor to an improved life for the residents it serves. Water is one of our most valuable resources, and in fact, has been described as "liquid gold". The Agency is in a position to ensure that this valuable resource is protected from contamination and waste, and is available in sufficient quantities to meet area needs. It commits the Agency to efficiently and effectively manage the assets with which it is entrusted.



IEUA will continue to stay focused and be aggressive in the following programs: 1) Groundwater Management; 2) Water Recycling; 3) Organics Management; 4) Self generating Energy, and 5) Water Conservation.

- Adopt a 3-year Recycled Water Implementation Plan and work with contracting agencies to attain the goal of reaching 50,000 acre feet of recycled water capacity by 2009/10.
- Major regional capital improvements include the following projects:
 1. Upgrade at Regional Plant No. 5 to increase treatment process performance and capacity.
 2. Complete the Regional Plant No. 5 Renewable Energy Generation Efficiency project to reduce the Agency's purchase of electrical power.
 3. Complete the Solid Handling Facility Phase II at Regional Plant No. 5.
- Complete Phase II of the ERP project implementation to include Budget Preparation and Human Resources/Payroll.
- 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.*

All cash and investment transactions are conducted in accordance with the Agency's 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.

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, 2006. This was the ninth consecutive year the Agency has received this prestigious award.

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

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

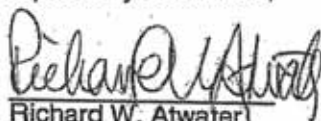
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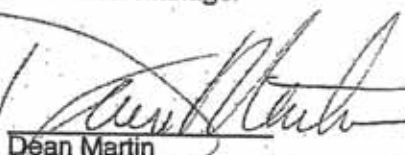
The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the Agency's Finance and Accounting Department. We also would like to express our appreciation to the other Agency Departments for their cooperation, assistance and support.

We further acknowledge the thorough and professional manner in which our auditors, Mayer Hoffman and McCann P.C. 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, 2006

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.

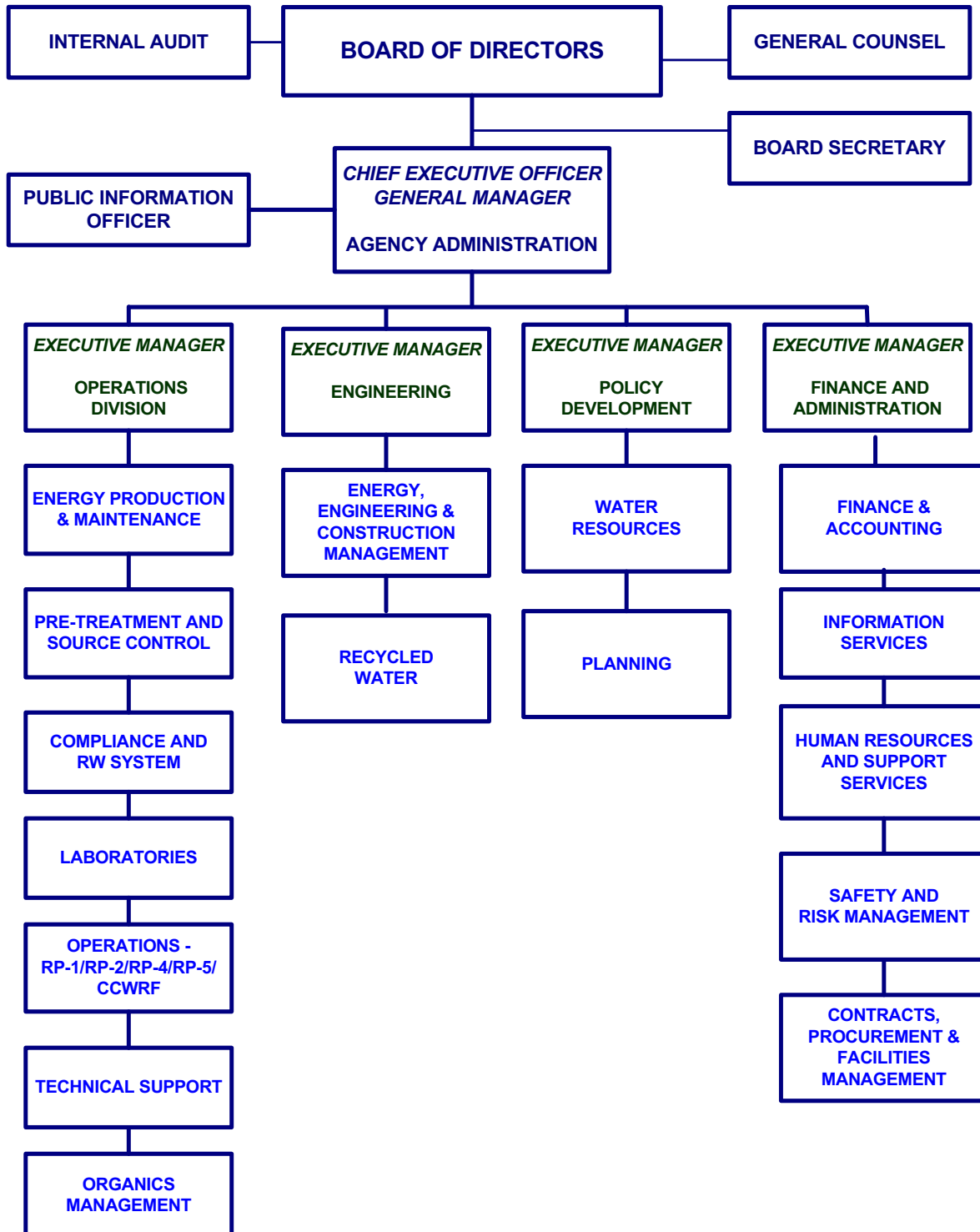


Charles S. Cox
President

Jeffrey R. Enen
Executive Director

INLAND EMPIRE UTILITIES AGENCY

FY 2006/07 ORGANIZATIONAL CHART



INLAND EMPIRE UTILITIES AGENCY

Principal Officials

June 30, 2007

BOARD OF DIRECTORS

| | |
|-------------------------|----------------------------|
| Wyatt Troxel | <i>President</i> |
| Terry Catlin | <i>Vice President</i> |
| Gene Koopman | <i>Secretary/Treasurer</i> |
| John L. Anderson | <i>Director</i> |
| Angel Santiago | <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> |
| 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 RW System</i> |
| Amy Thenor | <i>Manager - Human Resources and Support Services</i> |
| Teresa Velarde | <i>Interim Manager of Internal Audit</i> |
| David R. Wall | <i>Manager - Construction Management</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 2006/2007:

First Half FY 2006/2007

Finance/Administration

Khanh Doan – Lead System Application Analyst

Engineering/Planning

Kathy Tiegs – Sr. Water Resource Analyst

Operations

Art Maldonado – Instrument Technician II

Second Half FY 2006/2007

Finance/Administration

Jason Gu – Grants Officer

Engineering/Planning

Lisa Perales – Water Resource Analyst

Operations

Barry Kehl – Groundwater Maintenance Superintendent

★ **Employee of the Year** ★

For the Fiscal Year 2006/2007, **Khanh Doan**, *Lead Application Systems Analyst*, was chosen by the Selection Committee as the Employee of the Year.

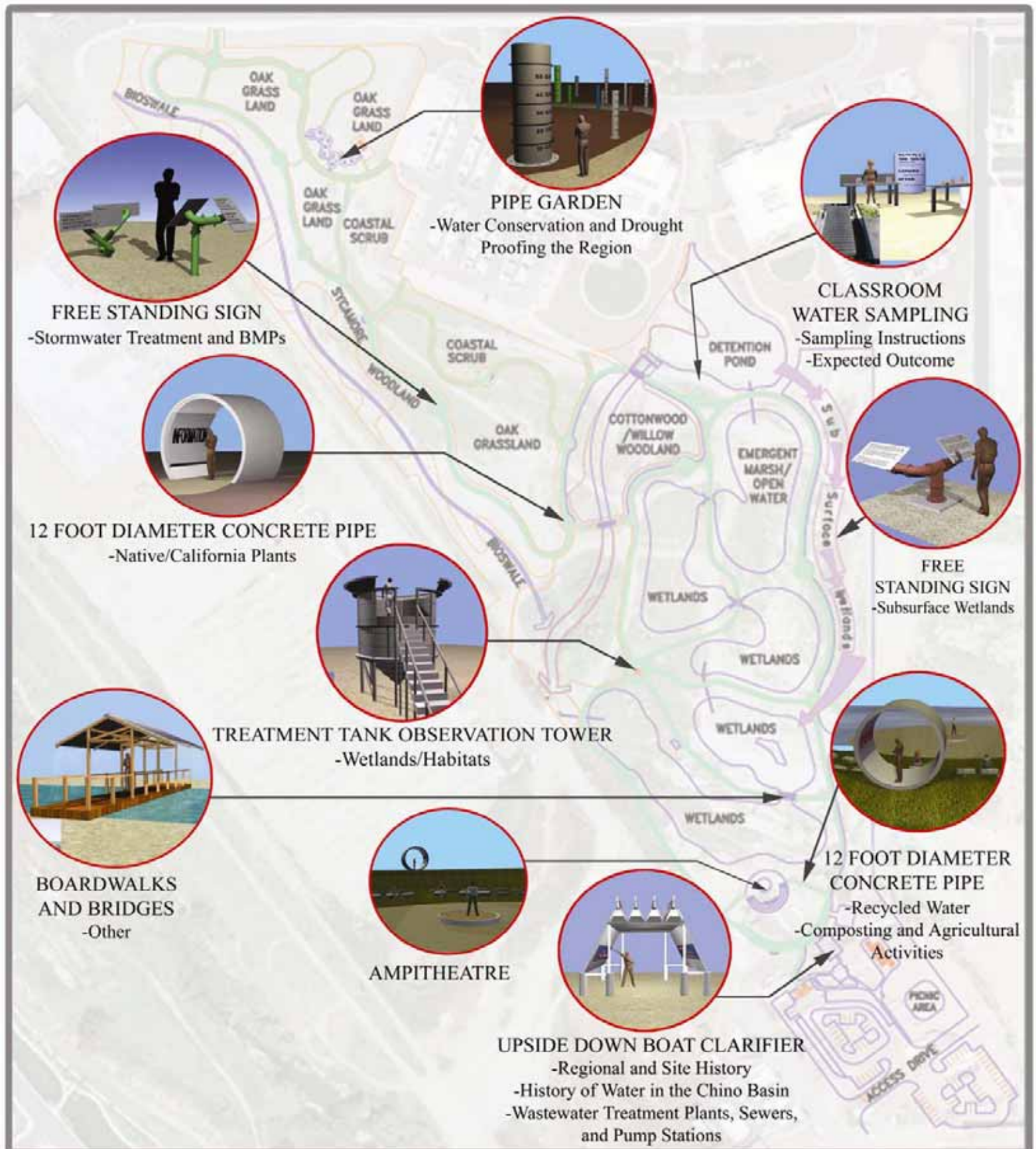
*IEUA Star Award Recipient
Employee of The Year 2006/2007*



Khanh Doan
Lead Application Systems Analyst

Khanh Doan began his employment with the Agency in 1989 and has held the position of Assistant Chemist, Application System Analyst and is currently Lead Applications System Analyst. Khanh has been referred to as the “sparkplug” within his Department, and is often the motivating force behind the morale raising events within his Department. He is a one-man PR agency for the IS Department, and is very effective in enhancing IS’s relationships to Operations, the Laboratory and Maintenance. Khanh’s leadership ability reflects in his training of existing staff in preparation of backfilling positions vacated by the AWSM project. Though his duties and accomplishments are many, Khanh continues to be a key element in the continued success of the IS Department and his performance continues to exceed the standard. He is a team player not only within his Department, but within the Agency as well.

IEUA's Chino Creek Wetlands and Education Park
Education and Community Outreach Program



This Park is being partially funded by the State Water Resources Control Board (\$1.2 Million)



Mayer Hoffman McCann P.C.

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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, 2007, 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 partial comparative information has been derived from the financial statements of the Agency for the year ended June 30, 2006 and, in our report dated October 20, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2007, 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.

As described further in Note 1, during the year ended June 30, 2007, the Agency implemented the provisions of GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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 December 10, 2007, 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.

Mayer Hoffman McCann P.C.

Irvine, California
December 10, 2007

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, 2007. 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.

Total revenues for fiscal year 2006/07 increased significantly over the past year as a result of the end of State mandated property tax shift. Total revenues were \$79.8 million with property tax revenue increase of \$11.0 million leading the way. The other two significant increases related to the Regional Sewage Treatment program – connection fee jumped \$3.8 million while EDU service charges increased by \$2.9 million. Both revenues experienced a 5% and 10% rates increase respectively in the year. Capital spending set a record high of \$95.7 million.

FINANCIAL HIGHLIGHTS

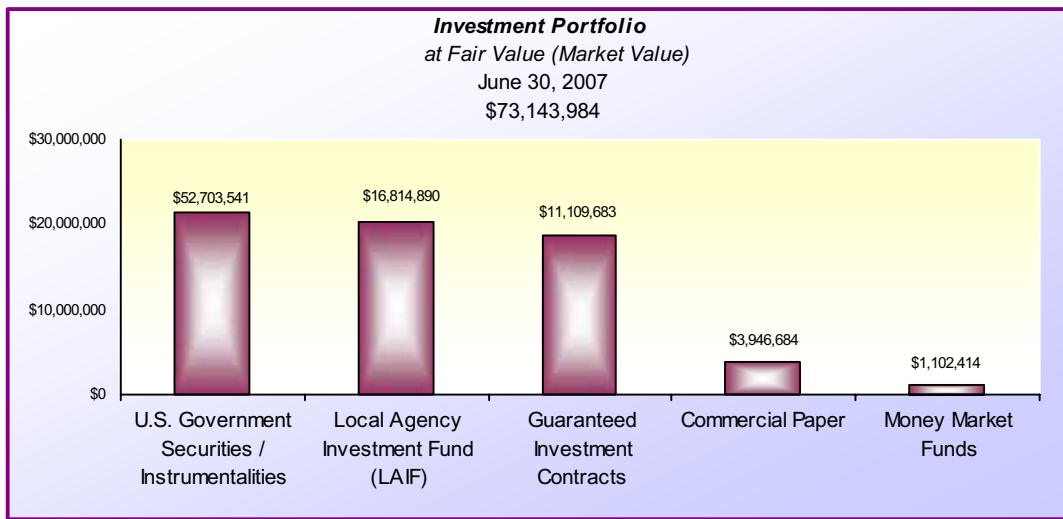
Cash and Investment Management

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, 2007 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.

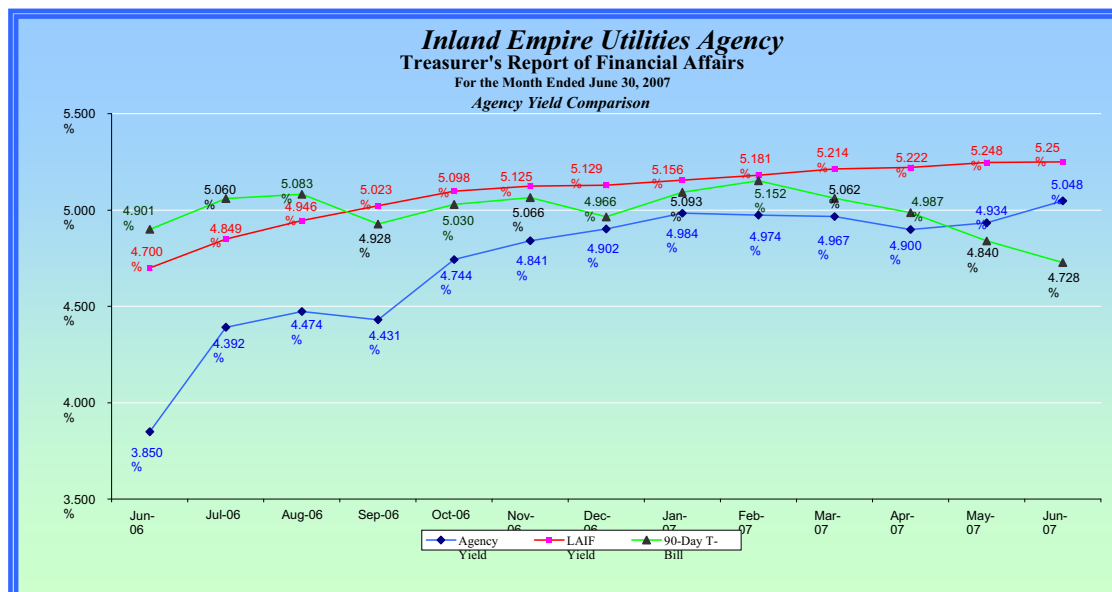
Cash and Investment Management (continued):

Investment Portfolio Performance

Interest income for fiscal year 2006/07 totaled \$5,324,853. The Agency's portfolio fund balance for the fiscal years ended June 30, 2007 and 2006 were \$73,143,984 and \$80,628,114, 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.



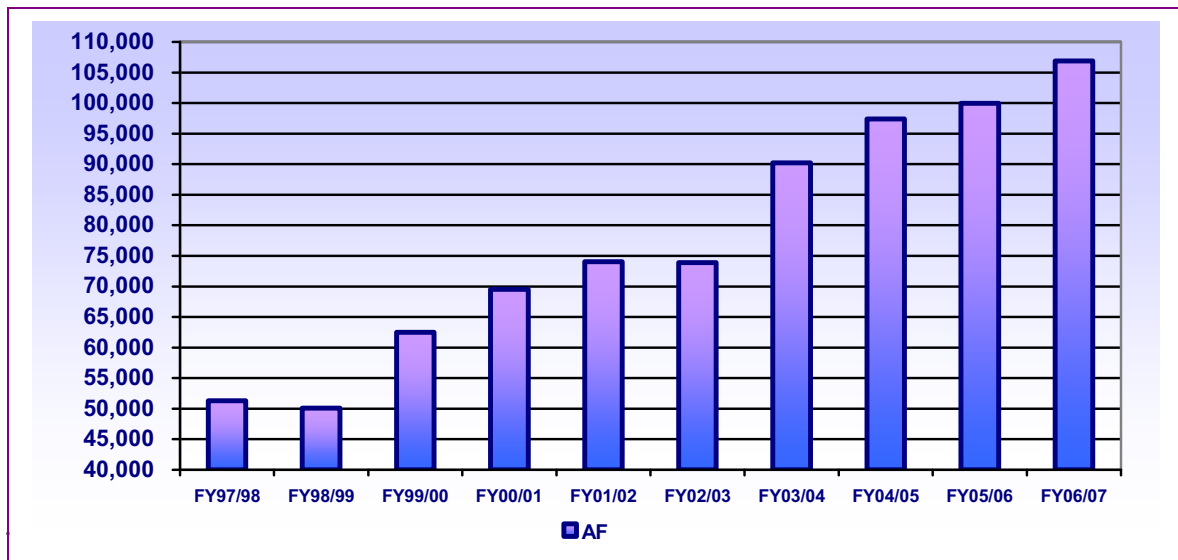
Year-End portfolio earnings rates for fiscal years 2006/07 and 2005/06 were 5.048% and 3.85%, respectively.

FINANCIAL HIGHLIGHTS (continued):

Water Deliveries

Total imported water deliveries for fiscal year 2006/07 were 106,892 acre feet (AF) against a budgeted total of 100,000 AF. The fiscal year 2006/07 AF surcharge levied by IEUA to member agencies remained at \$9.00/af. The total operating revenue was \$1,831,429 compared to \$2,120,666 for last fiscal year. The decrease was due to MWD's credits accrued for FY05/06 in the amount of \$278,520. In FY06/07 all conservation programs were recorded as operating expenses. Total operating expenses increased from \$1,036,303 to \$2,989,699 as a result of two major projects: 1) Ultra Flow Toilet Direct Installation program and 2) the Retrofitting of Flush Valves at the California State Prison in Chino. The increase in expenses was offset by grant funding from both MWD and the State. Total grant funding recorded was \$2.4 million dollars. Total non-operating revenue recorded a significant increase from \$176,080 in FY05/06 to \$1,100,775 in FY 06/07. The primary contributor for this increase was a higher credit from MWD on Ultra Low Flush Toilets. With fund transfer from Regional fund to support conservation programs, and the increase in grant funding, the Water Fund recorded an increase in net assets of \$563,823 in FY06/07.

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.

FINANCIAL HIGHLIGHTS (continued):

Water Deliveries (continued):

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 to 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 2006/07, the conservation programs distributed and/or rebated 10,313 ULF toilets and issued 1,320 residential high efficiency clothes washer rebates.

Recycled Water Sales

Recycled water recorded sales of \$1,147,241 in FY 05/06 and \$3,253,546 in FY 06/07, respectively. This was an increase of \$2,106,305, or 183.6%, over last fiscal year. Total sales were 10,031 AF compared to 8,847 AF for last fiscal year. The Agency also received subsidy from Metropolitan Water District of Southern California (MWD) for recycled water sales above 3,500 AF at \$154 per acre foot. Total receipts from MWD for the fiscal year were \$1,005,805. Capital grants receipts increased by \$2,178,876 to \$6,599,108 in support of the Regional Recycled Water Expansion program. Total operating expenses were \$3,322,719 including \$789,827 of depreciation.

Total net assets for FY 06/07 increased by \$17,463,059 as a result of the additional grant funding and inter-fund transfer from the Regional Capital Improvement fund. At June 30, 2007, the balance of net assets was \$41,486,511.

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, 2007, recycled water projects under construction total \$54 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.

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 2006/07, the total amount billed and reimbursed was \$1,207,628.

FINANCIAL HIGHLIGHTS (continued):

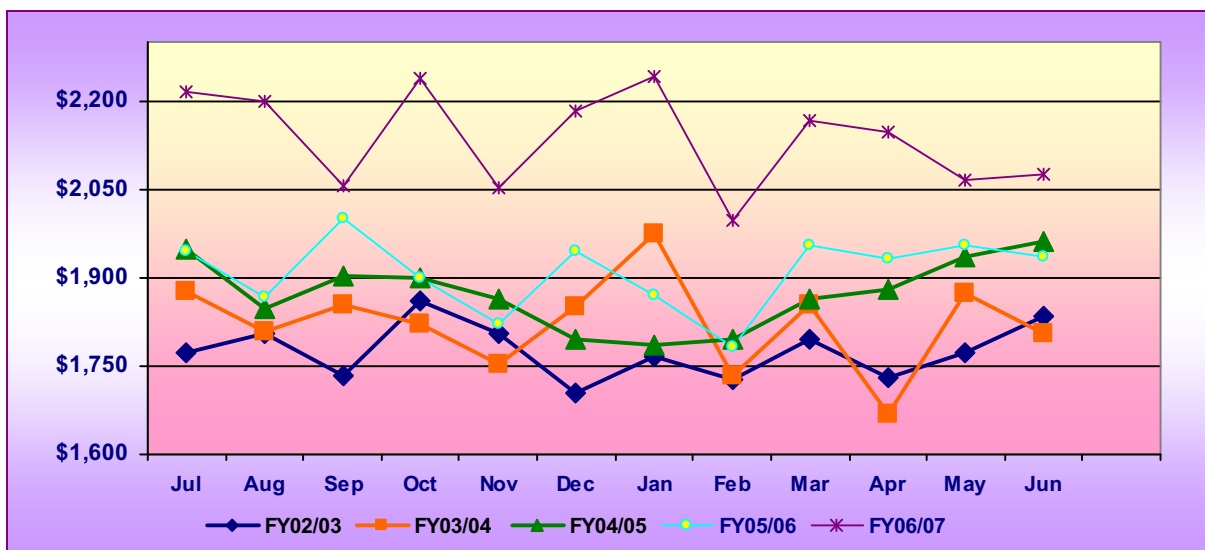
Wastewater Treatment Activities

The Regional Wastewater Treatment Funds showed combined total operating revenue of \$28,088,263, a 20.1% increase over the fiscal year 2005/06. This was an expected growth in sewage treatment revenue (EDU) with the increase in rate from \$7.69 to \$8.44. Total property tax revenues recorded was \$28,517,738 which represented a significant increase of \$10,067,632 over the prior fiscal year. The increase was expected as a result of the completion of the State mandated tax shift in FY05/06.

Total number of EDU connections was 5,874 which represented \$24,670,848 in connection revenue at \$4,200 per connection. This represented an 18% increase with a 5% increase in rate over the fiscal year 2005/06.

The Agency billed and collected a total of \$26,335,018 in revenue for its wastewater treatment operation, which represents a 12.7% increase over the past year. The total EDU's billed were 3,035,975 at an increased EDU rate of \$8.44, a 75 cents increase over last year's rate. *(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 2006/07 were \$29,954,402 compared to \$26,346,310 in the prior year, a 13.6% increase. The increase of \$3.6 million in operating costs can be attributed to: 1) labor - \$588,000 increase over last fiscal year; chemical - \$734,000 increase due to higher prices of chemicals; 3) electricity showed an overall increase of \$420,000; 4) solid disposal experienced the most increase at \$1.0 million due to higher disposal and transportation; 5) write-off of obsolete inventory contributed \$645,000 of increase.

There was a restatement of FY2006/07 net assets as a result of the reclassification of the advance in FY 2000/01 to the Organics Management fund for the acquisition of the composting site. The advance balance at June 30, 2007 was \$7,650,000 with an interest receivable balance of \$860,000. Footnote 19 reflects the impact of the restatement. As a result, the net assets balance at June 30, 2007 was adjusted down from \$307,399,027 to \$296,702,626.

FINANCIAL HIGHLIGHTS (continued):

Nonreclaimable Wastewater Treatment

Combined service charges of both the Operations and Maintenance and the Capital Improvement Funds totaled \$6,870,973 compared to total revenue of \$8,290,454 in the prior year. The \$1,419,481 decrease was primarily due to no sale of capacity units in FY06/07, compared to \$1.9 million revenue of capacity units sold in FY05/06.

Total operating expenses decreased by \$747,134 or 11.7% from prior year. The primary reason for the decrease was due to the completion of NRWS pipeline cleaning that occurred in FY05/06. Total line cleaning expenses recorded in FY05/06 was \$849,627.

Total net assets at June 30, 2007 were \$47,423,722 with an increase of \$2,094,595 over the prior fiscal year.

There were 59 users in the Nonreclaimable Wastewater System during the FY 06/07, with a total flow of 1,614 million gallons.

Organics Management

For fiscal year 2006/07, all tipping fees were recorded in the Regional Wastewater fund. The other revenue of \$1.1 million recorded in the Organics Management fund related to contracted services provided to Inland Empire Regional Composting Authority (IERCA). The Agency entered into an Operations & Maintenance agreement with IERCA to operate the fully enclosed composting facility in the City of Rancho Cucamonga.

Operations & Maintenance (O&M) expenses for the year increased substantially as a result of the aforementioned O&M agreement. Total operating expenses were \$5,724,051 compared to \$1,670,766 for prior year. The primary reasons for the increase were: 1) IERCA composting facility started operations in March 2007 which contributed to higher O&M expenses; 2) as an equal partner in the joint venture, IEUA contributed \$3,000,000 to the operations of the IERCA facility.

The fund recorded a gain of \$2.5 million on the sale of the old composting facility. This was the second installment amount received. The total net asset balance at June 30, 2007 was \$39,817,825.

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 \$3,588,212 including interest on debt service of \$644,920. Total reimbursement from CBW included: 1) fixed project cost including debt service charge - \$608,412; 2) O&M reimbursement of \$1,233,010. Total net assets increased by \$17,064,672 with an ending balance at June 30, 2007 of \$7,301,170. The decrease was due to the settlement of the Recharge Basin Improvement project with over \$19 million of assets with improvements belonging to other government agencies.

FINANCIAL HIGHLIGHTS (continued):

Revenues

Combined revenues for the fiscal year totaled \$110,876,060 an increase of \$23,051,566, or 26.2%, more than the prior fiscal year. The following table presents a comparison of revenues by category for the two fiscal years 2006/07 and 2005/06.

Combined Revenues by Category - All Funds
For the Fiscal Year Ended June 30, 2007
(With Comparative Totals for the Fiscal Year Ended June 30, 2006)

| Revenue Category | 2006/07 | | 2005/06 | | Increase/<Decrease> from 2005/06 | |
|------------------------------|----------------------|---------------|---------------------|---------------|----------------------------------|--------------|
| | AMOUNT | % OF TOTAL | AMOUNT | % OF TOTAL | AMOUNT | % OF CHANGE |
| Service Charges | 37,963,600 | 34.0% | 33,836,522 | 39.0% | \$4,127,078 | 12.0% |
| Recycled Water Sales | 3,253,546 | 3.0% | 1,147,241 | 1.0% | \$2,106,305 | 184.0% |
| Interest Income | 5,324,853 | 5.0% | 3,867,906 | 4.0% | \$1,456,947 | 38.0% |
| Property Tax Revenue | 31,018,196 | 28.0% | 20,069,646 | 23.0% | \$10,948,550 | 55.0% |
| Wastewater Connection Fees | 24,670,848 | 22.0% | 20,895,635 | 24.0% | \$3,775,213 | 18.0% |
| Other Non-operating Revenues | 8,645,017 | 8.0% | 8,007,544 | 9.0% | \$634,473 | 8.0% |
| Total Revenues | \$110,876,060 | 100.0% | \$87,824,494 | 100.0% | \$23,051,566 | 26.2% |

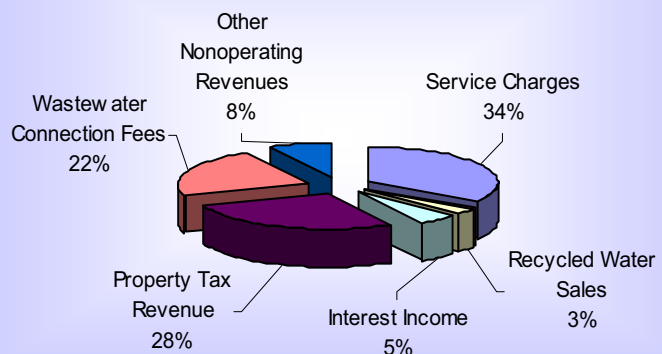
Other Non-operating Revenues

In FY 06/07 other non-operating revenues reported a total of \$2.5M of gain on sale of fixed asset related to the old composting site.

Property Tax Revenue

The Agency experienced an increase of over 10.9M in overall property tax revenues, due to increase in property values and the discontinuation of tax shift to the State.

Combined Revenue by Category - All Funds
Fiscal Year 2006/07
\$110,876,060



FINANCIAL HIGHLIGHTS (continued):

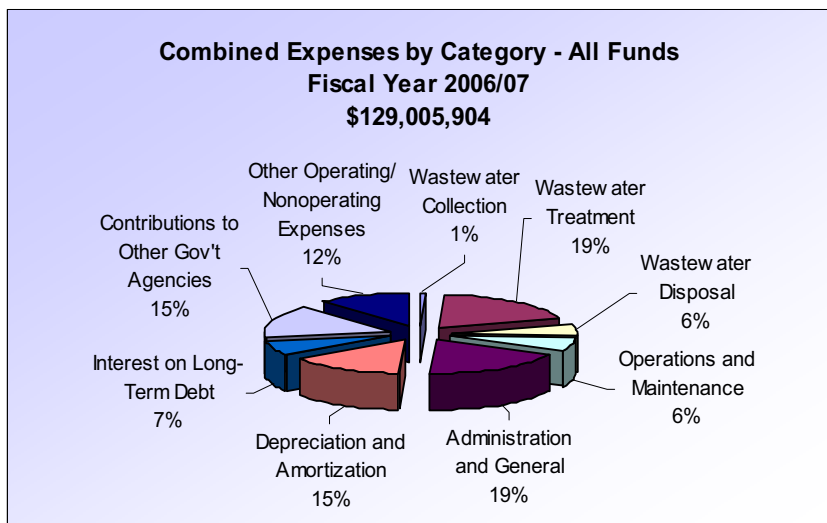
Expenses

Combined expenses for the fiscal year totaled \$129,005,904 an increase of \$47,304,466, or 57.9% over the prior fiscal year. The following table presents a comparison of expenses by category for the two fiscal years 2006/07 and 2005/06.

Combined Expenses by Category - All Funds
For the Fiscal Year Ended June 30, 2007
(With Comparative Totals for the Fiscal Year Ended June 30, 2006)

| Expense Category | 2006/07 | | 2005/06 | | Increase/<Decrease> from 2005/06 | |
|--|----------------------|---------------|---------------------|---------------|----------------------------------|--------------|
| | AMOUNT | % OF TOTAL | AMOUNT | % OF TOTAL | AMOUNT | % OF CHANGE |
| Wastewater Collection | 1,085,686 | 1.0% | 1,142,969 | 1.0% | (\$57,283) | -5.0% |
| Wastewater Treatment | 25,081,821 | 19.0% | 22,693,776 | 28.0% | \$2,388,045 | 11.0% |
| Wastewater Disposal | 7,433,865 | 6.0% | 6,235,413 | 8.0% | \$1,198,452 | 19.0% |
| Operations and Maintenance | 7,431,492 | 6.0% | 1,075,733 | 1.0% | \$6,355,759 | 591.0% |
| Administration and General | 24,446,561 | 19.0% | 22,559,886 | 27.0% | \$1,886,675 | 8.0% |
| Depreciation and Amortization | 18,943,577 | 15.0% | 18,719,355 | 23.0% | \$224,222 | 1.0% |
| Interest on Long-Term Debt | 9,540,066 | 7.0% | 7,795,856 | 10.0% | \$1,744,210 | 22.0% |
| Contributions to Other Gov't Agencies | 19,678,065 | 15.0% | 0 | 0.0% | \$19,678,065 | 100.0% |
| Other Operating/Non-operating Expenses | 15,364,771 | 12.0% | 1,478,450 | 2.0% | \$13,886,321 | 939.0% |
| Total Expenses | \$129,005,904 | 100.0% | \$81,701,438 | 100.0% | \$47,304,466 | 57.9% |

The Recharge Water Fund contributed \$19.7 M worth of improvements to basins belonging to other government agencies.



Wastewater Treatment

Chemical, Solid Disposal, and Electricity expenses continued to register significant increases.

Non-operating Expense

Included write down of capital assets at Regional Plants No. 2 and 4.

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

| Combined Net Assets-All Funds | | | | |
|---|----------------------|----------------------|----------------------------------|---------------|
| For the Fiscal Year Ended June 30, 2007 | | | | |
| (With Comparative Totals for the Fiscal Year Ended June 30, 2006) | | | | |
| | 2006/07 | 2005/06 | Increase/<Decrease> from 2005/06 | |
| Assets | | | | |
| Current Assets | \$106,149,508 | \$109,666,275 | (\$3,516,767) | -3.2% |
| Restricted assets | 26,136,563 | 19,642,319 | 6,494,244 | 33.1% |
| Capital assets | 514,071,731 | 481,032,145 | 33,039,586 | 6.9% |
| Other assets | 78,871,369 | 79,278,945 | (407,576) | -0.5% |
| Total Assets | 725,229,171 | 689,619,684 | 35,609,487 | 5.2% |
| Liabilities | | | | |
| Current liabilities | 87,717,765 | 42,796,884 | 44,920,881 | 105.0% |
| Non-current liabilities | 165,318,419 | 170,382,616 | (5,064,197) | -2.3% |
| Total liabilities | 253,036,184 | 213,179,500 | 39,856,684 | 18.7% |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | 330,897,443 | 339,319,971 | (8,422,528) | -2.5% |
| Restricted | 66,071,455 | 59,447,344 | 6,624,111 | 11.1% |
| Unrestricted | 75,224,089 | 77,672,869 | (2,448,780) | -3.2% |
| TOTAL NET ASSETS | \$472,192,987 | \$476,440,184 | (\$4,247,197) | -0.89% |

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

- The \$3.5 million decrease in Current Assets was primarily due to: 1) decrease in total pool investments and the increase of capital spending.
- The increase of restricted assets by \$6 million was the result of: 1) increase of \$5 million in connection fees held by contracting agencies; 2) \$1.5 million in retention payables increase.
- The increase of Current liabilities of \$39 million was primarily due to the issuance of \$50 million dollar of commercial paper by the Regional Wastewater funds. (Refer to Note 14 of the Notes to the Basic Financial Statements for additional information).

FINANCIAL HIGHLIGHTS (continued):

Changes in Financial Conditions of the Agency (continued):

Combined Schedule of Revenues, Expenses and Changes in Fund Net Assets - All Funds
For the Fiscal Year Ended June 30, 2007
(With Comparative Totals for the Fiscal Year Ended June 30, 2006)

| Item Category | 2006/07 | | 2005/06 | | Increase/<Decrease> from 2005/06 | |
|-------------------------------------|--------------------|---------------|-----------------------|---------------|-------------------------------------|----------------|
| | AMOUNT | % OF TOTAL | AMOUNT | % OF TOTAL | AMOUNT | % OF CHANGE |
| Total Revenue | 110,876,060 | 23.0% | 87,824,494 | 18.0% | \$23,051,566 | 26.0% |
| Total Expenses | 129,005,904 | 27.0% | 81,701,438 | 17.0% | \$47,304,466 | 58.0% |
| Excess (deficiency) before contrib. | (18,129,844) | -3.0% | 6,123,056 | 1.0% | (\$24,252,900) | -396.0% |
| Capital Grants | 13,882,647 | 3.0% | 6,655,778 | 1.0% | \$7,226,869 | 109.0% |
| Contributions | 0 | 0.0% | 67,785 | 0.0% | (\$67,785) | -100.0% |
| Change in Net Assets | (4,247,197) | -1.0% | 12,846,619 | 3.0% | (\$17,093,819) | -133.0% |
| Beginning Net Assets | 476,440,184 | 101.0% | 463,593,565 | 97.0% | \$12,846,619 | 3.0% |
| Ending Net Assets | 472,192,987 | 100.0% | \$ 476,440,184 | 100.0% | (\$4,247,197) | -0.9% |

Capital Assets

Net of accumulated depreciation and amortization, the Agency had total capital assets of \$514,071,731 in fiscal year 2006/07 compared to \$481,032,145 in fiscal year 2005/06. The increase was primarily due to the completion of various capital projects and the on-going construction in progress as follows:

- RP4 Liquid Expansion to 14 mgd (\$34,950,692)
- Completion of Edison-Merrill Recycled Water Pipelines (\$9,049,497)
- Completion of RP5/RP2 Recycled Water Pipeline (\$2,226,698)
- RP1 Odor Control – Phase I (\$3,140,971)
- West Edison SAC Recycled Water Pipeline (\$6,463,133)
- RP5 Utility Water Pipeline (\$5,663,674)
- RP5 Systems Facility Upgrade & Improvements (\$6,736,082)
- Upland Interceptor Relief Phase II (\$17,741,926).

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

FINANCIAL HIGHLIGHTS (continued):**Capital Assets (continued)**

In fiscal year 2006/07, Regional Plant No. 4 started the liquid expansion program resulting in removal of massive assets to accommodate the expansion. Additionally, the liquid portion of the operation of Regional Plant No. 2 was decommissioned when Regional Plant No. 5 came on line in 2003. The total write down of the net book value for the respective plants is as follows:

| | |
|----------------------|-------------|
| Regional Plant No. 2 | \$7,124,033 |
| Regional Plant No. 4 | \$7,014,108 |

Debt Management

At June 30, 2007, the Agency had four bond debt issues outstanding; \$ 64,803,386 for the 1994 Revenue Bonds, \$3,072,031 for the 1999 Revenue Bonds, \$52,988,415 for the 2002A Variable Rate Revenue Bonds, and \$22,276,420 for the 2005A Revenue Bonds.

Notes and loans payable at June 30, 2007, included a note from the Santa Ana Watershed Project Authority pertaining to the purchases of pipeline capacity, with an outstanding balance of \$2,107,273, and State Revolving Financing loans in the amount of \$20,079,512 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 Fiscal Management Department (previously Finance and Accounting).



Volunteers at work at Chino Creek Wetlands and Educational Park

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, 2007, 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, 2007

(With Comparative Totals for June 30, 2006)

| | Enterprise Funds | |
|--|------------------------|-------------------|
| | Regional Wastewater | Recharge Water |
| ASSETS | | |
| Current assets | | |
| Cash and investments (note 2) | \$38,900,821 | 1,121,639 |
| Accounts receivable | 7,958,276 | 1,587,097 |
| Interest receivable | 896,967 | 0 |
| Taxes receivable | 3,263,352 | 0 |
| Other receivables | 0 | 0 |
| Due from other funds (note 15) | 0 | 0 |
| Inventory | 0 | 0 |
| Prepaid items | 18,058 | 0 |
| Total current assets | 51,037,474 | 2,708,736 |
| Noncurrent assets | | |
| Restricted assets (note 2 & 3) | | |
| Deposits held by governmental agencies | 10,591,879 | 0 |
| Assets held for 401(a) plan (note 4) | 0 | 0 |
| Assets held with trustee/fiscal agent | 14,192,266 | 840 |
| Total restricted assets | 24,784,145 | 840 |
| Capital assets (note 8) | | |
| Land | 14,013,169 | 0 |
| Jobs in progress | 140,274,995 | 2,466,524 |
| Capital assets, net of accumulated depreciation | 236,237,556 | 21,281,540 |
| Total capital assets | 390,525,720 | 23,748,064 |
| Other assets | | |
| Long-term receivables (note 10) | 0 | 0 |
| Intangible assets, net of accumulated amortization (note 7) | 6,519,226 | 0 |
| Long-term investments (note 11) | 0 | 0 |
| Advances to other funds | 0 | 0 |
| Deferred costs | 1,414,457 | 177,305 |
| Total other assets | 7,933,683 | 177,305 |
| Total noncurrent assets | 423,243,548 | 23,926,209 |
| Total assets | 474,281,022 | 26,634,945 |

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

| Recycled Water | Non-Major | Totals | |
|-------------------|--------------|--------------|--------------|
| | | 2007 | 2006 |
| (11,009,552) | \$29,478,074 | \$58,490,982 | \$76,439,539 |
| 13,469,405 | 17,907,448 | 40,922,226 | 20,845,686 |
| 0 | 297,937 | 1,194,904 | 1,945,553 |
| 0 | 285,654 | 3,549,006 | 3,183,517 |
| 0 | 105,357 | 105,357 | 85,415 |
| 0 | 25,476 | 25,476 | 5,025,477 |
| 0 | 1,497,598 | 1,497,598 | 1,904,863 |
| 3,500 | 342,401 | 363,959 | 236,225 |
| 2,463,353 | 49,939,945 | 106,149,508 | 109,666,275 |
| 0 | 0 | 10,591,879 | 5,669,408 |
| 0 | 891,682 | 891,682 | 655,828 |
| 427,662 | 32,234 | 14,653,002 | 13,317,083 |
| 427,662 | 923,916 | 26,136,563 | 19,642,319 |
| 0 | 20,829 | 14,033,998 | 18,147,196 |
| 32,386,068 | 8,137,565 | 183,265,152 | 140,617,394 |
| 30,233,542 | 29,019,943 | 316,772,581 | 322,267,555 |
| 62,619,610 | 37,178,337 | 514,071,731 | 481,032,145 |
| 0 | 210,622 | 210,622 | 246,198 |
| 42,467 | 23,374,619 | 29,936,312 | 29,911,341 |
| 0 | 47,016,694 | 47,016,694 | 39,737,131 |
| 0 | 0 | 0 | 7,650,000 |
| 0 | 115,979 | 1,707,741 | 1,734,275 |
| 42,467 | 70,717,914 | 78,871,369 | 79,278,945 |
| 63,089,739 | 108,820,167 | 619,079,663 | 579,953,409 |
| 65,553,092 | 158,760,112 | 725,229,171 | 689,619,684 |
| | | | (continued) |

INLAND EMPIRE UTILITIES AGENCY
Statement of Net Assets (Continued from previous page)
June 30, 2007
(With Comparative Totals for June 30, 2006)

| | Enterprise Fund Types | |
|---|------------------------|-------------------|
| | Regional Wastewater | Recharge Water |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | 5,021,602 | 1,327,039 |
| Accrued liabilities | 554,078 | 0 |
| Due to other funds (note 15) | 25,477 | 0 |
| Compensated absences (note 1) | 0 | 0 |
| Retentions payable | 1,510,491 | 0 |
| Notes payable, commercial papers | 50,160,000 | 0 |
| Notes payable, due within one year (note 12) | 89,063 | 432,203 |
| Long-term debt, due within one year (note 12) | 4,226,865 | 0 |
| Interest payable | 2,195,084 | 44,560 |
| Retention deposits and escrows | 3,182,737 | 0 |
| Total current liabilities | 66,965,397 | 1,803,802 |
| Noncurrent liabilities | | |
| Compensated absences (note 1) | 0 | 0 |
| Long-term debt, due in more than one year (note 12) | 109,275,798 | 0 |
| Notes payable, due in more than one year (note 12) | 594,468 | 17,529,972 |
| Liability for 401(a) plan (note 4) | 0 | 0 |
| Advances from other funds | 0 | 0 |
| Other noncurrent liabilities | 1,756,974 | 0 |
| Total noncurrent liabilities | 111,627,240 | 17,529,972 |
| Total liabilities | 178,592,637 | 19,333,774 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 239,822,785 | 5,785,889 |
| Restricted for: | | |
| Capital construction | 18,769,657 | 1,129,506 |
| Debt service | 23,142,368 | 0 |
| Bond operating contingency requirement | 13,953,575 | 675,154 |
| Total restricted | 55,865,600 | 1,804,660 |
| Unrestricted | 0 | (289,378) |
| Total net assets | \$295,688,385 | \$7,301,171 |

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

| Recycled Water | Non-Major | Totals | |
|---------------------|----------------------|----------------------|----------------------|
| | | 2007 | 2006 |
| 2,634,948 | 8,883,693 | 17,867,282 | 19,458,007 |
| 252,814 | 4,594,708 | 5,401,600 | 4,334,919 |
| 0 | 0 | 25,477 | 5,025,477 |
| 0 | 1,197,558 | 1,197,558 | 1,593,546 |
| 0 | 0 | 1,510,491 | 1,664,824 |
| 0 | 0 | 50,160,000 | 0 |
| 411,132 | 0 | 932,398 | 880,993 |
| 0 | 459,057 | 4,685,922 | 4,675,000 |
| 58,028 | 28,965 | 2,326,637 | 2,979,007 |
| 427,663 | 0 | 3,610,400 | 2,185,111 |
| <u>3,784,585</u> | <u>15,163,981</u> | <u>87,717,765</u> | <u>42,796,884</u> |
| 0 | 1,528,219 | 1,528,219 | 962,836 |
| 0 | 12,640,100 | 121,915,898 | 142,933,907 |
| 20,079,511 | 0 | 38,203,951 | 15,891,823 |
| 0 | 891,682 | 891,682 | 655,828 |
| 0 | 0 | 0 | 7,650,000 |
| <u>202,485</u> | <u>819,210</u> | <u>2,778,669</u> | <u>2,288,222</u> |
| <u>20,281,996</u> | <u>15,879,211</u> | <u>165,318,419</u> | <u>170,382,616</u> |
| <u>24,066,581</u> | <u>31,043,192</u> | <u>253,036,184</u> | <u>213,179,500</u> |
| <u>37,834,971</u> | <u>47,453,798</u> | <u>330,897,443</u> | <u>339,319,971</u> |
| 2,807,243 | 1,798,720 | 24,505,126 | 23,533,746 |
| 0 | 138,831 | 23,281,199 | 18,848,948 |
| <u>844,297</u> | <u>2,812,104</u> | <u>18,285,130</u> | <u>17,064,650</u> |
| <u>3,651,540</u> | <u>4,749,655</u> | <u>66,071,455</u> | <u>59,447,344</u> |
| <u>0</u> | <u>75,513,467</u> | <u>75,224,089</u> | <u>77,672,869</u> |
| <u>\$41,486,511</u> | <u>\$127,716,920</u> | <u>\$472,192,987</u> | <u>\$476,440,184</u> |

INLAND EMPIRE UTILITIES AGENCY
Statement of Revenues, Expenses, and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2007
(With Comparative Totals for June 30, 2006)

| | Enterprise Fund Types | |
|--|------------------------|-------------------|
| | Regional Wastewater | Recharge Water |
| OPERATING REVENUES | | |
| Service charges | \$ 28,088,263 | \$0 |
| Recycled water sales | 0 | 0 |
| Total operating revenues | 28,088,263 | 0 |
| OPERATING EXPENSES | | |
| Wastewater collection | 633,199 | 0 |
| Wastewater treatment | 21,887,338 | 0 |
| Wastewater disposal | 7,433,865 | 0 |
| Operations and maintenance | 0 | 0 |
| Administration and general | 11,906,319 | 2,314,839 |
| Depreciation and amortization | 14,361,439 | 545,394 |
| Total operating expenses | 56,222,160 | 2,860,233 |
| Operating income (loss) | (28,133,897) | (2,860,233) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 3,685,772 | 12,871 |
| Property tax revenue | 28,517,738 | 0 |
| Wastewater capital connection fees | 24,670,848 | 0 |
| Other nonoperating revenues | 1,595,957 | 1,947,264 |
| Interest on long-term debt | (7,900,622) | (644,920) |
| Other nonoperating expenses | (15,190,818) | (83,059) |
| Contributions to other government agencies | 0 | (19,678,065) |
| Total nonoperating revenues (expenses) | 35,378,875 | (18,445,909) |
| Income (loss) before contributions and transfers | 7,244,978 | (21,306,142) |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | |
| Transfers in (note 16) | 30,659,964 | 5,089,855 |
| Transfers out (note 16) | (42,221,483) | (2,304,355) |
| Capital grants | 3,302,300 | 1,455,972 |
| Change in net assets | (1,014,241) | (17,064,670) |
| Total net assets - beginning | 296,702,626 | 24,365,841 |
| Total net assets - ending | \$295,688,385 | \$7,301,171 |

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

| Recycled Water | Non-Major | Totals | |
|-------------------|---------------|---------------|---------------|
| | | 2007 | 2006 |
| \$0 | \$ 9,875,337 | \$ 37,963,600 | \$ 33,836,522 |
| 3,253,546 | 0 | 3,253,546 | 1,147,241 |
| 3,253,546 | 9,875,337 | 41,217,146 | 34,983,763 |
| | 452,487 | 1,085,686 | 1,142,969 |
| | 3,194,483 | 25,081,821 | 22,693,776 |
| | 0 | 7,433,865 | 6,235,413 |
| | 7,431,492 | 7,431,492 | 67,404 |
| 2,532,892 | 7,692,511 | 24,446,561 | 23,568,215 |
| 789,827 | 3,246,917 | 18,943,577 | 18,719,355 |
| 3,322,719 | 22,017,890 | 84,423,002 | 72,427,132 |
| (69,173) | (12,142,553) | (43,205,856) | (37,443,369) |
| 0 | 1,626,210 | 5,324,853 | 3,867,906 |
| 0 | 2,500,458 | 31,018,196 | 20,069,646 |
| 0 | 0 | 24,670,848 | 20,895,635 |
| (27,947) | 5,129,743 | 8,645,017 | 8,007,544 |
| (475,985) | (518,539) | (9,540,066) | (7,795,856) |
| 0 | (90,894) | (15,364,771) | (1,478,450) |
| 0 | 0 | (19,678,065) | 0 |
| (503,932) | 8,646,978 | 25,076,012 | 43,566,425 |
| (573,105) | (3,495,575) | (18,129,844) | 6,123,056 |
| 11,448,315 | 7,471,319 | 54,669,453 | 18,585,165 |
| (11,259) | (10,132,356) | (54,669,453) | (18,585,165) |
| 6,599,108 | 2,525,267 | 13,882,647 | 6,655,778 |
| 17,463,059 | (3,631,345) | (4,247,197) | 12,846,619 |
| 24,023,452 | 131,348,265 | 476,440,184 | 463,593,565 |
| \$41,486,511 | \$127,716,920 | \$472,192,987 | \$476,440,184 |

INLAND EMPIRE UTILITIES AGENCY**Statement of Cash Flows****For the Fiscal Year ended June 30, 2007**

(With Comparative Totals for June 30, 2006)

| | Enterprise Funds | |
|--|------------------------|-------------------|
| | Regional Wastewater | Recharge Water |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$28,114,974 | (\$141,467) |
| Cash received from interfund services provided | 0 | 0 |
| Cash payments to suppliers for goods and services | (26,778,992) | (1,512,931) |
| Cash payments to employees for services | (14,913,430) | (304,159) |
| Cash payments for interfund services used | (4,806,662) | (353,597) |
| Cash received from others | 1,595,957 | 0 |
| Net cash provided by (used for) operating activities | (16,788,153) | (2,312,154) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Transfers in | 30,659,964 | 5,089,853 |
| Transfers out | (42,221,480) | (2,304,355) |
| Tax revenues | 28,517,738 | 0 |
| Interfund borrowings received | 0 | 0 |
| Interfund borrowings paid | 0 | 0 |
| Long term receivable | 0 | 0 |
| Advances from other funds | 0 | 0 |
| Advances to other funds | 5,000,000 | 0 |
| Net cash provided by (used for) noncapital financing activities | 21,956,222 | 2,785,498 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets | (66,041,635) | (18,569,959) |
| Completion of capital assets | 0 | 19,678,064 |
| Proceeds from sale of assets | 44,835 | 0 |
| Proceeds from State Revolving Funds | 0 | 0 |
| Calls on deposits held by members | 24,670,848 | 0 |
| Capital grants received | 3,302,300 | 0 |
| Principal paid on capital debt | 46,335,408 | (414,216) |
| Interest paid on capital debt | (7,672,859) | (645,531) |
| Other nonoperating expenses | (15,190,818) | 0 |
| Changes in contractor deposits/retentions | 1,417,131 | 0 |
| Net cash provided by (used for) capital and related financing activities | (13,134,790) | 48,358 |

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

| Recycled Water | Non-Major | Totals | |
|--------------------|--------------------|---------------------|---------------------|
| | | 2007 | 2006 |
| (\$7,876,215) | \$665,776 | \$20,763,068 | \$29,529,585 |
| 0 | 20,790,488 | 20,790,488 | 19,257,765 |
| (681,264) | (14,202,582) | (43,175,769) | (16,019,750) |
| (83,281) | (20,062,162) | (35,363,032) | (22,641,198) |
| (1,256,993) | (1,485,255) | (7,902,507) | (28,914,020) |
| 0 | 5,974,457 | 7,570,414 | 6,330,902 |
| <u>(9,897,753)</u> | <u>(8,319,278)</u> | <u>(37,317,338)</u> | <u>(12,456,716)</u> |
| 11,420,368 | 7,471,317 | 54,641,502 | 17,887,282 |
| (11,259) | (10,132,356) | (54,669,450) | (17,850,395) |
| 0 | 2,500,457 | 31,018,195 | 20,069,646 |
| 0 | 0 | 0 | 5,544,322 |
| 0 | 0 | 0 | (5,544,322) |
| 0 | 35,576 | 35,576 | 35,643 |
| (5,000,000) | 301,335 | (4,698,665) | 4,986,860 |
| 0 | 0 | 5,000,000 | (4,986,860) |
| <u>6,409,109</u> | <u>176,329</u> | <u>31,327,158</u> | <u>20,142,176</u> |
| (20,835,795) | (14,555,095) | (120,002,484) | (89,772,160) |
| 0 | 0 | 19,678,064 | 0 |
| 0 | 9,960,777 | 10,005,612 | 1,230 |
| 0 | 0 | 0 | 1,073,233 |
| 0 | 0 | 24,670,848 | 58,913,290 |
| 6,599,108 | 1,379,217 | 11,280,625 | 6,730,778 |
| 5,943,279 | (348,025) | 51,516,446 | (6,086,762) |
| (479,544) | (518,937) | (9,316,871) | (7,843,397) |
| 0 | (53,934) | (15,244,752) | (1,334,321) |
| 8,157 | 0 | 1,425,288 | 1,562,611 |
| <u>(8,764,795)</u> | <u>(4,135,997)</u> | <u>(25,987,224)</u> | <u>(36,755,498)</u> |
| | | | (Continued) |

INLAND EMPIRE UTILITIES AGENCY
Statement of Cash Flows (Continued from previous page)
For the Fiscal Year ended June 30, 2007
(With Comparative Totals for June 30, 2006)

| | Enterprise Funds | |
|---|------------------|---------------|
| | Regional | Recharge |
| | Wastewater | Water |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest on investments | 3,533,659 | 18,954 |
| Sale of investments | (6,240,051) | 365 |
| Purchase of investments | 0 | 0 |
| Net cash provided by (used for) investing activities | (2,706,392) | 19,319 |
| Net increase (decrease) in cash and cash equivalents | (10,673,113) | 541,021 |
| Cash and cash equivalents - beginning | 0 | 581,458 |
| Cash and cash equivalents - ending | (\$10,673,113) | \$1,122,479 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | | |
| Operating income (loss) | (\$26,537,939) | (\$2,860,233) |
| Adjustments to reconcile operating income to net cash provided by (used for) operating activities | | |
| Depreciation and amortization | 14,361,439 | 545,394 |
| Changes in assets and liabilities | | |
| (Increase) decrease in | | |
| Accounts receivable | 363,163 | (149,358) |
| Other receivables | 0 | 0 |
| Taxes Receivable | (336,453) | 0 |
| Inventory | 0 | 0 |
| Prepaid items | (500) | 800 |
| Deferred costs | 0 | 7,091 |
| Increase (decrease) in | | |
| Accounts payable | (4,679,384) | 144,152 |
| Rententions payable | (20,875) | 0 |
| Accrued liabilities | 61,636 | 0 |
| Other liabilities | 760 | 0 |
| Compensated absences | 0 | 0 |
| Liability for 401(a) plan | 0 | 0 |
| Net cash provided by (used for) operating activities | (\$16,788,153) | (\$2,312,154) |

| Recycled Water | Non-Major | Totals | |
|-------------------|---------------|----------------|----------------|
| | | 2007 | 2006 |
| 0 | 2,574,858 | 6,127,471 | 3,596,016 |
| 0 | (272,841) | (6,512,527) | 24,296,248 |
| 0 | (213,563) | (213,563) | (116,377) |
| 0 | 2,088,454 | (598,619) | 27,775,887 |
| (12,253,439) | (10,190,492) | (32,576,023) | (1,294,151) |
| 1,671,549 | 39,691,428 | 41,944,435 | 37,716,920 |
| (\$10,581,890) | \$29,500,936 | \$9,368,412 | \$36,422,769 |
| | | | |
| (\$69,173) | (\$6,168,099) | (\$35,635,444) | (\$31,112,468) |
| | | | |
| 789,827 | 3,246,919 | 18,943,579 | 18,719,355 |
| | | | |
| (11,129,762) | (9,160,583) | (20,076,540) | (4,669,955) |
| 0 | (19,942) | (19,942) | (1,525) |
| 0 | (29,036) | (365,489) | (789,788) |
| 0 | 407,265 | 407,265 | (78,344) |
| 0 | (128,033) | (127,733) | (56,276) |
| 0 | 0 | 7,091 | 6,333 |
| 454,743 | 2,489,762 | (1,590,727) | 3,754,950 |
| 0 | (133,459) | (154,334) | 752,417 |
| 435 | 770,677 | 832,748 | 424,475 |
| 56,176 | 0 | 56,936 | 255,618 |
| 0 | 169,397 | 169,397 | 132,587 |
| 0 | 235,854 | 235,854 | 205,905 |
| (\$9,897,754) | (\$8,319,278) | (\$37,317,339) | (\$12,456,716) |
| (Continued) | | | |

INLAND EMPIRE UTILITIES AGENCY
Statement of Cash Flows - (Continued from previous page)
For the Fiscal Year Ended June 30, 2007
(With Comparative Totals for June 30, 2006)

| | Enterprise Funds | |
|--|------------------------|--------------------|
| | Regional Wastewater | Recharge Water |
| RECONCILIATION OF CASH & CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS: | | |
| Cash & cash equivalents at end of year | (\$10,673,113) | \$1,122,479 |
| Investments | 49,107,112 | 0 |
| Total cash, short-term investments and restricted cash | <u>\$38,433,999</u> | <u>\$1,122,479</u> |
| Cash | \$8,776,015 | \$0 |
| Short-term investments | 30,124,806 | 1,121,639 |
| Restricted assets | 14,192,266 | 840 |
| Total cash, short-term investments and restricted cash | <u>\$53,093,087</u> | <u>\$1,122,479</u> |
| | <u>2007</u> | <u>2006</u> |
| Noncash capital, financing and investing activities: | | |
| Regional Wastewater - Disposal of Obsolete Assets | 14,659,088 | 0 |
| Gain (Loss) on Long Term Investments | (235,854) | (205,905) |
| Water Fund -Disposal of Obsolete Assets | 6,649 | |
| Nonrecaimable Wastewater Fund-Disposal of Obsolete Assets | 2,722 | |

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

| Recycled Water | Non-Major | Totals | |
|-----------------------|---------------------|---------------------|---------------------|
| | | 2007 | 2006 |
| | | | |
| (\$10,581,890) | \$29,500,936 | \$9,368,412 | \$35,980,373 |
| 0 | 0 | 49,107,112 | 53,776,249 |
| <u>(\$10,581,890)</u> | <u>\$29,500,936</u> | <u>\$58,475,524</u> | <u>\$89,756,622</u> |
| | | | |
| \$0 | \$10,517,301 | 19,293,316 | \$6,921,108 |
| (11,009,552) | 18,960,772 | 39,197,665 | 69,518,431 |
| 427,662 | 32,234 | 14,653,002 | 13,317,083 |
| <u>(\$10,581,890)</u> | <u>\$29,510,307</u> | <u>\$73,143,983</u> | <u>\$89,756,622</u> |



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

June 30, 2007

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NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

(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, 2007. 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: Regional Wastewater, Recharge Water 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 73, 77 and 81 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.

Recharge Water Fund

The Recharge Water Fund records the revenues and operating expenses associated with the management of the groundwater basins. The management of the operations and maintenance of the recharge basins is under contract with Chino Basin Watermaster. On the capital side, the fund records the receipts and expenditures associated with the Chino Basin Recharge Facilities Improvement Project. This project has two phases involving basin improvements as part of comprehensive water supply enhancement program jointly sponsored by the Agency and other local agencies in the region. The purpose of the program is to reduce dependence on expensive imported water by replenishing, treating, distributing and conveying waters in and through the Chino Groundwater Basin.

(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.

In FY06/07 Capital Revenue sources included \$6.7 million of loan proceeds from the State Revolving Fund (SRF) and \$6 million in State and local grants. A \$11.4 million operating transfer from the Regional Wastewater Fund, a MWD LLP credit of \$2,246,821 and \$1,006,725 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 recognizing 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, other than its role as a member of the Metropolitan Water District, 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, 2007, 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, 2007, the accumulated vacation leave payable was \$1,401,203, an increase of \$118,145 over the previous fiscal year; the sick and compensatory leave balance was \$1,324,575, an increase of \$51,251 over the previous fiscal year; and, has been recorded in the Administrative Service Fund as a combined total of \$2,725,778 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, 2007, the Agency paid \$186,000 for 41 retired employees.

In accordance with GASB Statements #45 – Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pension (OPEB), public entities are required to accrue OPEB costs throughout the employee's working lifetime and record the actuarially calculated cost as a liability. In September 2006 the Agency contracted an independent pension consultant and actuaries to perform an actuarial valuation of the OPEB at July 1, 2006. The Agency's unfunded actuarial accrued liability is being amortized as a level dollar amortization over a closed 30-year period. The following table presents the summary of the Actuarial Accrued Liability (AAL), Plan Assets and Annual Required Contribution for Fiscal Year 2006/07.

| | |
|--|-------------|
| Actuarial Accrued Liability | \$7,971,198 |
| Actuarial Value of Assets | 0 |
| Unfunded AAL | \$7,971,198 |
| Amortization Period | 30 years |
| Amortization Factor - based on 5% discount rate | 15.372 |
| Annual Level Dollar Amortization of Unfunded AAL | \$ 518,538 |
| Normal Cost | \$ 354,398 |
| Annual Required Contribution | \$ 872,936 |

During Fiscal Year 2006/07, the Agency opted to implement early the provisions of GASB Statement #45. The first year net obligation of \$667,449 (\$872,936 less \$205,487 contribution) has been recorded in the Administrative Service Fund with the related liability. The Agency has not decided on a funding plan as of this date.

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

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, 2007, 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.

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.

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

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, 2007 are classified in the accompanying financial statement as follows:

| | |
|---|-----------------------------|
| Statement of net assets: | |
| Cash and investments | \$ 58,490,981 |
| Cash and investments held by bond trustee | <u>14,653,002</u> |
| Total cash and investments | <u>\$ 73,143,983</u> |

Cash and investments as of June 30, 2007 consist of the following:

| | |
|--------------------------------------|-----------------------------|
| Cash on hand | \$ 2,250 |
| Deposits with financial institutions | 7,559,836 |
| Investments | <u>65,581,897</u> |
| Total cash and investments | <u>\$ 73,143,983</u> |

(2) Cash and Investments (continued):

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

The table below identifies the investment types that are authorized 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.

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.

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

(2) Cash and Investments (continued):

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:

| <u>Investment Type</u> | <u>Value</u> | <u>Remaining Maturity (in Months)</u> | | | |
|------------------------|---------------------|---------------------------------------|----------------------------|----------------------------|--------------------------------|
| | | <u>12 Months Or Less</u> | <u>13 to 24 Months</u> | <u>25 to 60 Months</u> | <u>More Than 60 Months</u> |
| U.S. Agency Securities | \$ 21,383,640 | \$18,388,940 | \$2,994,700 | \$0 | \$0 |
| Commercial Paper | 3,946,684 | 3,946,684 | | | |
| Money Market Fund | 1,102,414 | 1,102,414 | | | |
| State Investment Pool | 20,391,785 | 20,391,785 | 0 | 0 | 0 |
| Held by Bond Trustee: | | | | | |
| Debt Service Money | | | | | |
| Market Funds | 18,757,374 | 18,757,374 | 0 | 0 | 0 |
| Total | \$65,581,897 | \$62,587,197 | \$2,994,700 | \$0 | \$0 |

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.

(2) Cash and Investments (continued):

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of 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, 2007 for each investment type:

| <u>Investment Type</u> | | <u>Minimum Legal Rating</u> | <u>Not Required To Be Rated</u> | <u>Rating as of June 30, 2007</u> | | |
|--|----------------------|-------------------------------------|---|-----------------------------------|-------------|---------------------|
| | | | | <u>AAA</u> | <u>A-1+</u> | <u>Unrated</u> |
| U.S. Agency Securities | \$ 21,383,640 | N/A | \$0 | \$21,383,640 | \$ 0 | \$ 0 |
| Commercial Paper | 3,946,684 | | | | | 3,946,684 |
| Money Market Fund | 1,102,414 | | | 1,102,414 | | |
| State Investment Pool | 20,391,785 | N/A | 0 | 0 | 0 | 20,391,785 |
| Held by Bond Trustee: | | | | | | |
| Investment Contracts & Debt Service Money | | | | | | |
| Market Funds | 18,757,374 | N/A | 0 | 0 | 0 | 18,757,374 |
| Total | \$ 65,581,897 | | \$0 | \$22,486,054 | \$0 | \$43,095,843 |

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 | \$ 12,493,433 |
| Freddie Mac | Bonds and Discount Notes | 2,961,925 |
| Federal Farm Credit | Bonds | 5,999,224 |
| Ambac GIC | Investment Contracts/GIC | 6,545,277 |

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.

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). 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.

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 \$891,682 and \$655,828 at fiscal years ended June 30, 2007 and 2006, 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.

(5) Pension Plan (continued):

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, 2007 was 9.289%. 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 for the fiscal year ended June 30, 2007 was \$3,533,460. The required contributions were determined as part of the June 30, 2004 actuarial valuation.

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, 2004 |
| Actuarial Cost Method | Entry Age Actuarial Cost Method |
| Amortization Method | Level Percentage of Payroll |
| Average Remaining Period | 25 Years as of the Valuation Date |
| Asset Valuation Method | 15 Year Smoothed Market |
| Actuarial Assumptions | |
| Investment Rate of Return | 7.75% (net of administration expenses) |
| Projected Salary Increases | 3.25% 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% |

(5) Pension Plan (continued):

Three-year Trend information for the IEUA CalPERS

| Fiscal Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---------------------------|----------------------------------|--------------------------------------|-------------------------------|
| 6/30/2005 | \$ 2,179,171 | 100% | 0 |
| 6/30/2006 | 3,093,213 | 100% | 0 |
| 6/30/2007 | 3,533,460 | 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 |
|-----------------------|---|--------------------------------------|---|----------------------------------|-----------------------------------|---|
| 6/30/2004 | 50,086,060 | 45,803,619 | 4,282,441 | 91.40% | 15,946,929 | 26.9% |
| 6/30/2005 | 56,941,839 | 50,322,896 | 6,618,943 | 88.40% | 17,329,548 | 38.2% |
| 6/30/2006 | 63,032,162 | 56,207,029 | 6,825,133 | 89.20% | 19,176,313 | 35.6% |

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, 2034.

(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.

(6) Risk Management (continued):

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, 2007, the interfund premiums did not exceed reimbursable expenditures.

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

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 | |
|--|------------------------------|-----------------|--------------------------|----------------|
| | 2006/07 | 2005/06 | 2006/07 | 2005/06 |
| Unpaid Claims, beginning of fiscal year | 73,232 | 77,974 | 0 | 0 |
| Incurred claims (including IBNRs) | (75,141) | (87,624) | 3,282 | 40,575 |
| Claim payments | 75,443 | 82,882 | (3,282) | (40,575) |
| Unpaid claims, end of fiscal year | \$73,534 | \$73,232 | \$0 | \$0 |

(7) 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, 2007:

Capital Assets

| Capital Assets | Balance at 6/30/07 | Additions | Transfers & Retirements | Balance at 06/30/07 | Accumulated Depreciation at 6/30/07 | Net Book Value at 6/30/07 |
|---|-------------------------------|-----------------------------|--|--------------------------------|--|--------------------------------------|
| Capital Assets-not being depreciated: | | | | | | |
| Land | \$ 18,147,196 | \$ 94,877 | \$(4,208,075) | \$ 14,033,998 | \$ 0 | \$ 14,033,998 |
| Jobs in progress | 140,617,394 | 96,415,059 | (53,767,301) | 183,265,152 | 0 | 183,265,152 |
| Total capital assets, not being depreciated | <u>\$ 158,764,590</u> | <u>\$ 96,509,936</u> | <u>\$(57,975,376)</u> | <u>\$197,299,150</u> | <u>\$ 0</u> | <u>\$197,299,150</u> |
| Capital Assets- being depreciated: | | | | | | |
| Interceptors, trunk lines and inter-ties | \$ 9,985,035 | \$ 31,552 | \$ (922,468) | \$ 9,094,119 | \$ (3,209,141) | \$ 5,884,978 |
| Office facilities | 15,430,545 | 117,343 | (238,086) | 15,309,802 | (3,153,235) | 12,156,567 |
| Collection, outfall, and transmission lines | 84,715,193 | 193,465 | (358,201) | 84,550,457 | (26,870,130) | 57,680,327 |
| Reservoirs, settling basins, ponds, and chlorination stations | 38,179,018 | 19,873,073 | (1,186,594) | 56,865,497 | (4,956,949) | 51,908,548 |
| Recycled water distribution systems | 26,683,639 | 3,383,723 | 0 | 30,067,362 | (1,791,483) | 28,257,879 |
| Treatment plants, pump stations and office buildings | 296,000,955 | 4,126,445 | (57,605,529) | 242,521,871 | (97,762,807) | 144,759,064 |
| Equipment | 24,482,449 | 4,666,437 | (6,599,029) | 22,549,857 | (10,181,490) | 12,368,367 |
| Land improvement | 6,624,841 | 547,537 | (1,271,261) | 5,901,117 | (2,162,266) | 3,738,851 |
| Total capital assets, being depreciated | <u>\$502,101,675</u> | <u>\$ 32,939,575</u> | <u>\$(68,181,168)</u> | <u>\$466,860,082</u> | <u>\$(150,087,501)</u> | <u>\$ 316,772,581</u> |
| Less accumulated depreciation for: | | | | | | |
| Interceptors, trunk lines and inter-ties | \$ (3,845,255) | \$ (264,899) | \$ 901,013 | (3,209,141) | | |
| Office facilities | (2,925,558) | (465,763) | 238,086 | (3,153,235) | | |
| Collection, outfall, and transmission lines | (24,890,031) | (2,255,312) | 275,213 | (26,870,130) | | |
| Reservoirs, settling basins, ponds, and chlorination stations | (4,245,133) | (1,450,542) | 738,726 | (4,956,949) | | |
| Recycled water distribution systems | (1,172,097) | (626,984) | 7,598 | (1,791,483) | | |
| Treatment plants, pump stations and office buildings | (126,108,623) | (9,474,246) | 37,820,062 | (97,762,807) | | |
| Equipment | (13,647,913) | (3,109,188) | 6,575,611 | (10,181,490) | | |
| Land improvement | (2,999,510) | (347,044) | 1,184,288 | (2,162,266) | | |
| Total accumulated depreciation | <u>(179,834,120)</u> | <u>(17,993,978)</u> | <u>47,740,597</u> | <u>(150,087,501)</u> | | |
| Total capital assets, being depreciated, net | <u>\$322,267,555</u> | <u>\$ 14,945,597</u> | <u>\$(20,440,571)</u> | <u>\$316,772,581</u> | | |
| Total capital assets-Enterprise Funds, net | <u>\$481,032,145</u> | <u>\$111,455,533</u> | <u>\$(78,415,947)</u> | <u>\$514,071,731</u> | | |

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

Intangible Assets

| Intangible Assets | Balance at 6/30/06 | Additions | Transfers & Retirements | Balance at 06/30/07 | Accumulated Amortization at 6/30/07 | Net Book Value at 6/30/07 |
|---|-------------------------------|-------------------|--|--------------------------------|--|--|
| Metropolitan Water District connections | \$ 198,891 | \$ 0 | \$ 0 | \$ 198,891 | \$ (145,191) | \$ 53,700 |
| Corps of Engineers-Cucamonga Creek | 43,489 | 0 | 0 | 43,489 | (19,489) | 24,000 |
| San Bernardino County Flood Control- Chino Road Barrier | 91,917 | 0 | (43,839) | 48,078 | (5,608) | 42,470 |
| County Sanitation Districts of Los Angeles County's facilities and capacity rights | 28,418,851 | 999,998 | 0 | 29,418,849 | (9,546,095) | 19,872,754 |
| Santa Ana Watershed Project Authority capacity rights | 12,467,002 | 0 | 0 | 12,467,002 | (4,014,074) | 8,452,928 |
| Organization and master planning | 2,967,602 | 0 | (1,122,090) | 1,845,512 | (355,052) | 1,490,460 |
| Total intangible assets being amortized | <u>\$ 44,187,752</u> | <u>\$ 999,998</u> | <u>\$(1,165,929)</u> | <u>\$ 44,021,821</u> | <u>\$(14,085,509)</u> | <u>\$29,936,312</u> |

Less accumulated amortization for:

| | | | | |
|---|-----------------------------|-------------------------|---------------------------|----------------------------|
| Metropolitan Water District connections | \$ (141,213) | \$ (3,978) | \$ 0 | \$ (145,191) |
| Corps of Engineers-Cucamonga Creek berm | (18,619) | (870) | 0 | (19,489) |
| San Bernardino County Flood Control- Chino Road Barrier | (21,982) | (2,039) | 18,413 | (5,608) |
| County Sanitation Districts of Los Angeles County's facilities and capacity rights | (8,946,036) | (600,059) | 0 | (9,546,095) |
| Santa Ana Watershed Project Authority capacity rights | (3,716,490) | (297,584) | 0 | (4,014,074) |
| Organization and master planning | (1,432,073) | (45,070) | 1,122,091 | (355,052) |
| Total accumulated amortization | <u>(14,276,413)</u> | <u>(949,600)</u> | <u>1,140,504</u> | <u>(14,085,509)</u> |
| Total Intangible Assets-Enterprise Funds, net | <u>\$ 29,911,339</u> | <u>\$ 50,398</u> | <u>\$ (25,425)</u> | <u>\$29,936,312</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 06/07 valued at \$999,998.00.

Ending balance of accumulated depreciation for intangible assets has been adjusted to the Statement of Net Assets for 2007 (rounding difference).

For the fiscal year ended June 30, 2007, depreciation and amortization expense was \$29,937,521.00.

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

Jobs in Progress

At the Fiscal Year ended June 30, 2007, 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, 2007, were as follows:

| | | |
|--|-----------|--------------------|
| Other Projects (less than \$1,000,000 each) | \$ | 20,680,946 |
| RP4 Liquid Expansion to 14 MGD | | 34,950,692 |
| RP1 to RP5 By-Pass | | 24,395,640 |
| RP5 Renewable Energy Project | | 16,748,213 |
| Upland Interceptor Rlf Swr Ph II | | 14,741,926 |
| Edison-Merrill Recycled Water Pipeline | | 9,049,497 |
| RP5 System Fac Upgrade & Improvement | | 6,736,082 |
| West Edison SAC RW Pipeline-A | | 6,463,133 |
| RP5 Utility Water Pipeline | | 5,663,674 |
| RP1 South RW Pump Station | | 4,285,820 |
| CEC Phase II Construction | | 4,269,496 |
| ERP/CMMS Procurement | | 4,070,813 |
| San Antonio Channel Pipeline-B | | 3,403,657 |
| RP1 Odor Control-Phase I | | 3,140,971 |
| Chino Creek Wetland/Ecosystem | | 3,140,070 |
| 7 th & 8 th St. S Pipeline | | 2,835,833 |
| CCWRP Aeration System Modification | | 2,633,130 |
| RP1 3-Phase Digestion Improvement | | 2,560,515 |
| RP5/RP2 Recyc Water Pipelines | | 2,226,698 |
| 1158/1270 E Reservoir Land Acq | | 2,038,305 |
| Complete Mix Digestion Tech | | 1,798,828 |
| CCWRF Chlorination Facility | | 1,524,022 |
| MWD/IEUA/CBWM Dry Year Storage | | 1,342,802 |
| Chino Creek Park | | 1,267,812 |
| RP1 Dechlor/Solids Upgrades | | 1,170,552 |
| Package D, Ph 2A Wells RP3 | | 1,097,275 |
| RP5 Solids Facility Mixing Tank Mod | | 1,028,750 |
| Total jobs in progress | \$ | 183,265,152 |

8) Construction Commitments

The Agency is committed to several material construction contracts. Total outstanding obligation was \$25,138,624 at June 30, 2007. 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. 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 \$2,667,962. 2) **WR04447**- RP4 Area 1158 Pipeline has an outstanding obligation of \$1,408,659. 3) **PL03005**-RP5 Solids Handling Phase II has an outstanding obligation of \$88,670. 4) **EN03029**-RP5 Renewable Energy Efficiency-This project will design and construction multiple renewable energy projects that will conjunctively create an 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 using grant funding from the Department of Energy as well as funds from the PIER program as managed by CH2M-Hill, with an outstanding obligation of \$28,683.

8) Construction Commitments (continued):

- **WR04446-** The San Antonio Channel Pipeline-B project consists of 12,270 ft of 30 inch and 24 inch CML&C steel pipeline. The project begins at Sultana and East I Street in the City of Ontario, then bears north to 4th street, then westerly in 4th Street to Benson Avenue, transitions to San Bernardino Avenue, then bears westerly terminating at the San Antonio Channel. The project has an outstanding balance of \$5,715,751.68.
- **EN04036-RP1** 3-Phase Digestion Improvement project has an outstanding balance of \$4,545,580. This project consists of replacing the temporary plastic piping which is currently laid out on the ground surface, creating an obstacle for operations staff. All new piping will be installed on pipe racks to reduce impacts to operations. In addition, the project includes the replacement of the existing sludge transfer pumps, sludge withdrawal pumps and heat exchange. The new pumps will reduce plugging and cleaning requirements while the new exchangers will improve the efficiency of heat used within the
- **EN07816-** Of the items identified as Priority 2 items, by the Metcalf & Eddy evaluation, the Agency staff have completed an internal review and summarized the work that needs to be started in the FY 2006/07. The scope items included are maintenance items of Priority 2, whereby equipment is cleaned, rehabbed, and replaced, and does not require full design. The project will also fix the cracks on Digesters 6 and 7. The project has an outstanding balance of \$4,064,000.
- **PL03006-** RP1 Odor Control - Phase I has outstanding balance of \$3,605,000. The design of the odor control facilities was divided into two phases (Phase IA and Phase IB) to allow individual treatment facilities to be brought on line as quickly as possible with minimum impact to current operations. Phase IA includes odor control facilities for the dewatering building, gravity thickener, and side stream treatment process, while Phase IB includes odor control facilities for the headworks, rectangular primary clarifiers, and intermediate pump station. It will also provide an enclosure for the screenings/grit bin on the south side of the existing headworks building to capture additional sources of odor; and it will convert a portion of the existing trickling filter as a location to place second biofilter. Currently, Phase IA has completed both design and construction; and it is in operation. Phase IB completed design in December 2006; it will begin construction on March 2007. The scheduled construction completion is April 2008.
- **EN07811-** Philadelphia Pump Station Upgrades project will provide the design and construction of the emergency bypass vault, gas detection system, lighting, MCC replacement, ferric chloride duct bank piping, seismic evaluation and risk analysis of the pump station. The project has an outstanding balance of \$1,102,744.

(9) Contingent Liabilities

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

At June 30, 2007, 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.

(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, 2007, \$173,287 has been collected through the taxing process, and interest has accrued in the amount of \$133,213. The receivable amount is \$27,926 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 Non-reclaimable Wastewater (NRW) lateral pipeline with a not-to-exceed cost of \$250,000. Niagara is responsible for reimbursing the Agency in equal monthly installments over a ten (10) year period with interest added at 3% per annum. The initial payment on this loan is due June 1, 2005. As of June 30, 2007, the receivable amount is \$182,696 and is recorded in the Non-reclaimable 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, 2007, the most recent reporting period available, is summarized as follows:

| | |
|------------------------------|----------------------|
| Cash and investments | \$ 68,138,933 |
| Other assets | 127,915,898 |
| Total assets | <u>\$196,054,831</u> |
| | |
| Total liabilities | \$140,917,597 |
| | |
| Total equity | 55,137,234 |
| Total liabilities and equity | <u>\$196,054,831</u> |
| | |
| Total revenues | 19,800,374 |
| | |
| Total expenses | <u>17,555,339</u> |
| | |
| Net increase in equity | <u>\$2,245,035</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 of 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, 2007, the Desalter delivered 7,920.3 acre feet of water under IEUA to Cities of Chino and Chino Hills and 4,835.6 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, 2007, the IEUA's share of the total costs is \$44,677,444 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, 2006, the most recent reporting period available, is as follows:

| | |
|--|------------------|
| Total assets - cash | \$21,571 |
| Fund balance | \$21,571 |
| Total revenues | \$12,063 |
| Total expenses | (0) |
| Net increase/(decrease) in equity | \$ 12,063 |

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, 2007:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year | Amounts Due After One Year |
|---|------------------------------|------------------|--------------------|---------------------------|--|---|
| <u>Bonds Payable:</u> | | | | | | |
| 1994 Revenue Bonds | \$ 67,037,017 | \$ 0 | \$2,233,631 | \$ 64,803,386 | \$2,515,000 | \$ 62,288,386 |
| 1999 Revenue Bonds | 3,996,472 | 0 | 924,441 | 3,072,031 | 990,000 | 2,082,031 |
| 2002A Variable Rate Revenue Bonds | 54,210,352 | 0 | 1,221,937 | 52,988,415 | 1,275,000 | 51,713,415 |
| 2005A Revenue Bonds (1999 refinancing) | 22,365,066 | 0 | 88,646 | 22,276,420 | 160,000 | 22,116,420 |
| | \$147,608,907 | \$ 0 | \$4,468,655 | \$143,140,252 | \$4,940,000 | \$138,200,252 |

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, 2007 was \$64,803,386.

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, 2007 was \$3,072,031.

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 2006 and June 2007 ranged from 3.358% and 3.755% with a fiscal year average of 3.440%. The balance outstanding at June 30, 2007 was \$52,988,415.

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, 2007 was \$22,276,420.

- 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, 2007, the aggregate debt service requirements on bonded indebtedness to maturity are summarized as follows:

| <u>Year Ending June 30</u> | <u>Principal Payments</u> | <u>Interest Payments</u> | <u>Total</u> |
|---------------------------------------|-------------------------------|------------------------------|----------------------|
| 2008 | \$ 4,940,000 | \$ 7,015,775 | \$ 11,955,755 |
| 2009 | 5,225,000 | 6,736,008 | 11,961,008 |
| 2010 | 6,685,000 | 6,410,431 | 13,095,431 |
| 2011 | 5,825,000 | 6,090,185 | 11,915,185 |
| 2012 | 6,115,000 | 5,789,193 | 11,904,193 |
| 2013 / 2017 | 35,750,000 | 23,813,567 | 59,563,567 |
| 2018 / 2022 | 45,375,000 | 13,644,572 | 59,019,572 |
| 2023 / 2027 | 20,775,000 | 4,497,952 | 25,272,952 |
| 2028 / 2032 | 15,145,000 | 1,700,171 | 16,845,171 |
| Subtotal | 145,835,000 | 75,697,854 | 221,532,854 |
| Less: Deferred amount on refunding | (2,323,282) | 0 | (2,323,282) |
| Less: Discount | (371,466) | 0 | (371,466) |
| Total debt service payable | \$143,140,252 | \$75,697,854 | \$218,838,106 |

(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, 2007. (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, 2007, the 1994 SWAP agreement had generated revenues in the amount of \$231,367.

■ 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, 2007, the 2005 SWAP agreement had generated revenues in the amount of \$101,828.

| 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 | \$66,250,000 | 5/19/2005 | BMA | 62.4%LIBOR + 0.604 | \$570,538 | 8/1/2022 | AA/Aa1 |
| 2005 Bond | 23,295,000 | 5/19/2005 | BMA | 62.4%LIBOR + 0.664 | 290,832 | 11/1/2022 | AA/Aa1 |
| \$89,525,000 | | | | | \$861,370 | | |

■ Fair Value

As of June 30, 2007, the SWAP had a fair value of \$861,370 (\$570,538 for the 1994 bonds SWAP and \$290,832 for the 2005 Bonds SWAP). The fair values were estimated on the basis of mid market levels, and include accrued interest.

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

Long-term Debt (continued):

Interest Rate SWAP (continued):

■ Credit risk

The SWAP's fair values represent the Agency's credit exposure to the counterparties as of June 30, 2005. 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, 2007, 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, 2007 was as follows:

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

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year | Amounts Due After One Year |
|------------------------------|------------------------------|--------------------|-------------------|---------------------------|--|---|
| <u>Notes Payable:</u> | | | | | | |
| SARI Pipeline Cap. 1.5mgd | \$2,225,451 | \$0 | \$118,178 | \$2,107,273 | \$267,188 | \$1,840,085 |
| State Revolving Fund Loan | 14,547,366 | 6,773,584 | 830,306 | 20,490,644 | 411,132 | 20,079,512 |
| Total Notes Payable | \$16,772,817 | \$6,773,584 | \$948,484 | \$22,597,917 | \$678,320 | \$21,919,597 |

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 tenth installment is due on July 15, 2007. This is a combined note payable from the Nonreclaimable Wastewater and Regional Wastewater Funds.

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

Notes Payable (continued):

Santa Ana Watershed Project Authority (continued):

As of June 30, 2007, the future payments for the remaining note payable obligation by year is as follows:

| Year Ending June 30 | Principal Payments | Imputed Interest | Total |
|--------------------------------|-------------------------------|-----------------------------|--------------------|
| 2008 | \$140,751 | \$126,436 | \$267,187 |
| 2009 | 149,196 | 117,991 | \$267,187 |
| 2010 | 158,148 | 109,040 | \$267,188 |
| 2011 | 167,637 | 99,551 | \$267,188 |
| 2012 | 177,695 | 89,493 | \$267,188 |
| 2013/2017 | 1,061,784 | 274,153 | \$1,335,937 |
| 2018 | 252,064 | 15,124 | \$267,188 |
| Total SAWPA Note | <u>\$2,107,275</u> | <u>\$831,788</u> | <u>\$2,939,063</u> |

State Water Resources Control Board

- The Regional Recycled Water Distribution System Phase I-V projects are in part funded by the State Revolving Fund (SRF) loans financed by the State Water Resources Control Board. As of June 30, 2007, the five projects in Phase I had been completed and received \$15,142,293 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%.
- The RP1 Pump Station and West Edison SAC RW Pipeline A & B projects are also in part funded by the State Revolving Fund (SRF). As of June 30, 2007, the three projects were approximately 50% complete and have received \$6,773,584 of SRF funding.

As of June 30, 2007, the future payments for the remaining loan obligation by year are as follows:

| Year Ending June 30 | Principal Payment | Interest Payment | Total Payment |
|--------------------------------|------------------------------|-----------------------------|--------------------------|
| 2008 | \$411,132 | \$223,482 | \$634,614 |
| 2009 | 908,289 | 498,418 | 1,406,707 |
| 2010 | 930,824 | 475,913 | 1,406,737 |
| 2011 | 953,919 | 452,818 | 1,406,737 |
| 2012 | 977,587 | 429,150 | 1,406,737 |
| 2013/2017 | 5,264,030 | 1,769,655 | 7,033,685 |
| 2018/2022 | 5,950,330 | 1,083,354 | 7,033,684 |
| 2023/2025 | 4,670,625 | 335,779 | 5,006,404 |
| 2028 | 423,908 | 10,598 | 434,506 |
| Total SRF Loans | <u>\$20,490,644</u> | <u>\$5,279,167</u> | <u>\$25,769,811</u> |

(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, 2007 are as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year | Amounts Due After One Year |
|---|------------------------------|--------------------|--------------------|---------------------------|--|---|
| 1994 Revenue Bonds | \$67,037,017 | | \$2,233,631 | \$64,803,386 | \$2,515,000 | \$62,288,386 |
| 1999 Revenue Bonds | 3,996,472 | | 924,441 | 3,072,031 | 990,000 | 2,082,031 |
| 2002A Variable Rate Revenue Bonds | 54,210,352 | | 1,221,937 | 52,988,415 | 1,275,000 | 51,713,415 |
| 2005A Revenue Bonds (1999 Refinancing) | 22,365,066 | | 88,646 | 22,276,420 | 160,000 | 22,116,420 |
| SARI Pipeline Cap. 1.5mgd | 2,225,451 | | 118,178 | 2,107,273 | 267,188 | 1,840,085 |
| State Revolving Fund Loan | 14,547,366 | 6,773,584 | 830,306 | 20,490,644 | 411,132 | 20,079,512 |
| Compensated Absences | 2,556,382 | 194,216 | 24,820 | 2,725,778 | 1,618,366 | 1,107,412 |
| Total Long-term Debt and Notes Payable | <u>\$166,938,106</u> | <u>\$6,967,800</u> | <u>\$5,441,959</u> | <u>\$168,463,947</u> | <u>\$7,236,686</u> | <u>\$161,227,261</u> |

(13) Arbitrage Rebate Obligation

Arbitrage rebate refers to the required payment, to the U.S. Treasury, of excess earnings received on tax exempt bond proceeds that are invested at a higher yield than the yield of the tax exempt bond issue. Federal law requires that arbitrage liability, and cumulative excess arbitrage earnings, be calculated and remitted to the U.S. Treasury at the end of the fifth bond year, and every fifth year thereafter. The Agency has elected to have the arbitrage liability calculated annually. The 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, 2007 as a combined total of \$271,890.

(14) Commercial Paper Notes

In June 2006, the Agency Board of Directors approved a Commercial Paper Program of \$75 million through the Chino Basin Regional Financing Authority, to issue Notes from time-to-time. The Agency's obligation to the Authority is evidenced by a Tax Revenue Anticipation Note (TRAN) which is secured by taxes, income, revenue, cash receipts and other monies which are received by the Agency for the Fiscal Year 2006/2007. The Authority's obligation to pay the Notes is further supported by a \$81,657,535 line of credit with a bank. On July 10, 2006, the Agency received commercial paper proceeds of \$50,160,000. The transaction has been recorded in the Regional Wastewater fund as a current liability.

The proceeds of the Commercial Paper were used to fund capital expenditures. The intent of the Commercial Paper Program is to provide interim financing for the agency's capital programs until such time that the issuance of long term debt will be feasible. It is anticipated that a fixed rate bond issuance will be in place in the early 2008.

(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, 2007, the balances were as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------|------------------|
| Non-major Funds | Regional Wastewater | \$ 25,477 |
| | Total | \$ 25,477 |

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, 2007.

| | Transfers In | | | | |
|---------------------------|--------------------------------|---------------------------|---------------------------|---|---------------------|
| | <u>Regional Wastewater</u> | <u>Recharge Water</u> | <u>Recycled Water</u> | <u>Non-Major Enterprise Funds</u> | <u>Total</u> |
| Transfers out: | | | | | |
| Regional Wastewater Fund | | \$5,089,855 | \$11,448,315 | \$7,409,649 | \$23,947,819 |
| Recharge Water | 2,304,355 | | | | 2,304,355 |
| Recycled Water Fund | | | | 11,259 | 11,259 |
| Non-Major Enterprise Fund | 1,930,432 | | | 150,411 | 2,080,843 |
| Total Transfers | \$4,234,787 | \$5,089,855 | \$11,448,315 | \$7,571,319 | \$28,344,276 |

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 Recharge and Recycled Water Funds received administrative and capital support from the Regional Capital Improvement Fund in the amount of \$5,089,854 and 11,448,314 respectively.

(16) Transfers In/Out (continued):

Non-Major Enterprise Funds received transfers in the amount of \$7,571,319 including \$7,409,649 from the Regional Wastewater Funds. These transfers included \$2,652,610 in capital support from the RC Fund to the Organics Management Fund (OM) and Administrative Service Fund (GG). The remaining amount of \$4,757,039 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 leases at June 30, 2007:

- One postage meter lease extending to August, 2009.

Total operating lease costs were \$2,852 for the year ended June 30, 2007. The future minimum lease payments for equipment leases are as follows:

| <u>Year Ended June 30</u> | <u>Amount</u> |
|---------------------------|-----------------------|
| 2008 | \$2,852 |
| 2009 | 2,852 |
| 2010 | 475 |
| 2011 | 0 |
| 2012 | 0 |
| Total | <u>\$6,179</u> |

(18) Restatement of Net Assets and Related Accounts

Regional Wastewater & Organics Management Funds

As a result of the reclassification of 'Advances from other fund'; to 'Capital contribution between the Regional Wastewater (RC) and Organics Management (OM) funds', interest payable and net assets for the fiscal year ended June 30, 2006 have been restated to reflect prior period interest recorded, and the related 'Accrued interest receivable and payable'.

| <u>Organics Management Fund</u> | <u>Regional Wastewater Fund</u> | <u>Amount</u> |
|---------------------------------|---------------------------------|-------------------|
| Advance from other fund | Advance to other fund | \$ 7,650,000 |
| Interest payable | Interest receivable | <u>\$ 860,730</u> |

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

| | <u>RC</u> | <u>OM</u> |
|---|----------------------|---------------------|
| Net assets as previously reported June 30, 2006 | \$305,213,356 | \$38,491,008 |
| Advance to/from other fund | (7,650,000) | 7,650,000 |
| Interest receivable/payable | <u>(860,730)</u> | <u>860,730</u> |
| Net assets as restated, June 30, 2006 | <u>\$296,702,626</u> | <u>\$47,001,738</u> |



"A Garden in Every School" Program

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, 2007

(With Comparative Totals for June 30, 2006)

| | Non-Major Enterprise Funds | |
|---|----------------------------|-------------------------------|
| | Water | Non Reclaimable Wastewater |
| ASSETS | | |
| Current assets | | |
| Cash and investments | \$1,899,689 | \$19,401,141 |
| Accounts receivable | 11,328,640 | 1,694,860 |
| Interest receivable | 7,487 | 140,196 |
| Taxes receivable | 0 | 26,759 |
| Other receivables | 0 | 23,110 |
| Due from other funds | 0 | 0 |
| Inventory | 0 | 0 |
| Prepaid items | 0 | 194,069 |
| Total current assets | <u>13,235,816</u> | <u>21,480,135</u> |
| 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 | 0 |
| Total restricted assets | <u>0</u> | <u>0</u> |
| Capital assets | | |
| Land | 0 | 0 |
| Jobs in progress | 1,342,801 | 649,508 |
| Capital assets, net of accumulated depreciation | <u>25,646</u> | <u>4,963,235</u> |
| Total capital assets | <u>1,368,447</u> | <u>5,612,743</u> |
| Other assets | | |
| Long-term investments | 0 | 0 |
| Long-term receivables | 0 | 182,696 |
| Intangible assets, net of accumulated amortization | 63,396 | 23,311,223 |
| Deferred costs | 0 | 0 |
| Total other assets | <u>63,396</u> | <u>23,493,919</u> |
| Total noncurrent assets | <u>1,431,843</u> | <u>29,106,662</u> |
| Total assets | <u>14,667,659</u> | <u>50,586,797</u> |

| Organics Management | Administrative Services | Totals | |
|------------------------|----------------------------|--------------|--------------|
| | | 2007 | 2006 |
| (\$6,400,550) | \$14,577,794 | \$29,478,074 | \$22,288,229 |
| 4,140,417 | 743,531 | 17,907,448 | 7,868,990 |
| 4,304 | 145,950 | 297,937 | 197,654 |
| 0 | 258,895 | 285,654 | 229,857 |
| 0 | 82,247 | 105,357 | 62,987 |
| 0 | 25,476 | 25,476 | 25,477 |
| 0 | 1,497,598 | 1,497,598 | 1,904,863 |
| 8,911 | 139,421 | 342,401 | 118,713 |
| (2,246,918) | 17,470,912 | 49,939,945 | 32,696,770 |
| 0 | 891,682 | 891,682 | 655,828 |
| 545 | 31,689 | 32,234 | 22,289 |
| 0 | 0 | 0 | 602 |
| 545 | 923,371 | 923,916 | 678,719 |
| 0 | 20,829 | 20,829 | 4,215,819 |
| 30,172 | 6,115,084 | 8,137,565 | 46,720,043 |
| 6,837,199 | 17,193,863 | 29,019,943 | 28,819,996 |
| 6,867,371 | 23,329,776 | 37,178,337 | 79,755,858 |
| 47,016,694 | 0 | 47,016,694 | 39,737,131 |
| 0 | 27,926 | 210,622 | 40,392 |
| 0 | 0 | 23,374,619 | 68,217 |
| 115,221 | 758 | 115,979 | 304,986 |
| 47,131,915 | 28,684 | 70,717,914 | 40,150,726 |
| 53,999,831 | 24,281,831 | 108,820,167 | 120,585,303 |
| 51,752,913 | 41,752,743 | 158,760,112 | 153,282,073 |
| (continued) | | | |

INLAND EMPIRE UTILITIES AGENCY
Combining Statement of Net Assets (Continued from previous page)
June 30, 2007
(With Comparative Totals for June 30, 2006)

| | Non-Major Enterprise Funds | |
|---|----------------------------|-------------------------------|
| | Water | Non Reclaimable Wastewater |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | 7,100,192 | 327,941 |
| Accrued liabilities | 1,945,759 | 1,411,392 |
| Compensated absences | 0 | 0 |
| Notes payable, due within one year | 0 | 178,125 |
| Interest payable | 0 | 0 |
| Total current liabilities | 9,045,951 | 1,917,458 |
| Noncurrent liabilities | | |
| Compensated absences | 0 | 0 |
| Notes payable, due in more than one year | 0 | 1,245,618 |
| Liability for 401(a) plan | 0 | 0 |
| Advances from other funds | 0 | 0 |
| Other noncurrent liabilities | 0 | 0 |
| Total noncurrent liabilities | 0 | 1,245,618 |
| Total liabilities | 9,045,951 | 3,163,076 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 1,431,844 | 27,500,223 |
| Restricted for: | | |
| Capital construction | 0 | 0 |
| Debt service | 0 | 0 |
| Bond operating contingency requirement | 0 | 1,538,004 |
| Total restricted | 0 | 1,538,004 |
| Unrestricted | 4,189,864 | 18,385,494 |
| Total net assets | \$5,621,708 | \$47,423,721 |

| Organics Management | Administrative Services | Totals | |
|------------------------|----------------------------|----------------------|----------------------|
| | | 2007 | 2006 |
| 193,185 | 1,262,375 | 8,883,693 | 7,279,288 |
| 0 | 1,237,557 | 4,594,708 | 1,858,250 |
| 0 | 1,197,558 | 1,197,558 | 85,880 |
| 280,932 | 0 | 459,057 | 687,966 |
| 28,965 | 0 | 28,965 | 935,267 |
| 503,082 | 3,697,490 | 15,163,981 | 10,846,651 |
| 0 | 1,528,219 | 1,528,219 | 2,470,502 |
| 11,394,482 | 0 | 12,640,100 | 29,633,079 |
| 0 | 891,682 | 891,682 | 655,828 |
| 0 | 0 | 0 | 7,650,000 |
| 37,524 | 781,686 | 819,210 | 151,763 |
| 11,432,006 | 3,201,587 | 15,879,211 | 40,561,172 |
| 11,935,088 | 6,899,077 | 31,043,192 | 51,407,823 |
| (4,808,044) | 23,329,775 | 47,453,798 | 49,503,030 |
| 1,798,720 | 0 | 1,798,720 | 370,395 |
| 138,831 | 0 | 138,831 | 37,761 |
| 0 | 1,274,100 | 2,812,104 | 2,278,240 |
| 1,937,551 | 1,274,100 | 4,749,655 | 2,686,396 |
| 42,688,318 | 10,249,791 | 75,513,467 | 49,684,824 |
| <u>\$39,817,825</u> | <u>\$34,853,666</u> | <u>\$127,716,920</u> | <u>\$101,874,250</u> |

INLAND EMPIRE UTILITIES AGENCY
Combining Statement of Revenues, Expenses, and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2007
(With Comparative Totals for June 30, 2006)

| | <u>Non-Major Enterprise Funds</u> | |
|--|-----------------------------------|----------------------------|
| | Non Reclaimable | |
| | <u>Water</u> | <u>Wastewater</u> |
| OPERATING REVENUES | | |
| Service charges | <u>\$1,831,429</u> | <u>\$6,870,974</u> |
| Total operating revenues | <u>1,831,429</u> | <u>6,870,974</u> |
| OPERATING EXPENSES | | |
| Wastewater collection | 0 | 452,487 |
| Wastewater treatment | 0 | 3,194,483 |
| Operations and maintenance | 2,989,699 | 0 |
| Administration and general | 1,948,806 | 967,040 |
| Depreciation and amortization | <u>5,617</u> | <u>1,047,980</u> |
| Total operating expenses | <u>4,944,122</u> | <u>5,661,990</u> |
| Operating income (loss) | <u>(3,112,693)</u> | <u>1,208,984</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 85,749 | 750,127 |
| Property tax revenue | 0 | 1,515 |
| Other nonoperating revenues | 1,015,026 | 301,335 |
| Interest on long-term debt | 0 | (99,340) |
| Other nonoperating expenses | <u>(6,648)</u> | <u>(2,726)</u> |
| Total nonoperating revenues (expenses) | <u>1,094,127</u> | <u>950,911</u> |
| Income (loss) before contributions and transfers | <u>(2,018,566)</u> | <u>2,159,895</u> |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | |
| Transfers in | 135,110 | 0 |
| Transfers out | 0 | (65,300) |
| Capital grants | 2,447,279 | 0 |
| Contribution in aid | <u>0</u> | <u>0</u> |
| Change in net assets | <u>563,823</u> | <u>2,094,595</u> |
| Total net assets - beginning | <u>5,057,885</u> | <u>45,329,126</u> |
| Total net assets - ending | <u><u>\$5,621,708</u></u> | <u><u>\$47,423,721</u></u> |

| Organics Management | Administrative Services | Totals | |
|------------------------|----------------------------|---------------|---------------|
| | | 2007 | 2006 |
| \$1,172,934 | \$0 | \$9,875,337 | \$2,167,753 |
| 1,172,934 | 0 | 9,875,337 | 2,167,753 |
| 0 | 0 | 452,487 | 0 |
| 0 | 0 | 3,194,483 | 0 |
| 4,441,793 | 0 | 7,431,492 | 67,404 |
| 954,365 | 3,822,300 | 7,692,511 | 9,280,245 |
| 327,894 | 1,865,426 | 3,246,917 | 1,908,644 |
| 5,724,052 | 5,687,726 | 22,017,890 | 11,256,293 |
| (4,551,118) | (5,687,726) | (12,142,553) | (9,088,540) |
| 182,065 | 608,269 | 1,626,210 | 755,315 |
| 0 | 2,498,943 | 2,500,458 | 1,619,515 |
| 2,551,509 | 1,261,873 | 5,129,743 | 2,821,365 |
| (419,199) | 0 | (518,539) | (1,085,147) |
| (53,933) | (27,587) | (90,894) | (247,928) |
| 2,260,442 | 4,341,498 | 8,646,978 | 3,863,120 |
| (2,290,676) | (1,346,228) | (3,495,575) | (5,225,420) |
| 3,308,276 | 4,027,933 | 7,471,319 | 15,225,061 |
| (8,201,513) | (1,865,543) | (10,132,356) | (1,053,595) |
| 0 | 77,988 | 2,525,267 | 397,120 |
| 0 | 0 | 0 | 67,785 |
| (7,183,913) | 894,150 | (3,631,345) | 9,410,951 |
| 47,001,738 | 33,959,516 | 131,348,265 | 92,463,299 |
| \$39,817,825 | \$34,853,666 | \$127,716,920 | \$101,874,250 |

INLAND EMPIRE UTILITIES AGENCY
Statement of Cash Flows
For the Fiscal Year ended June 30, 2007
(With Comparative Totals for June 30, 2006)

| | <u>Non-Major Enterprise Funds</u> | |
|--|-----------------------------------|--------------------|
| | | Non Recaimable |
| | <u>Water</u> | <u>Wastewater</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | (\$4,773,894) | \$7,491,046 |
| Cash received from interfund services provided | 0 | 0 |
| Cash payments to suppliers for goods and services | (1,194,256) | (4,407,559) |
| Cash payments to employees for services | (254,911) | (432,047) |
| Cash payments for interfund services used | (303,068) | (529,457) |
| Cash received from others | <u>2,161,076</u> | <u>0</u> |
| Net cash provided by (used for) operating activities | <u>(4,365,053)</u> | <u>2,121,983</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Transfers in | 135,110 | 0 |
| Transfers out | 0 | (65,300) |
| Tax revenues | 0 | 1,515 |
| Long term receivable | 0 | 23,110 |
| Advances from other funds | 0 | 301,335 |
| Advances to other funds | <u>0</u> | <u>0</u> |
| Net cash provided by (used for) noncapital financing activities | <u>135,110</u> | <u>260,660</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets | (51,076) | (1,542,764) |
| Proceeds from sale of assets | 0 | 0 |
| Capital grants | 1,301,229 | 0 |
| Contribution in Aid | 0 | 0 |
| Principal paid on capital debt | 0 | (78,784) |
| Interest paid on capital debt | 0 | (99,340) |
| Bond administration fees | 0 | 0 |
| Changes in contractor deposits/retentions | <u>0</u> | <u>0</u> |
| Net cash provided by (used for) capital and related financing activities | <u>1,250,153</u> | <u>(1,720,888)</u> |

| Organics Management | Administrative Services | Totals | |
|------------------------|----------------------------|--------------------|---------------------|
| | | 2007 | 2006 |
| (\$1,608,664) | (\$442,712) | \$665,776 | \$1,722,133 |
| 0 | 20,790,488 | 20,790,488 | 19,257,765 |
| (3,757,126) | (4,843,641) | (14,202,582) | (8,983,657) |
| (859,157) | (18,516,047) | (20,062,162) | (16,997,093) |
| (652,730) | 0 | (1,485,255) | (1,456,743) |
| 2,551,509 | 1,261,872 | 5,974,457 | 1,181,609 |
| <u>(4,326,168)</u> | <u>(1,750,040)</u> | <u>(8,319,278)</u> | <u>(6,457,595)</u> |
| | | | |
| 3,308,276 | 4,027,931 | 7,471,317 | 15,225,061 |
| (8,201,513) | (1,865,543) | (10,132,356) | (1,053,595) |
| 0 | 2,498,942 | 2,500,457 | 1,619,515 |
| 0 | 12,466 | 35,576 | 13,215 |
| 0 | 0 | 301,335 | (850,000) |
| 0 | 0 | 0 | 13,140 |
| <u>(4,893,237)</u> | <u>4,673,796</u> | <u>176,329</u> | <u>14,967,336</u> |
| | | | |
| (7,305,107) | (5,656,148) | (14,555,095) | (11,447,544) |
| 9,960,777 | 0 | 9,960,777 | 1,230 |
| 0 | 77,988 | 1,379,217 | 472,120 |
| 0 | 0 | 0 | (7,215) |
| (269,241) | 0 | (348,025) | (655,490) |
| (419,597) | 0 | (518,937) | (1,132,145) |
| (53,934) | 0 | (53,934) | (104,267) |
| 0 | 0 | 0 | (318,306) |
| <u>1,912,898</u> | <u>(5,578,160)</u> | <u>(4,135,997)</u> | <u>(13,191,617)</u> |
| (Continued) | | | |

INLAND EMPIRE UTILITIES AGENCY
Statement of Cash Flows (Continued from previous page)
For the Fiscal Year ended June 30, 2007
(With Comparative Totals for June 30, 2006)

| | <u>Non-Major Enterprise Funds</u> | |
|---|-----------------------------------|----------------------------|
| | Non Reclaimable | |
| | <u>Water</u> | <u>Wastewater</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest on investments | 132,700 | 752,242 |
| Gain (loss) on fair value of long term investments | 0 | 0 |
| Purchase of investments | <u>0</u> | <u>0</u> |
| Net cash provided by (used for) investing activities | <u>132,700</u> | <u>752,242</u> |
| Net increase (decrease) in cash and cash equivalents | <u>(2,847,090)</u> | <u>1,413,997</u> |
| Cash and cash equivalents - beginning | <u>4,740,131</u> | <u>17,984,422</u> |
| Cash and cash equivalents - ending | <u><u>\$1,893,041</u></u> | <u><u>\$19,398,419</u></u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | | |
| Operating income (loss) | (\$951,615) | \$1,208,982 |
| Adjustments to reconcile operating income to net cash provided by (used for) operating activities | | |
| Depreciation and amortization | 5,617 | 1,047,980 |
| Changes in assets and liabilities | | |
| (Increase) decrease in | | |
| Accounts receivable | (6,605,323) | 620,754 |
| Other receivables | 0 | (682) |
| Taxes Receivable | 0 | 1 |
| Inventory | 0 | 0 |
| Prepaid items | 0 | (97,615) |
| Deferred costs | 0 | 0 |
| Increase (decrease) in | | |
| Accounts payable | 1,861,598 | 30,411 |
| Retention payable | | (133,459) |
| Accrued liabilities | 1,324,670 | (554,389) |
| Compensated absences | 0 | 0 |
| Liability for 401(a) plan | <u>0</u> | <u>0</u> |
| Net cash provided by (used for) operating activities | <u><u>(\$4,365,053)</u></u> | <u><u>\$2,121,983</u></u> |

| Organics Management | Administrative Services | Totals | |
|------------------------|----------------------------|---------------|---------------|
| | | 2007 | 2006 |
| 187,191 | 1,502,725 | 2,574,858 | 738,601 |
| 0 | (272,841) | (272,841) | (116,377) |
| 0 | (213,563) | (213,563) | (205,905) |
| 187,191 | 1,016,321 | 2,088,454 | 416,319 |
| (7,119,316) | (1,638,083) | (10,190,492) | (4,265,557) |
| 719,309 | 16,247,566 | 39,691,428 | 25,395,068 |
| (\$6,400,007) | \$14,609,483 | \$29,500,936 | \$21,129,511 |
| | | | |
| (\$1,999,609) | (\$4,425,857) | (6,168,099) | (\$9,088,540) |
| 327,894 | 1,865,428 | 3,246,919 | 1,908,644 |
| (2,781,598) | (394,416) | (9,160,583) | (388,447) |
| 0 | (19,260) | (19,942) | (863) |
| 0 | (29,037) | (29,036) | (63,401) |
| 0 | 407,265 | 407,265 | (78,344) |
| 0 | (30,418) | (128,033) | 1,148 |
| 0 | 0 | 0 | 6,333 |
| 127,145 | 470,608 | 2,489,762 | 280,614 |
| 0 | | (133,459) | (58,285) |
| 0 | 396 | 770,677 | 685,054 |
| 0 | 169,397 | 169,397 | 132,587 |
| 0 | 235,854 | 235,854 | 205,905 |
| (\$4,326,168) | (\$1,750,040) | (\$8,319,278) | (\$6,457,595) |
| (Continued) | | | |

INLAND EMPIRE UTILITIES AGENCY

Statement of Cash Flows - (Continued from previous page)

For the Fiscal Year Ended June 30, 2007

(With Comparative Totals for June 30, 2006)

| | Non-Major Enterprise Funds | |
|--|----------------------------|-------------------------------|
| | Water | Non Reclaimable Wastewater |
| RECONCILIATION OF CASH & CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS: | | |
| Cash & cash equivalents at end of year | \$1,893,041 | \$19,398,419 |
| Investments | 0 | 0 |
| Total cash, short-term investments and restricted cash | <u>\$1,893,041</u> | <u>\$19,398,419</u> |
| Cash | (\$1,624,667) | \$6,029,466 |
| Short-term investments | 3,524,356 | 13,371,675 |
| Restricted assets | 0 | 0 |
| Total cash, short-term investments and restricted cash | <u>\$1,899,689</u> | <u>\$19,401,141</u> |
| Noncash capital, financing and investing activities: | <u>2007</u> | <u>2006</u> |
| Water Fund -Disposal of Obsolete Assets | \$ 6,648 | \$ - |
| Nonreclaimable Wastewater Fund-Disposal of Obsolete Assets | 2,722 | |

| Organics Management | Administrative Services | Total Non-Major Funds | |
|------------------------|----------------------------|-----------------------|---------------------|
| | | 2007 | 2006 |
| (\$6,400,006) | \$14,609,483 | \$29,500,936 | \$22,311,120 |
| 0 | 0 | \$0 | 0 |
| <u>(\$6,400,006)</u> | <u>\$14,609,483</u> | <u>\$29,500,936</u> | <u>\$22,311,120</u> |
| \$0 | \$6,112,502 | \$10,517,301 | \$6,921,108 |
| (6,400,551) | 8,465,292 | \$18,960,772 | 15,367,121 |
| 545 | 31,689 | \$32,234 | 22,891 |
| <u>(\$6,400,006)</u> | <u>\$14,609,483</u> | <u>\$29,510,307</u> | <u>\$22,311,120</u> |



**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, 2002 and 2005A 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, 2007
(With Comparative Totals for June 30, 2006)

| | Regional Capital Improvement | Regional Operations & Maintenance | Obligation Payment | Eliminations | Totals | |
|--|------------------------------------|---|-----------------------|--------------|--------------|--------------|
| | | | | | 2007 | 2006 |
| ASSETS | | | | | | |
| Current assets | | | | | | |
| Cash and investments | \$11,556,850 | \$19,509,516 | \$7,834,455 | \$0 | \$38,900,821 | \$34,914,844 |
| Accounts receivable | 3,704,635 | 4,253,641 | 0 | 0 | 7,958,276 | 8,321,439 |
| Interest receivable | 758,405 | 138,562 | 0 | 0 | 896,967 | 744,858 |
| Taxes receivable | 2,607,869 | 655,483 | 0 | 0 | 3,263,352 | 2,926,900 |
| Due from other funds | 176,149 | 47,935 | 0 | (224,084) | - | 5,000,000 |
| Prepaid items | 16,103 | 1,955 | 0 | 0 | 18,058 | 17,558 |
| Total current assets | 18,820,011 | 24,607,092 | 7,834,455 | (224,084) | 51,037,474 | 51,925,599 |
| Noncurrent assets | | | | | | |
| Restricted assets | | | | | | |
| Deposits held by governmental agencies | 10,591,879 | 0 | 0 | 0 | 10,591,879 | 5,669,408 |
| Deposits held by retentions | 3,182,737 | 0 | 0 | 0 | 3,182,737 | 1,765,606 |
| Assets held with trustee/fiscal agents | 11,009,529 | 0 | 0 | 0 | 11,009,529 | 11,109,081 |
| Total restricted assets | 24,784,145 | 0 | 0 | 0 | 24,784,145 | 18,544,095 |
| Capital assets | | | | | | |
| Land | 14,013,169 | 0 | 0 | 0 | 14,013,169 | 13,931,378 |
| Jobs in progress | 140,274,995 | 0 | 0 | 0 | 140,274,995 | 78,500,022 |
| Capital assets, net of accumulated depreciation | 236,237,556 | 0 | 0 | 0 | 236,237,556 | 260,909,884 |
| Total capital assets | 390,525,720 | 0 | 0 | 0 | 390,525,720 | 353,341,284 |
| Other assets | | | | | | |
| Intangible assets, net of accumulated amortization | 6,519,226 | 0 | 0 | 0 | 6,519,226 | 6,727,389 |
| Deferred costs | 1,414,457 | 0 | 0 | 0 | 1,414,457 | 1,429,289 |
| Total other assets | 7,933,683 | 0 | 0 | 0 | 7,933,683 | 8,156,678 |
| Total noncurrent assets | 423,243,548 | 0 | 0 | 0 | 423,243,548 | 380,042,057 |
| Total assets | 442,063,559 | 24,607,092 | 7,834,455 | (224,084) | 474,281,022 | 431,967,656 |

(Continued)

| | Regional Capital Improvement | Regional Operations & Maintenance | Obligation Payment | Eliminations | Totals | |
|---|------------------------------------|---|-----------------------|--------------|---------------|---------------|
| | | | | | 2007 | 2006 |
| LIABILITIES | | | | | | |
| Current liabilities | | | | | | |
| Accounts payable | 2,972,142 | 2,049,460 | 0 | 0 | 5,021,602 | 9,700,984 |
| Accrued liabilities | 54,868 | 499,210 | 0 | 0 | 554,078 | 492,442 |
| Due to other funds | 0 | 249,561 | 0 | (224,084) | 25,477 | 25,477 |
| Retentions payable | 1,510,491 | 0 | 0 | 0 | 1,510,491 | 1,531,365 |
| Notes payable, commercial papers | 50,160,000 | 0 | 0 | 0 | 50,160,000 | 0 |
| Notes payable, due within one year | 89,063 | 0 | 0 | 0 | 89,063 | 89,063 |
| Long-term debt, due within one year | 4,226,865 | 0 | 0 | 0 | 4,226,865 | 3,987,034 |
| Interest payable | 2,195,084 | 0 | 0 | 0 | 2,195,084 | 1,982,153 |
| Retention deposits and escrows | 3,182,737 | 0 | 0 | 0 | 3,182,737 | 1,765,606 |
| Total current liabilities | 64,391,250 | 2,798,231 | 0 | (224,084) | 66,965,397 | 19,574,124 |
| Noncurrent liabilities | | | | | | |
| Long-term debt, due in more than one year | 109,275,798 | 0 | 0 | 0 | 109,275,798 | 113,300,828 |
| Notes payable, due in more than one year | 594,468 | 0 | 0 | 0 | 594,468 | 633,861 |
| Other noncurrent liabilities | 271,890 | 1,485,084 | 0 | 0 | 1,756,974 | 1,756,217 |
| Total noncurrent liabilities | 110,142,156 | 1,485,084 | 0 | 0 | 111,627,240 | 115,690,906 |
| Total liabilities | 174,533,406 | 4,283,315 | 0 | (224,084) | 178,592,637 | 135,265,030 |
| NET ASSETS | | | | | | |
| Invested in capital assets, net of related debt | 239,822,785 | 0 | 0 | 0 | 239,822,785 | 242,057,887 |
| Restricted for | | | | | | |
| Capital construction | 10,591,879 | 8,177,778 | 0 | 0 | 18,769,657 | 20,590,368 |
| Debt service | 15,307,913 | 0 | 7,834,455 | 0 | 23,142,368 | 18,811,187 |
| Bond operating contingency requirement | 1,807,576 | 12,145,999 | 0 | 0 | 13,953,575 | 12,364,787 |
| Total restricted | 27,707,368 | 20,323,777 | 7,834,455 | 0 | 55,865,600 | 51,766,342 |
| Unrestricted | 0 | 0 | 0 | 0 | 0 | 2,878,397 |
| Total net assets | \$267,530,153 | \$20,323,777 | \$7,834,455 | \$0 | \$295,688,385 | \$296,702,626 |

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, 2007
(With Comparative Totals for June 30, 2006)

| | Regional Capital Improvement | Regional Operations & Maintenance | Obligation Payment | Eliminations | Totals | |
|---|------------------------------------|---|-----------------------|--------------|----------------|----------------|
| | | | | | 2007 | 2006 |
| OPERATING REVENUES | | | | | | |
| Service charges | \$1,753,245 | \$26,335,018 | \$0 | \$0 | \$28,088,263 | \$23,378,315 |
| Other charges | 0 | 0 | 0 | 0 | 0 | 0 |
| Total operating revenues | 1,753,245 | 26,335,018 | 0 | 0 | 28,088,263 | 23,378,315 |
| OPERATING EXPENSES | | | | | | |
| Wastewater collection | 0 | 633,199 | 0 | 0 | 633,199 | 665,240 |
| Wastewater treatment | 0 | 21,887,338 | 0 | 0 | 21,887,338 | 19,445,657 |
| Wastewater disposal | 0 | 7,433,865 | 0 | 0 | 7,433,865 | 6,235,413 |
| Administration and general | 5,422,724 | 6,483,595 | 0 | 0 | 11,906,319 | 10,748,950 |
| Depreciation and amortization | 14,361,439 | 0 | 0 | 0 | 14,361,439 | 15,345,727 |
| Total operating expenses | 19,784,163 | 36,437,997 | 0 | 0 | 56,222,160 | 52,440,987 |
| Operating income (loss) | (18,030,918) | (10,102,979) | 0 | 0 | (28,133,897) | (29,062,672) |
| NONOPERATING REVENUES (EXPENSES) | | | | | | |
| Interest income | 2,666,797 | 1,018,975 | 0 | 0 | 3,685,772 | 2,522,211 |
| Property tax revenue | 22,183,184 | 6,334,554 | 0 | 0 | 28,517,738 | 18,450,106 |
| Wastewater capital connection fees | 24,670,848 | 0 | 0 | 0 | 24,670,848 | 20,895,635 |
| Other nonoperating revenues | 853,837 | 742,120 | 0 | 0 | 1,595,957 | 5,069,205 |
| Interest on long-term debt | (7,900,622) | 0 | 0 | 0 | (7,900,622) | (6,403,238) |
| Other nonoperating expenses | (15,190,818) | 0 | 0 | 0 | (15,190,818) | (1,230,054) |
| Total nonoperating revenues (expenses) | 27,283,226 | 8,095,649 | 0 | 0 | 35,378,875 | 39,303,865 |
| Income (loss) before capital contributions and transfers | 9,252,308 | (2,007,330) | 0 | 0 | 7,244,978 | 10,241,193 |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | | | | | |
| Transfers in | 32,547,475 | 4,595,419 | 28,400,281 | (34,883,211) | 30,659,964 | 1,753,161 |
| Transfers out | (41,134,755) | (7,702,481) | (28,267,458) | 34,883,211 | (42,221,483) | (16,673,129) |
| Capital grants | 3,302,300 | 0 | 0 | 0 | 3,302,300 | 2,493,104 |
| Change in net assets | 3,967,328 | (5,114,392) | 132,823 | 0 | (1,014,241) | (2,185,671) |
| Total net assets - beginning | 263,562,825 | 25,438,169 | 7,701,632 | 0 | 296,702,626 | 307,399,027 |
| Prior period adjustment | 0 | 0 | 0 | 0 | 0 | (8,510,730) |
| Total net assets - ending | \$ 267,530,153 | \$ 20,323,777 | \$ 7,834,455 | \$ - | \$ 295,688,385 | \$ 296,702,626 |

INLAND EMPIRE UTILITIES AGENCY

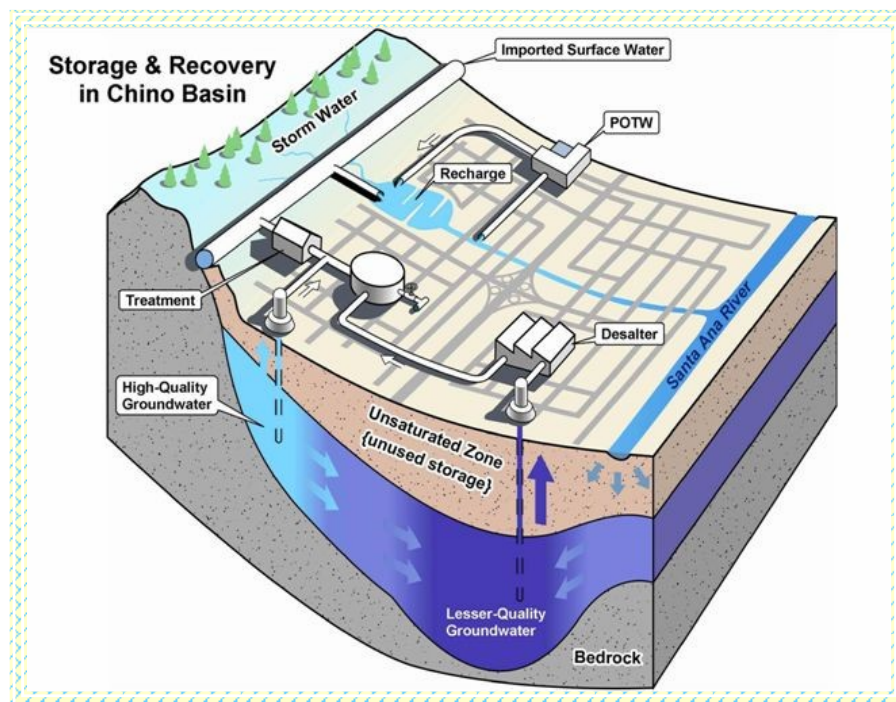
RECHARGE WATER FUND

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
June 30, 2007
(With Comparative Totals for June 30, 2006)

| | Totals | |
|---|-------------|------------|
| | 2007 | 2006 |
| ASSETS | | |
| Current assets | | |
| Cash and investments | \$1,121,639 | \$581,458 |
| Accounts receivable | 1,587,097 | 1,437,739 |
| Interest receivable | 0 | 6,083 |
| Prepaid items | 0 | 800 |
| Total current assets | 2,708,736 | 2,026,080 |
| Noncurrent assets | | |
| Restricted assets | | |
| Assets held with trustee/fiscal agents | 840 | 365 |
| Total restricted assets | 840 | 365 |
| Capital assets | | |
| Capital assets, net of accumulated depreciation | 21,281,540 | 84,073 |
| Jobs in progress | 2,466,524 | 41,675,377 |
| Total capital assets | 23,748,064 | 41,759,450 |
| Other assets | | |
| Deferred costs | 177,305 | 184,398 |
| Total other assets | 177,305 | 184,398 |
| Total noncurrent assets | 23,926,209 | 41,944,213 |
| Total assets | 26,634,945 | 43,970,293 |

(Continued)

| | Totals | |
|---|-------------|--------------|
| | 2007 | 2006 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | 1,327,039 | 1,182,887 |
| Long-term debt, due within one year | 432,203 | 416,949 |
| Interest payable | 44,560 | 45,174 |
| Total current liabilities | 1,803,802 | 1,645,010 |
| Noncurrent liabilities | | |
| Long-term debt, due in more than one year | 17,529,972 | 17,959,442 |
| Total noncurrent liabilities | 17,529,972 | 17,959,442 |
| Total liabilities | 19,333,774 | 19,604,452 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 5,785,888 | 23,383,060 |
| Restricted for | | |
| Capital construction | 1,129,506 | 114,974 |
| Bond operating contingency requirement | 675,154 | 867,807 |
| Total Restricted | 1,804,660 | 982,781 |
| Unrestricted | (289,378) | 0 |
| Total net assets | \$7,301,171 | \$24,365,841 |

INLAND EMPIRE UTILITIES AGENCY
Recharge Water Fund
Schedule of Revenues, Expenses
and Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2007
(With Comparative Totals for June 30, 2006)

| | Totals | |
|--|--------------|--------------|
| | 2007 | 2006 |
| OPERATING REVENUES | | |
| Recycled water sales | \$0 | \$0 |
| Total operating revenues | 0 | 0 |
| OPERATING EXPENSES | | |
| Administration and general | 2,314,839 | 2,603,418 |
| Depreciation and amortization | 545,394 | 6,467 |
| Total operating expenses | 2,860,233 | 2,609,885 |
| Operating income (loss) | (2,860,233) | (2,609,885) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 12,871 | 33,430 |
| Other nonoperating revenues | 1,947,264 | 1,639,756 |
| Interest on long-term debt | (644,920) | (549,182) |
| Other nonoperating expenses | (83,059) | (63,193) |
| Contributions to other government agencies | (19,678,065) | 0 |
| Total nonoperating revenues (expenses) | (18,445,909) | 1,060,811 |
| Income (loss) before contributions and transfers | (21,306,142) | (1,549,074) |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | |
| Transfers in | 5,089,855 | 1,435,428 |
| Transfers out | (2,304,355) | 0 |
| Capital grants | 1,455,972 | 211,851 |
| Change in net assets | (17,064,670) | 98,205 |
| Total net assets - beginning | 24,365,841 | 24,267,636 |
| Total net assets - ending | \$7,301,171 | \$24,365,841 |

INLAND EMPIRE UTILITIES AGENCY

RECYCLED WATER FUND

COMPARATIVE 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, 2007
(With Comparative Totals for June 30, 2006)

| | Totals | |
|--|----------------|-------------|
| | 2007 | 2006 |
| ASSETS | | |
| Current assets | | |
| Cash and investments | (\$11,009,552) | \$1,252,044 |
| Accounts receivable | 13,469,405 | 2,339,643 |
| Prepaid items | 3,500 | 3,500 |
| Total current assets | 2,463,353 | 3,595,187 |
| Noncurrent assets | | |
| Restricted assets | | |
| Assets held with trustee/fiscal agents | 427,662 | 419,505 |
| Total restricted assets | 427,662 | 419,505 |
| Capital assets | | |
| Jobs in progress | 32,386,068 | 14,510,125 |
| Capital assets, net of accumulated depreciation | 30,233,542 | 28,061,915 |
| Total capital assets | 62,619,610 | 42,572,040 |
| Other assets | | |
| Intangible assets, net of accumulated amortization | 42,467 | 44,069 |
| Total other assets | 42,467 | 44,069 |
| Total noncurrent assets | 63,089,739 | 43,035,614 |
| Total assets | 65,553,092 | 46,630,801 |

(Continued)

| | Totals | |
|---|--------------|--------------|
| | 2007 | 2006 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | 2,634,948 | 2,180,205 |
| Accrued liabilities | 252,814 | 18,446 |
| Notes payable, due within one year | 411,132 | 613,805 |
| Interest payable | 58,028 | 61,587 |
| Due to other funds | 0 | 5,000,000 |
| Retention deposits and escrows | 427,663 | 419,505 |
| Total current liabilities | 3,784,585 | 8,293,548 |
| Noncurrent liabilities | | |
| Notes payable, due in more than one year | 20,079,511 | 13,933,559 |
| Other non current liabilities | 202,485 | 380,242 |
| Total noncurrent liabilities | 20,281,996 | 14,313,801 |
| Total liabilities | 24,066,581 | 22,607,349 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 37,834,971 | 20,826,953 |
| Restricted for | | |
| Capital construction | 2,807,243 | 2,572,983 |
| Bond operating contingency requirement | 844,297 | 623,516 |
| Total restricted | 3,651,540 | 3,196,499 |
| Unrestricted | 0 | 0 |
| Total net assets | \$41,486,511 | \$24,023,452 |

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, 2007
(With Comparative Totals for June 30, 2006)

| | Totals | |
|--|--------------|--------------|
| | 2007 | 2006 |
| OPERATING REVENUES | | |
| Recycled water sales | \$3,253,546 | \$1,147,241 |
| Total operating revenue | 3,253,546 | 1,147,241 |
| OPERATING EXPENSES | | |
| Administration and general | 2,532,892 | 1,870,548 |
| Depreciation and amortization | 789,827 | 450,180 |
| Total operating expenses | 3,322,719 | 2,320,728 |
| Operating income (loss) | (69,173) | (1,173,487) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 0 | 16,877 |
| Other nonoperating revenues | (27,947) | 36,886 |
| Interest on long-term debt | (475,985) | (217,869) |
| Total nonoperating revenues (expenses) | (503,932) | (164,106) |
| Income (loss) before contributions and transfers | (573,105) | (1,337,593) |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | |
| Transfers in | 11,448,315 | 1,606,943 |
| Transfers out | (11,259) | (154,672) |
| Capital grants | 6,599,108 | 3,765,554 |
| Change in net assets | 17,463,059 | 3,880,232 |
| Total net assets - beginning | 24,023,452 | 20,143,220 |
| Total net assets - ending | \$41,486,511 | \$24,023,452 |

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 2006/07 the surcharge remained at \$9, with \$4 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 2006/07, the conservation programs distributed and/or rebated 10,313 Ultra Low Flush (ULF) Toilets.

INLAND EMPIRE UTILITIES AGENCY
Water Fund
Schedule of Net Assets
June 30, 2007
(With Comparative Totals for June 30, 2006)

| | Totals | |
|--|--------------------|--------------------|
| | <u>2007</u> | <u>2006</u> |
| ASSETS | | |
| Current assets | | |
| Cash and investments | \$ 1,899,689 | \$ 4,740,131 |
| Accounts receivable | 11,328,640 | 4,723,317 |
| Interest receivable | <u>7,487</u> | <u>54,438</u> |
| Total current assets | <u>13,235,816</u> | <u>9,517,886</u> |
| Noncurrent assets | | |
| Capital assets | | |
| Jobs in progress | 1,342,801 | 1,298,374 |
| Capital assets, net of accumulated depreciation | <u>25,646</u> | <u>33,091</u> |
| Total capital assets | <u>1,368,447</u> | <u>1,331,465</u> |
| Other assets | | |
| Intangible assets, net of accumulated amortization | <u>63,396</u> | <u>68,217</u> |
| Total other assets | <u>63,396</u> | <u>68,217</u> |
| Total noncurrent assets | <u>1,431,843</u> | <u>1,399,682</u> |
| Total assets | <u>14,667,659</u> | <u>10,917,568</u> |
| LIABILITIES | | |
| Accounts payable | 7,100,192 | 5,238,594 |
| Accrued liabilities | <u>1,945,759</u> | <u>621,089</u> |
| Total liabilities | <u>9,045,951</u> | <u>5,859,683</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 1,431,844 | 1,399,681 |
| Unrestricted | 4,189,864 | 3,658,204 |
| Total net assets | <u>\$5,621,708</u> | <u>\$5,057,885</u> |

INLAND EMPIRE UTILITIES AGENCY
Water Fund
Schedule of Revenues, Expenses, and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2007
(With Comparative Totals for June 30, 2006)

| | Totals | |
|--|-------------|-------------|
| | 2007 | 2006 |
| OPERATING REVENUES | | |
| Service charges | \$1,831,429 | \$2,120,666 |
| Total operating revenues | 1,831,429 | 2,120,666 |
| OPERATING EXPENSES | | |
| Operations and maintenance | 2,989,699 | 1,036,303 |
| Administration and general | 1,948,806 | 1,476,627 |
| Depreciation and amortization | 5,617 | 1,359 |
| Total operating expenses | 4,944,122 | 2,514,289 |
| Operating income (loss) | (3,112,693) | (393,623) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 85,749 | 147,774 |
| Other nonoperating revenues | 1,015,026 | 28,306 |
| Other nonoperating expenses | (6,648) | 0 |
| Total nonoperating revenues (expenses) | 1,094,127 | 176,080 |
| Income (loss) before contributions and transfers | (2,018,566) | (217,543) |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | |
| Transfers in | 135,110 | 218,820 |
| Capital grants | 2,447,279 | 185,269 |
| Contribution in aid | 0 | (7,215) |
| Change in net assets | 563,823 | 179,331 |
| Total net assets - beginning | 5,057,885 | 4,878,554 |
| Total net assets - ending | \$5,621,708 | \$5,057,885 |



INLAND EMPIRE UTILITIES AGENCY NONRECLAIMABLE WASTEWATER FUND COMPARATIVE 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, 2007
(With Comparative Totals for June 30, 2006)

| | Totals | |
|--|---------------|--------------|
| | 2007 | 2006 |
| ASSETS | | |
| Current assets | | |
| Cash and investments | \$ 19,401,141 | \$17,984,422 |
| Accounts receivable | 1,694,860 | 2,315,614 |
| Interest receivable | 140,196 | 142,311 |
| Taxes receivable | 26,759 | 26,760 |
| Other receivable | 23,110 | 22,428 |
| Prepaid items | 194,069 | 96,454 |
| Total current assets | 21,480,135 | 20,587,989 |
| Noncurrent assets | | |
| Capital assets | | |
| Jobs in progress | 649,508 | 887,203 |
| Capital assets, net of accumulated depreciation | 4,963,235 | 4,475,760 |
| Total capital assets | 5,612,743 | 5,362,963 |
| Other assets | | |
| Long-term receivables | 182,696 | 205,806 |
| Intangible assets, net of accumulated amortization | 23,311,223 | 23,071,666 |
| Total other assets | 23,493,919 | 23,277,472 |
| Total noncurrent assets | 29,106,662 | 28,640,435 |
| Total assets | 50,586,797 | 49,228,424 |

(Continued)

| | Totals | |
|---|--------------|--------------|
| | 2007 | 2006 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | 327,941 | 297,530 |
| Accrued liabilities | 1,411,392 | 1,965,781 |
| Retentions payable | 0 | 133,459 |
| Notes payable, due within one year | 178,125 | 178,125 |
| Total current liabilities | 1,917,458 | 2,574,895 |
| Noncurrent liabilities | | |
| Notes payable, due in more than one year | 1,245,618 | 1,324,403 |
| Total noncurrent liabilities | 1,245,618 | 1,324,403 |
| Total liabilities | 3,163,076 | 3,899,298 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 27,500,223 | 26,932,101 |
| Restricted for | | |
| Bond operating contingency requirement | 1,538,004 | 1,798,107 |
| Total restricted | 1,538,004 | 1,798,107 |
| Unrestricted | 18,385,494 | 16,598,918 |
| Total net assets | \$47,423,721 | \$45,329,126 |

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, 2007
(With Comparative Totals for June 30, 2006)

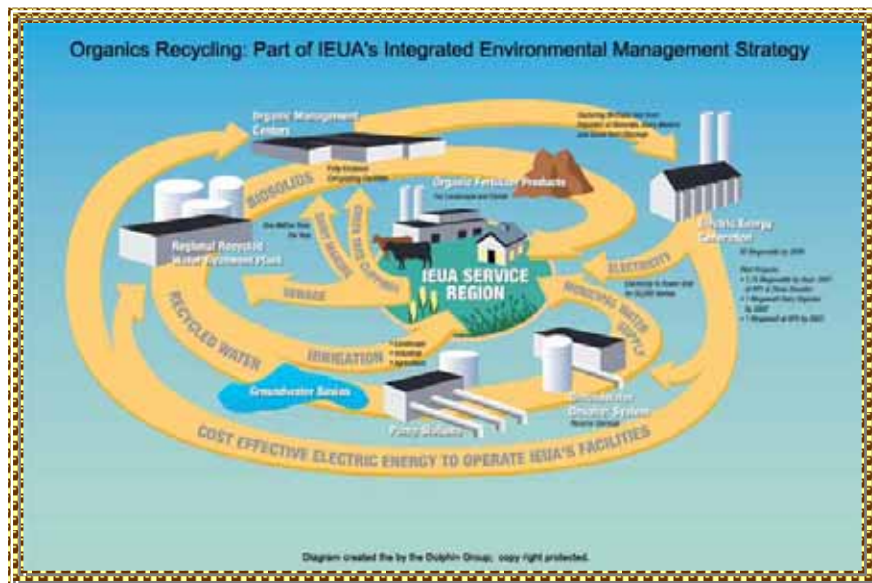
| | Totals | |
|--|--------------|--------------|
| | 2007 | 2006 |
| OPERATING REVENUES | | |
| Service charges | \$6,870,974 | \$8,290,454 |
| Total operating revenues | 6,870,974 | 8,290,454 |
| OPERATING EXPENSES | | |
| Wastewater collection | 452,487 | 477,729 |
| Wastewater treatment | 3,194,483 | 3,248,119 |
| Administration and general | 967,040 | 1,668,472 |
| Depreciation and amortization | 1,047,980 | 1,014,804 |
| Total operating expenses | 5,661,990 | 6,409,124 |
| Operating income (loss) | 1,208,984 | 1,881,330 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 750,127 | 573,503 |
| Property tax revenue | 1,515 | 25 |
| Other nonoperating revenues | 301,335 | 80,088 |
| Interest on long-term debt | (99,340) | (89,602) |
| Other nonoperating expenses | (2,726) | (468) |
| Total nonoperating revenues (expenses) | 950,911 | 563,546 |
| Income (loss) before contributions and transfers | 2,159,895 | 2,444,876 |
| TRANSFERS | | |
| Transfers in | 0 | 0 |
| Transfers out | (65,300) | (703,769) |
| Change in net assets | 2,094,595 | 1,741,107 |
| Total net assets - beginning | 45,329,126 | 43,588,019 |
| Total net assets - ending | \$47,423,721 | \$45,329,126 |

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, 2007
(With Comparative Totals for June 30, 2006)

| | Totals | |
|---|---------------|------------|
| | 2007 | 2006 |
| ASSETS | | |
| Current assets | | |
| Cash and investments | (\$6,400,550) | \$719,072 |
| Accounts receivable | 4,140,417 | 1,358,819 |
| Interest receivable | 4,304 | 9,430 |
| Prepaid items | 8,911 | 8,911 |
| Total current assets | (2,246,918) | 2,096,232 |
| Noncurrent assets | | |
| Restricted assets | | |
| Assets held with trustee/fiscal agents | 545 | 237 |
| Total restricted assets | 545 | 237 |
| Capital assets | | |
| Land and improvements | 0 | 4,194,990 |
| Jobs in progress | 30,172 | 7,552 |
| Capital assets, net of accumulated depreciation | 6,837,199 | 12,923,347 |
| Total capital assets | 6,867,371 | 17,125,889 |
| Other assets | | |
| Investment in joint venture | 47,016,694 | 39,737,131 |
| Deferred costs | 115,221 | 119,830 |
| Total other assets | 47,131,915 | 39,856,961 |
| Total noncurrent assets | 53,999,831 | 56,983,087 |
| Total assets | 51,752,913 | 59,079,319 |

(Continued)

| | Totals | |
|---|--------------|--------------|
| | 2007 | 2006 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | 193,185 | 66,040 |
| Long-term debt, due within one year | 280,932 | 271,017 |
| Interest payable | 28,965 | 29,363 |
| Retentions Payable | 0 | 0 |
| Total current liabilities | 503,082 | 366,420 |
| Noncurrent liabilities | | |
| Long-term debt, due in more than one year | 11,394,482 | 11,673,637 |
| Advances from other funds | 0 | 0 |
| Other noncurrent liabilities | 37,524 | 37,524 |
| Total noncurrent liabilities | 11,432,006 | 11,711,161 |
| Total liabilities | 11,935,088 | 12,077,581 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | (4,808,044) | 5,181,235 |
| Restricted for | | |
| Bond operating contingency requirement | 1,798,720 | 416,492 |
| Debt service | 138,831 | 37,761 |
| Capital construction | 0 | 255,421 |
| Total restricted | 1,937,551 | 709,674 |
| Unrestricted | 42,688,318 | 41,110,829 |
| Total net assets | \$39,817,825 | \$47,001,738 |

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, 2007
(With Comparative Totals for June 30, 2006)

| | Totals | |
|--|--------------|--------------|
| | 2007 | 2006 |
| OPERATING REVENUES | | |
| Service charges | \$1,172,934 | \$47,087 |
| Total operating revenues | 1,172,934 | 47,087 |
| OPERATING EXPENSES | | |
| Operations and maintenance | 4,441,793 | 39,430 |
| Administration and general | 954,365 | 1,210,047 |
| Depreciation and amortization | 327,894 | 421,289 |
| Total operating expenses | 5,724,052 | 1,670,766 |
| Operating income (loss) | (4,551,118) | (1,623,679) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 182,065 | 61,634 |
| Other nonoperating revenues | 2,551,509 | 135,253 |
| Other nonoperating (expenses) | (53,933) | (41,074) |
| Interest on long-term debt | (419,199) | (535,965) |
| Total nonoperating revenues (expenses) | 2,260,442 | (380,152) |
| Income (loss) before contributions and transfers | (2,290,676) | (2,003,831) |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | |
| Transfers in | 3,308,276 | 11,258,821 |
| Transfers out | (8,201,513) | 0 |
| Contribution in aid | 0 | 75,000 |
| Change in net assets | (7,183,913) | 9,329,990 |
| Total net assets - beginning | 47,001,738 | 29,161,018 |
| Prior period adjustment | | 8,510,730 |
| Total net assets - ending | \$39,817,825 | \$47,001,738 |

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.



INLAND EMPIRE UTILITIES AGENCY
Administrative Services Fund
Schedule of Net Assets
June 30, 2007
(With Comparative Totals for June 30, 2006)

| | Totals | |
|---|--------------|--------------|
| | 2007 | 2006 |
| ASSETS | | |
| Current assets | | |
| Cash and investments | \$14,577,794 | \$16,247,568 |
| Accounts receivable | 743,531 | 349,115 |
| Interest receivable | 145,950 | 127,703 |
| Taxes receivable | 258,895 | 229,857 |
| Other receivables | 82,247 | 62,987 |
| Due from other funds | 25,476 | 25,477 |
| Inventory | 1,497,598 | 1,904,863 |
| Prepaid items | 139,421 | 109,002 |
| Total current assets | 17,470,912 | 19,056,572 |
| Noncurrent assets | | |
| Restricted assets | | |
| Assets held for 401(a) plan | 891,682 | 655,828 |
| Assets held with trustee/fiscal agent | 31,689 | 22,289 |
| Total restricted assets | 923,371 | 678,117 |
| Capital assets | | |
| Land | 20,829 | 20,829 |
| Jobs in progress | 6,115,084 | 3,738,740 |
| Capital assets, net of accumulated depreciation | 17,193,863 | 15,779,485 |
| Total capital assets | 23,329,776 | 19,539,054 |
| Other assets | | |
| Long-term receivables | 27,926 | 40,392 |
| Deferred costs | 758 | 758 |
| Total other assets | 28,684 | 41,150 |
| Total noncurrent assets | 24,281,831 | 20,258,321 |
| Total assets | 41,752,743 | 39,314,893 |

(Continued)

| | Totals | |
|---|--------------|--------------|
| | 2007 | 2006 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | 1,262,375 | 791,767 |
| Accrued liabilities | 1,237,557 | 1,237,161 |
| Compensated absences | 1,197,558 | 85,880 |
| Current liabilities | 3,697,490 | 2,114,808 |
| Noncurrent liabilities | | |
| Compensated absences | 1,528,219 | 2,470,502 |
| Liability for 401(a) plan | 891,682 | 655,828 |
| Other noncurrent liabilities | 781,686 | 114,239 |
| Total noncurrent liabilities | 3,201,587 | 3,240,569 |
| Total liabilities | 6,899,077 | 5,355,377 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 23,329,775 | 19,539,054 |
| Restricted for | | |
| Bond operating contingency requirement | 1,274,100 | 993,941 |
| Total Restricted | 1,274,100 | 993,941 |
| Unrestricted | 10,249,791 | 13,426,521 |
| Total net assets | \$34,853,666 | \$33,959,516 |

INLAND EMPIRE UTILITIES AGENCY
Administrative Services Fund
Schedule of Revenues, Expenses and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2007
(With Comparative Totals for June 30, 2006)

| | Totals | |
|--|--------------|--------------|
| | 2007 | 2006 |
| OPERATING REVENUES | | |
| Service charges | \$0 | \$0 |
| Total operating revenues | 0 | 0 |
| OPERATING EXPENSES | | |
| Administration and general | 3,822,300 | 2,981,824 |
| Depreciation and amortization | 1,865,426 | 1,479,529 |
| Total operating expenses | 5,687,726 | 4,461,353 |
| Operating income (loss) | (5,687,726) | (4,461,353) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 608,269 | 512,477 |
| Property tax revenue | 2,498,943 | 1,619,515 |
| Other nonoperating revenues | 1,261,873 | 1,018,050 |
| Other nonoperating expenses | (27,587) | (143,661) |
| Total nonoperating revenues (expenses) | 4,341,498 | 3,006,381 |
| Income (loss) before contributions and transfers | (1,346,228) | (1,454,972) |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | |
| Transfers in | 4,027,933 | 2,311,992 |
| Transfers out | (1,865,543) | (1,053,595) |
| Capital grants | 77,988 | 0 |
| Change in net assets | 894,150 | (196,575) |
| Total net assets - beginning | 33,959,516 | 34,156,091 |
| Total net assets - ending | \$34,853,666 | \$33,959,516 |

INLAND EMPIRE UTILITIES AGENCY
Index of Statistical Section Schedules

June 30, 2007

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

- (1) *Financial Trends.....101*
 - a. *These schedules contain trend information to help the reader understand how IEUA's financial performance and well-being have changed over time.*
- (2) *Revenue Capacity.....105*
 - a. *These schedules contain information to help the reader assess IEUA's most significant local revenue source, the property tax.*
- (3) *Debt Capacity.....110*
 - a. *These schedules present information to help the reader assess the affordability of IEUA's current levels of outstanding debt and ability to issue additional debt in the future*
- (4) *Operating Indicators.....115*
 - a. *These schedules contain service and infrastructure data to help the reader understand the information in IEUA's financial report relates to the services that IEUA provides and the activities it performs.*
- (5) *Demographic and Economic Information.....120*
 - a. *These schedules offer demographic and economic indicators to help the reader understand the environment within which IEUA's financial activities take place.*

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

INLAND EMPIRE UTILITIES AGENCY
Historical Operating Results
Wastewater Revenue Funds' Combined Statement of Revenues, Expenses
and Changes in Fund Net Assets
Fiscal Years Ended June 30, 1998 through 2007
(Dollars in Thousands)

| | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--|------------------|------------------|------------------|------------------|------------------|
| Operating Revenues | | | | | |
| Service charges | \$29,261 | \$31,716 | \$27,091 | \$25,579 | \$25,253 |
| Other charges | 0 | 0 | 1,755 | 1,707 | 1,677 |
| Total operating revenues | <u>29,261</u> | <u>31,716</u> | <u>28,845</u> | <u>27,286</u> | <u>26,930</u> |
| Operating Expenses | | | | | |
| Wastewater collection | 633 | 1,143 | 1,052 | 967 | 1,521 |
| Wastewater treatment | 21,887 | 22,694 | 19,194 | 18,677 | 15,790 |
| Wastewater disposal | 7,434 | 6,235 | 5,851 | 4,749 | 4,663 |
| Operations and maintenance | 4,442 | 42 | 1,067 | 0 | 0 |
| Administration and general | 18,998 | 16,607 | 15,483 | 11,997 | 10,937 |
| Depreciation and amortization | 17,100 | 18,261 | 16,160 | 14,178 | 13,614 |
| Total operating expenses | <u>70,494</u> | <u>64,982</u> | <u>58,807</u> | <u>50,568</u> | <u>46,525</u> |
| Operating income (loss) | <u>(41,233)</u> | <u>(33,266)</u> | <u>(29,962)</u> | <u>(23,282)</u> | <u>(19,595)</u> |
| Nonoperating Revenues (Expenses) | | | | | |
| Interest income | 4,489 | 3,670 | 2,642 | 2,693 | 3,735 |
| Property tax revenue | 31,017 | 20,070 | 16,674 | 21,508 | 19,292 |
| Wastewater Capital Connection Fees | 24,671 | 20,896 | 27,958 | 28,451 | 23,999 |
| Other nonoperating revenues | 7,357 | 6,302 | 2,005 | 12,780 | 935 |
| Interest on long-term debt | (8,965) | (7,029) | (6,613) | (6,669) | (7,134) |
| Other nonoperating expenses | <u>(19,760)</u> | <u>(1,415)</u> | <u>(804)</u> | <u>(3,152)</u> | <u>(908)</u> |
| Total nonoperating revenues (expenses) | <u>38,809</u> | <u>42,494</u> | <u>41,862</u> | <u>55,612</u> | <u>39,919</u> |
| Income (loss) before contributions and transfers | (2,424) | 9,228 | 11,900 | 32,329 | 20,324 |
| Capital Grants | 4,836 | 2,493 | 975 | 221 | 79 |
| Contribution in Aid | 0 | 75 | 0 | 1,225 | 0 |
| Transfers (to non-sewer funds) | <u>(11,507)</u> | <u>(3,107)</u> | <u>(6,124)</u> | <u>(4,838)</u> | <u>(3,888)</u> |
| Change in net assets | (9,095) | 8,689 | 6,751 | 28,938 | 16,515 |
| Total net assets - beginning | <u>422,441</u> | <u>413,752</u> | <u>407,001</u> | <u>378,063</u> | <u>361,548</u> |
| Total net assets - ending | <u>\$413,346</u> | <u>\$422,441</u> | <u>\$413,752</u> | <u>\$407,001</u> | <u>\$378,063</u> |

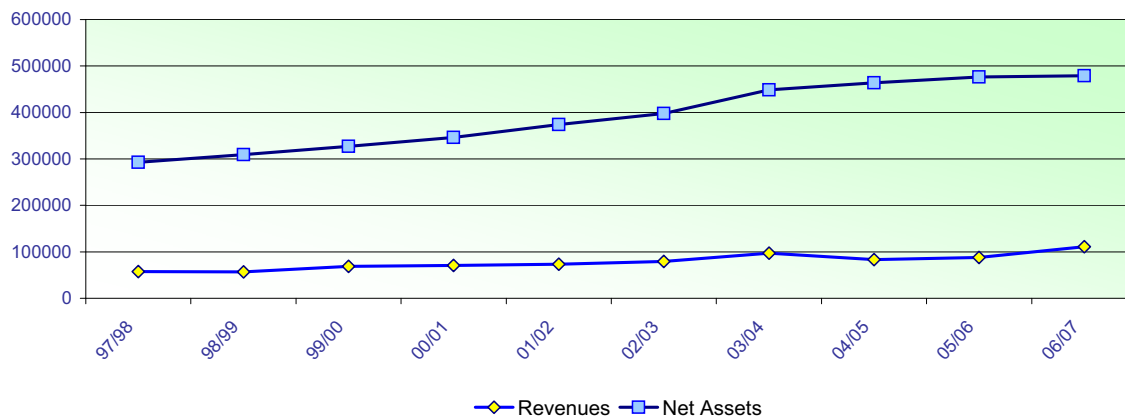
INLAND EMPIRE UTILITIES AGENCY
Historical Operating Results
Wastewater Revenue Funds' Combined Statement of Revenues, Expenses
and Changes in Fund Net Assets
Fiscal Years Ended June 30, 1998 through 2007
(Dollars in Thousands)

| <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|------------------|------------------|------------------|------------------|------------------|
| \$24,768 | \$22,970 | \$28,795 | 22,198 | 24,604 |
| 1,609 | 1,590 | 1,568 | 1,499 | 1,977 |
| <u>26,376</u> | <u>24,560</u> | <u>30,363</u> | <u>23,697</u> | <u>26,581</u> |
| 875 | 584 | 670 | 468 | 537 |
| 15,876 | 13,472 | 12,591 | 12,511 | 13,157 |
| 4,037 | 3,735 | 3,942 | 3,771 | 4,042 |
| 0 | | | | |
| 8,514 | 8,691 | 12,684 | 6,505 | 10,265 |
| 13,555 | 13,167 | 12,392 | 10,641 | 9,391 |
| <u>42,857</u> | <u>39,649</u> | <u>42,280</u> | <u>33,896</u> | <u>37,392</u> |
| <u>(16,481)</u> | <u>(15,089)</u> | <u>(11,917)</u> | <u>(10,199)</u> | <u>(10,811)</u> |
| 4,449 | 6,345 | 5,574 | 3,802 | 3,682 |
| 17,269 | 15,933 | 15,135 | 14,268 | 13,125 |
| 20,135 | 17,672 | 15,028 | | |
| 963 | 544 | 1,132 | 508 | 771 |
| (7,038) | (6,915) | (6,546) | (5,643) | (5,467) |
| (86) | (662) | (113) | (106) | (7) |
| <u>35,693</u> | <u>32,917</u> | <u>30,210</u> | <u>12,829</u> | <u>12,104</u> |
| 19,212 | 17,828 | 18,293 | | |
| 1,010 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | | |
| <u>(4,080)</u> | <u>(6,085)</u> | <u>(328)</u> | <u>(265)</u> | <u>(35)</u> |
| 16,142 | 11,743 | 17,965 | 2,365 | 1,258 |
| 345,406 | 333,664 | 315,699 | 218,439 | 217,181 |
| <u>\$361,548</u> | <u>\$345,407</u> | <u>\$333,664</u> | <u>\$220,804</u> | <u>\$218,439</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)

| | 2006/07 | 2005/06 | 2004/05 | 2003/04 | 2002/03 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Operating revenues | | | | | |
| Service charges | \$37,964 | \$33,837 | \$29,194 | \$27,509 | \$26,586 |
| Other Charges | 0 | 0 | 1,755 | 1,707 | 1,677 |
| Recycled water sales | 3,254 | 1,147 | 653 | 589 | 586 |
| Total operating revenues | 41,218 | 34,984 | 31,602 | 29,805 | 28,849 |
| Operating expenses | | | | | |
| Wastewater collection | 1,086 | 1,143 | 1,052 | 967 | 1,521 |
| Wastewater treatment | 25,082 | 22,694 | 19,194 | 18,677 | 15,790 |
| Wastewater disposal | 7,434 | 6,236 | 5,851 | 4,749 | 4,663 |
| Administration and general | 24,447 | 23,568 | 20,605 | 14,415 | 13,515 |
| Depreciation and amortization | 18,944 | 18,719 | 16,311 | 14,328 | 13,769 |
| Operations and maintenance | 7,431 | 67 | 1,688 | 1,788 | 1,367 |
| Total operating expenses | 84,424 | 72,427 | 64,701 | 54,924 | 50,625 |
| Operating income (loss) | (43,206) | (37,443) | (33,099) | (25,119) | (21,776) |
| Nonoperating revenues (expenses) | | | | | |
| Interest income | 5,325 | 3,868 | 2,903 | 2,874 | 4,246 |
| Property tax revenue | 31,018 | 20,070 | 16,674 | 21,508 | 19,292 |
| Wastewater capital connection fees | 24,671 | 20,895 | 27,958 | 28,451 | 23,999 |
| Other nonoperating revenues | 8,645 | 8,007 | 4,195 | 14,288 | 2,848 |
| Interest on long-term debt | (9,540) | (7,796) | (7,138) | (6,876) | (7,355) |
| Other nonoperating expenses | (19,678) | (1,478) | (868) | (3,211) | (1,176) |
| Total nonoperating revenues (expenses) | 40,441 | 43,566 | 43,722 | 57,034 | 41,854 |
| Income (loss) before contributions and transfers | (2,765) | 6,123 | 10,623 | 31,915 | 20,078 |
| Capital grants | 13,883 | 6,656 | 4,220 | 17,480 | 3,104 |
| Contributions in aid | - | 68 | 26 | 1,482 | 866 |
| Change in net assets | \$11,118 | \$12,847 | \$14,869 | \$50,877 | \$24,048 |
| Net assets by component: | | | | | |
| Invested in capital assets, net of related debt | 330,897 | 339,320 | 300,869 | 256,642 | 219,305 |
| Restricted for Debt service & Capital construction | 66,071 | 59,447 | 101,162 | 138,875 | 127,349 |
| Unrestricted | 75,224 | 77,673 | 61,563 | 53,208 | 51,193 |
| Total net assets | \$ 472,192 | \$ 476,440 | \$ 463,594 | \$ 448,725 | \$ 397,847 |

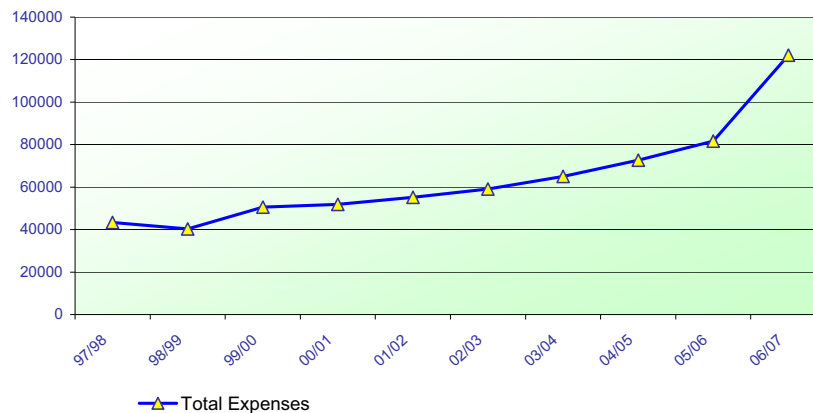
Operating & Nonoperating Revenues & Net Assets
Trends For the Past Ten Fiscal Years



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)

| 2001/02 | 2000/01 | 1999/00 | 1998/99 | 1997/98 |
|------------|------------|------------|------------|------------|
| \$25,781 | \$23,963 | \$29,387 | \$22,567 | \$24,992 |
| 1,608 | 1,590 | 1,568 | 1,499 | 1,977 |
| 1,642 | 1,809 | 985 | 599 | 0 |
| 29,031 | 27,362 | 31,940 | 24,665 | 26,969 |
| 875 | 584 | 670 | 467 | 537 |
| 15,876 | 13,472 | 12,591 | 12,511 | 13,157 |
| 4,037 | 3,735 | 3,942 | 3,771 | 4,042 |
| 11,898 | 11,128 | 13,783 | 7,023 | 10,534 |
| 13,700 | 13,310 | 12,483 | 10,667 | 9,417 |
| 1,606 | 1,808 | 116 | 121 | 133 |
| 47,992 | 44,037 | 43,585 | 34,560 | 37,820 |
| (18,961) | (16,675) | (11,645) | (9,895) | (10,851) |
| 4,657 | 6,601 | 5,753 | 3,941 | 3,855 |
| 17,269 | 15,934 | 15,135 | 14,268 | 13,125 |
| 20,135 | 17,672 | 15,028 | 13,367 | 12,539 |
| 2,013 | 2,850 | 993 | 530 | 776 |
| (7,037) | (7,153) | (6,921) | (5,644) | (5,467) |
| (160) | (668) | (113) | (106) | (7) |
| 36,877 | 35,236 | 29,875 | 26,356 | 24,821 |
| 17,916 | 18,561 | 18,230 | 16,461 | 13,970 |
| 9,679 | 0 | 0 | 0 | 0 |
| 188 | 75 | 0 | 0 | 0 |
| \$27,783 | \$18,636 | \$18,230 | \$16,461 | \$13,970 |
| 234,640 | 198,171 | 171,249 | 217,581 | 200,358 |
| 102,648 | 97,913 | 89,535 | 60,047 | 56,559 |
| 36,511 | 6,488 | 18,424 | 31,522 | 35,772 |
| \$ 373,799 | \$ 302,572 | \$ 279,208 | \$ 309,150 | \$ 292,689 |

Operating & Nonoperating Expense Trends
For the Past Ten Fiscal Years



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

| Fiscal Year | CVWD* | Chino | Chino Hills | Fontana |
|-------------|------------|-----------|-------------|------------|
| 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 |
| 2006/07 | 2,788,920 | 2,416,243 | 911,522 | 2,351,750 |
| 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.

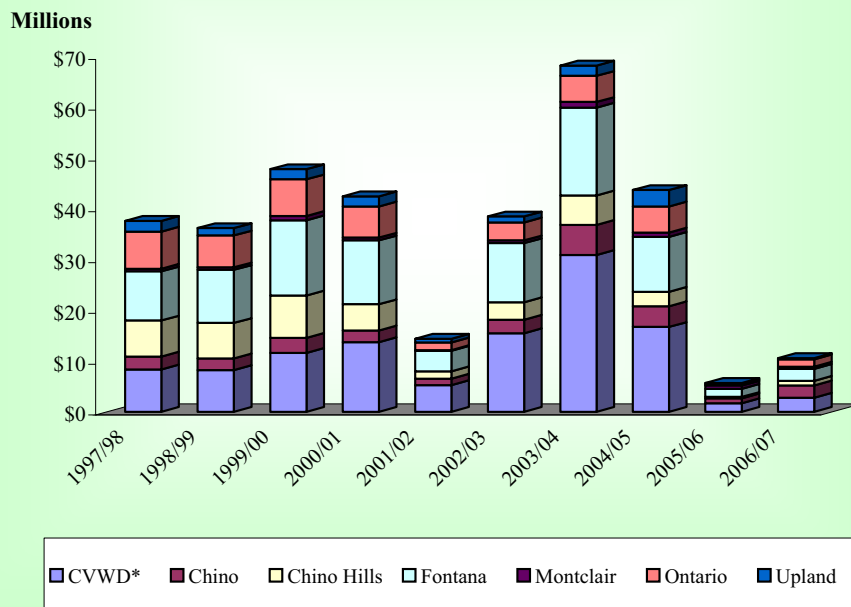
Connection fee payments to IEUA are calculated based on the percentage of each Contracting Agency's Reimbursement Account balance relative to the total balance of all Contracting Agency held funds. That percentage is then utilized to calculate each Contracting Agency's (pro rata) contribution of an IEUA "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 2006/07 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 |
|-------------|-----------|-----------|-----------|------------|
| 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 | 5,668,932 |
| 2006/07 | 400,636 | 1,478,984 | 243,823 | 10,591,878 |
| 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
Wastewater Revenue Funds' Capital Requirements
'For the Ten Fiscal Years Ending June 30, 2016*
'(Dollars in Thousands)

| <u>Project Description</u> | Actual Thru | Projected | |
|--|------------------|-----------------|-----------------|
| | <u>06/07</u> | <u>07/08</u> | <u>08/09</u> |
| Replacement Projects | | | |
| All Facilities Capital Upgrade | \$0 | \$0 | \$0 |
| RP-1 Condition Assessment | 0 | 2,030 | 4,216 |
| RP1 Aeration Basin Modification | 979 | 7,500 | 971 |
| Various Replacement Projects | 3,782 | 3,489 | 2,339 |
| Total Replacement Projects | 4,761 | 13,019 | 7,526 |
| Equipment Projects | | | |
| Install Blower #4 at RP-1 | 483 | 0 | 0 |
| Various Equipment Projects | 639 | 1,366 | 0 |
| Total Replacement Projects | 1,122 | 1,366 | 0 |
| Construction Projects | | | |
| RP5 Phase II Expansion | 353 | 500 | 7,500 |
| Land Purchase for 930 E pressure zone | 0 | 50 | 50 |
| RP5 Utility Water Pipeline | 5,664 | 0 | 0 |
| RP-2 Dewatered Cake Storage System & Energy Efficiency Improvement | 179 | 1,484 | 2,780 |
| San Bernardino Ave. Pump Station | 629 | 11,000 | 1,000 |
| RP5 Renewable Energy Generation Efficiency Project | 16,814 | 750 | 0 |
| RP4- Liquids Expansion to 14 MGD | 34,951 | 1,300 | 0 |
| RP5 System Facility Upgrade & Improvement | 6,735 | 2,700 | 0 |
| RP1 Dewatering Facilities Expansion | 255 | 4,800 | 9,000 |
| San Bernardino Pump Station By-Pass | 0 | 600 | 200 |
| New Operations Laboratory | 0 | 250 | 250 |
| RP1 Secondary Treatment System Modifications | 0 | 0 | 0 |
| RP1 Facilities Improvements | 42 | 4,083 | 11,168 |
| Upland Interceptor Relief, Phase II | 14,711 | 1,500 | 0 |
| RP-1 Cogeneration Station | 0 | 0 | 0 |
| RP5 Warehouse/Maintenance Facility | 0 | 50 | 50 |
| CCWRF Aeration System Modification | 2,645 | 880 | 3,200 |
| CCWRF Filter & Contact Tank Exchange | 355 | 50 | 50 |
| RP1 Odor Control - Phase I | 3,138 | 3,000 | 1,400 |
| RP1 to RP5 By Pass | 24,396 | 0 | 0 |
| RP1 3-Phase Digestion Improvement | 2,543 | 4,000 | 403 |
| RP1 Modernization | 132 | 0 | 0 |
| RP4 Land Acquisition | 2,038 | 4,147 | 0 |
| Miscellaneous RC Construction Projects | 202 | 640 | 500 |
| Various Construction Projects | 22,784 | 11,011 | 5,050 |
| Total Construction Projects | 138,566 | 52,795 | 42,601 |
| Total Projected Capital Costs | \$144,449 | \$67,180 | \$50,127 |

* 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 2015/16.

INLAND EMPIRE UTILITIES AGENCY
Wastewater Revenue Funds' Capital Requirements
For the Ten Fiscal Years Ending June 30, 2016* (continued)
(Dollars in Thousands)

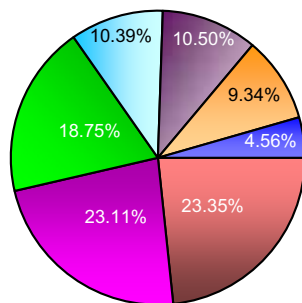
| Projected | | | | | | | Total |
|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|------------------|
| <u>09/10</u> | <u>10/11</u> | <u>11/12</u> | <u>12/13</u> | <u>13/14</u> | <u>14/15</u> | <u>15/16</u> | |
| \$0 | \$0 | \$5,000 | \$5,000 | \$5,000 | \$5,000 | \$5,000 | \$25,000 |
| 2,700 | 3,400 | 2,700 | 2,000 | 2,000 | 0 | 0 | 19,046 |
| | | | | | | | 9,450 |
| 11,227 | 1,826 | 0 | 100 | 558 | 0 | 0 | 23,321 |
| 13,927 | 5,226 | 7,700 | 7,100 | 7,558 | 5,000 | 5,000 | 76,817 |
| | | | | | | | |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 483 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,005 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,488 |
| | | | | | | | |
| 8,500 | 0 | 0 | 0 | 1,200 | 10,000 | 10,000 | 38,053 |
| 7,000 | 0 | 0 | 0 | 0 | 0 | 0 | 7,100 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5,664 |
| 330 | 0 | 0 | 0 | 0 | 0 | 0 | 4,773 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 12,629 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 17,564 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 36,251 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 9,435 |
| 527 | 0 | 0 | 0 | 0 | 0 | 0 | 14,582 |
| 6,800 | 0 | 0 | 0 | 0 | 0 | 0 | 7,600 |
| 1,250 | 13,274 | 0 | 0 | 0 | 0 | 0 | 15,024 |
| 0 | 500 | 1,500 | 15,600 | 12,600 | 0 | 0 | 30,200 |
| 9,002 | 6,481 | 0 | 0 | 0 | 0 | 0 | 30,776 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 16,211 |
| 300 | 4,000 | 4,000 | 0 | 0 | 0 | 0 | 8,300 |
| 2,939 | 2,939 | 0 | 0 | 0 | 0 | 0 | 5,978 |
| 500 | 0 | 0 | 0 | 0 | 0 | 0 | 7,225 |
| 5,450 | 6,225 | 0 | 0 | 0 | 0 | 0 | 12,130 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 7,538 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 24,396 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6,946 |
| 0 | 90 | 0 | 0 | 2,161 | 2,161 | 0 | 4,544 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6,185 |
| 500 | 500 | 500 | 500 | 500 | 500 | 500 | 4,842 |
| 5,398 | 8,760 | 5,640 | 674 | 1,061 | 1,168 | 1,000 | 62,546 |
| 48,496 | 42,769 | 11,640 | 16,774 | 17,522 | 13,829 | 11,500 | 396,492 |
| \$62,423 | \$47,995 | \$19,340 | \$23,874 | \$25,080 | \$18,829 | \$16,500 | \$475,797 |

INLAND EMPIRE UTILITIES AGENCY
Regional Wastewater Funds
Service Charge Revenue and Rates by Contracting Agency
For the Fiscal Year Ended June 30, 2007

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 2006/2007.

| Contracting Agency | Total EDU's | Rate | Service Charge Revenue | % of Service Charge Revenue |
|---|------------------|------|------------------------|-----------------------------|
| Cucamonga Valley Water District | 708,880 | 8.44 | \$5,982,944 | 23.35% |
| City of Ontario | 701,668 | 8.44 | \$5,922,076 | 23.11% |
| City of Fontana | 569,113 | 8.44 | \$4,803,314 | 18.75% |
| City of Upland | 315,429 | 8.44 | \$2,662,223 | 10.39% |
| City of Chino | 318,808 | 8.44 | \$2,690,737 | 10.50% |
| City of Chino Hills | 283,593 | 8.44 | \$2,393,526 | 9.34% |
| City of Montclair | 138,485 | 8.44 | \$1,168,811 | 4.56% |
| Total Contracting Agencies' Service Charge Revenue | 3,035,976 | | 25,623,632 | 100.00% |

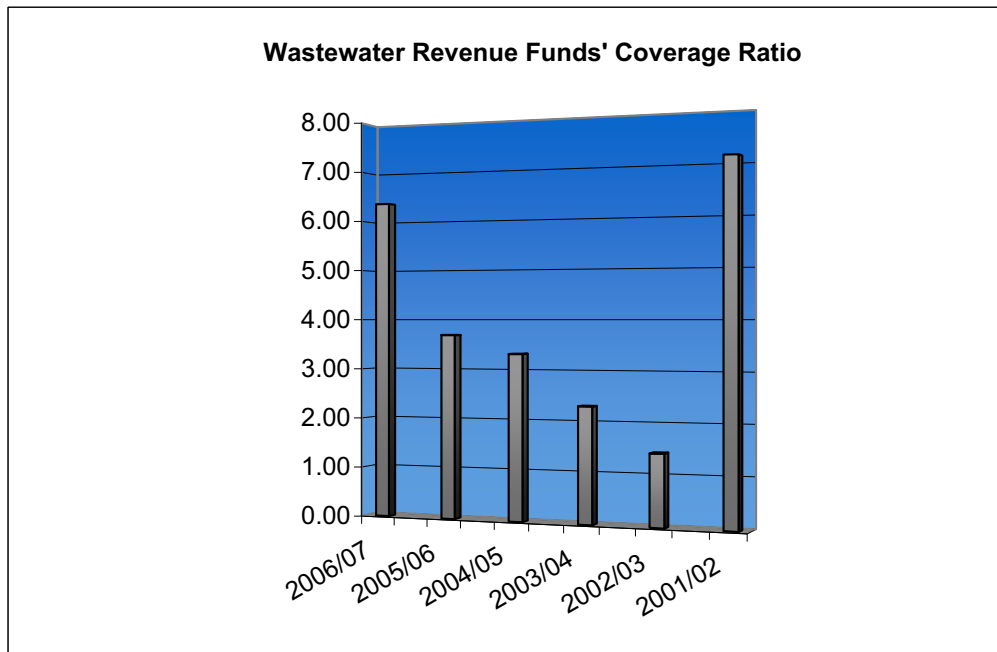
Total Service Charge Revenue by Contracting Agency
For the Fiscal Year Ended June 30, 2007



- Cucamonga Valley Water District
- 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 Seven Fiscal Years

| Fiscal Year | Funds Available | Debt Service Payments | Debt Coverage Ratio |
|--------------------|------------------------|------------------------------|----------------------------|
| 2006/07 | \$48,268,471 | \$7,589,258 | 6.36 |
| 2005/06 | \$28,046,154 | \$7,594,944 | 3.69 |
| 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 seven 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.

AGENCY SYSTEM
Wastewater Revenue Funds' Debt Coverage Ratio
For Fiscal Years Ended June 30, 2007
(With Comparative Totals for the Fiscal Year Ended June 2006)

| | <u>2007</u> | <u>2006</u> |
|--|----------------------|----------------------|
| <u>Revenues:</u> | | |
| Wastewater System Service Charges | \$ 28,088,263 | \$ 23,378,315 |
| Wastewater Capital Connection Fees | 24,670,848 | 20,895,635 |
| Property Tax | 31,018,195 | 20,069,646 |
| NRW System Service Charges | 6,870,973 | 8,290,457 |
| Interest | 5,239,104 | 3,720,135 |
| Recycled Water Sales | 3,253,546 | 1,147,241 |
| Composter Services | 1,172,933 | 47,085 |
| Other | 4,406,392 | 1,669,633 |
| Total Revenues | \$ 104,720,254 | \$ 79,218,148 |
| <u>Operation and Maintenance Costs:</u> | | |
| Wastewater Treatment | \$ 25,081,824 | \$ 22,786,525 |
| Administration and General | 20,973,394 | 17,466,181 |
| Wastewater Disposal | 7,433,865 | 6,246,009 |
| Wastewater Collection | 1,085,768 | 1,026,890 |
| Operations and maintenance | 1,385,106 | 3,337,477 |
| Other | 491,826 | 308,913 |
| Total Operation and Maintenance Costs: | \$ 56,451,783 | \$ 51,171,994 |
| Revenues Available to Pay Senior Debt Service | \$ 48,268,471 | \$ 28,046,154 |
| <u>Senior Obligation Debt Service</u> | | |
| 1990 Installment Payments | \$ 0 | \$ 0 |
| 1994 Installment Payments | 6,456,983 | 6,460,200 |
| 1999 Installment Payments | 1,132,275 | 1,134,744 |
| Total Senior Obligation Debt Service | \$ 7,589,258 | \$ 7,594,944 |
| 1. Excludes Op contribution-IERCA | | |
| Senior Obligation Debt Service Coverage | 6.36 | 3.69 |
| 2. Excludes Desalter Expenses | | |
| Net Revenues | \$ 40,679,213 | \$ 20,451,210 |
| <u>Parity Obligation Debt Service</u> | | |
| 2005A installment Purchase Payments | \$ 1,156,863 | \$ 2,424,556 |
| 2002 Installment Payments | 3,132,516 | 2,800,087 |
| Total Parity Obligation Debt Service | \$ 4,289,379 | \$ 5,224,643 |
| Parity Obligation Debt Service Coverage | 9.48 | 3.91 |
| Net Revenues | \$ 36,389,834 | \$ 15,226,567 |
| <u>Subordinate Obligations</u> | | |
| State Revolving Fund Loan | \$ 1,088,839 | \$ 813,713 |
| SAWPA Sari Capacity Purchase | 267,188 | 267,188 |
| Commercial Paper Program | 1,711,434 | 0 |
| Total Subordinate Obligations | \$ 3,067,462 | \$ 1,080,901 |
| Other Debt Service Coverage | 11.86 | 14.09 |
| Remaining Net Revenue | \$ 33,322,373 | \$ 14,145,665 |

AGENCY SYSTEM
Wastewater Revenue Funds' Debt Coverage Ratio
For Fiscal Years Ended June 30, 2007
(With Comparative Totals for the Fiscal Year Ended June 2006)

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 6.45 and 3.91 for the Fiscal Years Ended June 30, 2007 and June 30, 2006, 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.

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.

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 2006/07 amended budget for operating and maintenance expenses for four months was \$18,602,240
- > As of the Fiscal Year Ended June 30, 2007, the Agency had reserves of \$43,365,049. This balance exceeded the stated minimum requirement.

We have revised FY 2006/07 calculation in consistent with the format we use for official statements and bond covenant requirement reporting.

INLAND EMPIRE UTILITIES AGENCY
Computation of Direct and Overlapping Bonded Debt
As of June 30, 2007

2006/2007 Assessed Valuation: \$48,730,184,645 (after deducting \$22,429,776,670 Redevelopment Incremental Valuation)

| <u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u> | <u>% Applicable (1)</u> | <u>Debt 6/30/07</u> | |
|--|--------------------------------|-------------------------------|-----|
| Metropolitan Water District | 3.002% | \$10,780,632 | |
| Chaffey Community College District | 99.552 | 183,543,989 | |
| San Bernardino Community College District | 0.246 | 399,978 | |
| Chino Valley Unified School District | 100. | 145,619,999 | |
| Colton Joint Unified School District | 2.546 | 2,543,451 | |
| Fontana Unified School District | 96.968 | 136,947,530 | |
| Rialto Unified School District | 0.100 | 52,165 | |
| Upland Unified School District | 99.819 | 31,913,411 | |
| Chaffey Union High School District | 99.745 | 108,532,535 | |
| Alta Loma School District | 99.787 | 24,397,795 | |
| Central School District | 100. | 13,514,342 | |
| Mountain View School District & School Facilities Improvement District No. 1 | 100. | 16,354,416 | |
| Ontario-Montclair School District | 100. | 25,129,646 | |
| Inland Empire Utilities Agency | 100. | 0 | (2) |
| City of Chino Community Facilities Districts | 100. | 123,570,000 | |
| City of Chino Hills Community Facilities Districts | 100. | 79,035,000 | |
| Chino Valley Unified School District Community Facilities Districts | 100. | 45,000 | |
| Etiwanda School District Community Facilities Districts | 100. | 78,290,000 | |
| Upland Unified School District Community Facilities District No. 99-1 | 100. | 2,313,000 | |
| City of Fontana Community Facilities Districts | 4.930-100. | 102,040,604 | |
| Mountain View School District Community Facilities District | 100. | 7,300,000 | |
| San Bernardino County Community Facilities Districts No. 2002-1 | 100. | 23,535,000 | |
| City of Ontario Community Facilities District | 100. | 8,611,420 | |
| City of Rancho Cucamonga Community Facilities Districts | 100. | 107,530,000 | |
| City of Upland Community Facilities Districts | 100. | 43,755,000 | |
| City of Chino 1915 Act Bonds | 100. | 4,090 | |
| City of Chino Hills 1915 Act Bonds | 100. | 8,643,000 | |
| City of Fontana 1915 Act Bonds | 100. | 1,470,000 | |
| City of Ontario 1915 Act Bonds | 100. | 26,757,512 | |
| City of Rancho Cucamonga 1915 Act Bonds | 100. | 4,595,000 | |
| City of Upland 1915 Act Bonds | 100. | 335,000 | |
| TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT | | <u>\$1,317,559,515</u> | |
| <u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u> | | | |
| San Bernardino County General Fund Obligations | 44.948% | \$377,963,237 | |
| San Bernardino County Pension Obligations | 44.948 | 331,907,535 | |
| San Bernardino County Flood Control General Fund Obligations | 44.948 | 57,364,885 | |
| Chaffey Community College District Certificates of Participation | 99.552 | 2,608,262 | |
| Chino Valley Unified School District Certificates of Participation | 100. | 47,635,000 | |
| Colton Joint Unified School District Certificates of Participation | 2.546 | 195,787 | |
| Fontana Unified School District Certificates of Participation | 96.968 | 48,396,729 | |
| Rialto Unified School District Certificates of Participation | 0.100 | 15,675 | |
| Upland Unified School District Certificate of Participation | 99.819 | 5,544,945 | |
| Cucamonga School District Certificate of Participation | 100. | 12,940,000 | |
| Ontario-Montclair School District Certificate of Participation | 100. | 5,285,000 | |
| Chaffey Union High School District Certificates of Participation | 99.745 | 1,007,425 | |
| City of Chino Hills | 100. | 22,040,000 | |
| City of Fontana Certificates of Participation | 92.566 | 18,841,809 | |
| City of Montclair General Fund Obligations | 100. | 30,735,000 | |
| City of Ontario General Fund Obligations | 100. | 29,191,428 | |
| Other City General Fund Obligations | 4.912&100. | 2,306,814 | |
| Monte Vista County Water Authority | 100. | 405,000 | |
| West Valley Vector Control District Certificates of Participation | 100. | 4,100,000 | |
| TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT | | <u>\$998,484,531</u> | |
| COMBINED TOTAL DEBT | | <u>\$2,316,044,046</u> | (3) |

INLAND EMPIRE UTILITIES AGENCY
Computation of Direct and Overlapping Bonded Debt, (continued)
As of June 30, 2007

Ratios to 2006-07 Assessed Valuation:

| | |
|---|-------|
| Direct Debt | 0.00% |
| Total Direct and Overlapping Tax and Assessment Debt..... | 1.86% |

Ratios to Adjusted Assessed Valuation:

| | |
|---|-------|
| Combined Direct Debt..... | 4.76% |
| <u>State School Building Aid Repayable As Of 6/30/07:</u> | \$0 |

Source: California Municipal Statistics, Inc.

Footnotes:

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

INLAND EMPIRE UTILITIES AGENCY

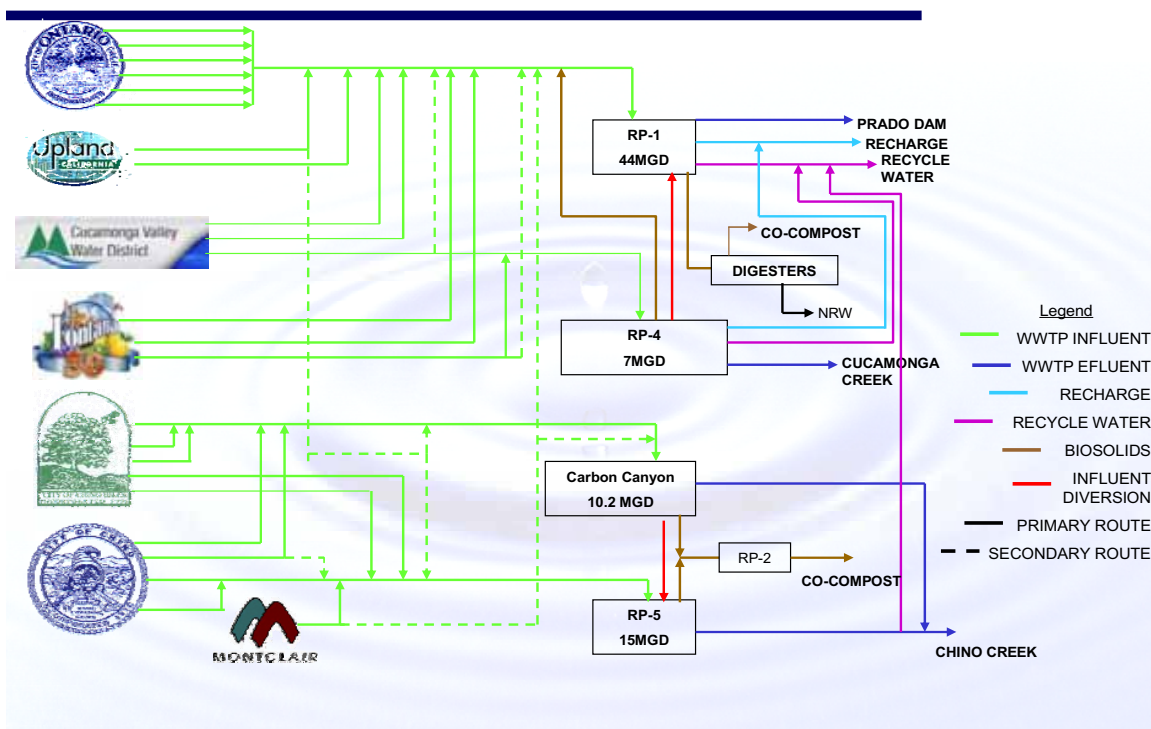
Operating Indicators - Wastewater Facilities -

Design Capacity and Average Flow

As of June 30, 2007

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



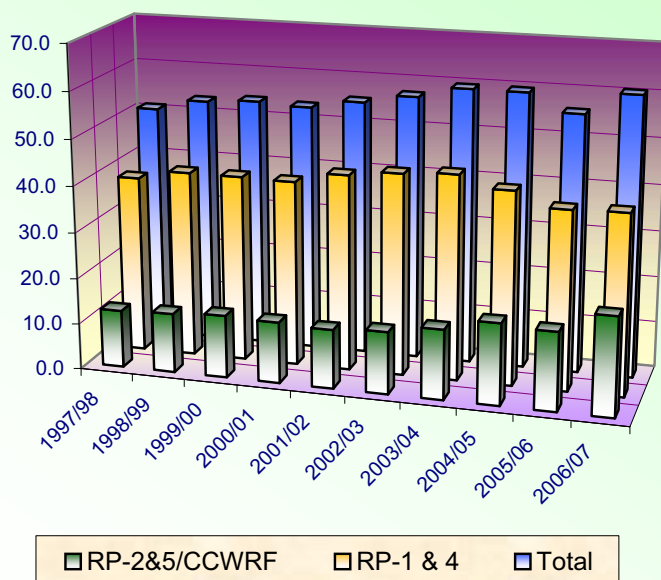
The following table presents the current design capacities and flows of the Agency's wastewater treatment as of June 30, 2007:

| Facility | Design Capacity (MGD) | Average Flow (MGD) | Average Flow as % of Design Capacity |
|--------------|-----------------------|--------------------|--------------------------------------|
| RP-1 | 44.0 | 38.1 | 86.5% |
| RP-2/RP-5 | 15.0 | 12.0 | 79.9 |
| RP-4 | 14.0 | 1.0 | 7.4 |
| CCWRF | 11.4 | 9.4 | 82.6 |
| Total | 84.4 | 60.5 | 71.7% |

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

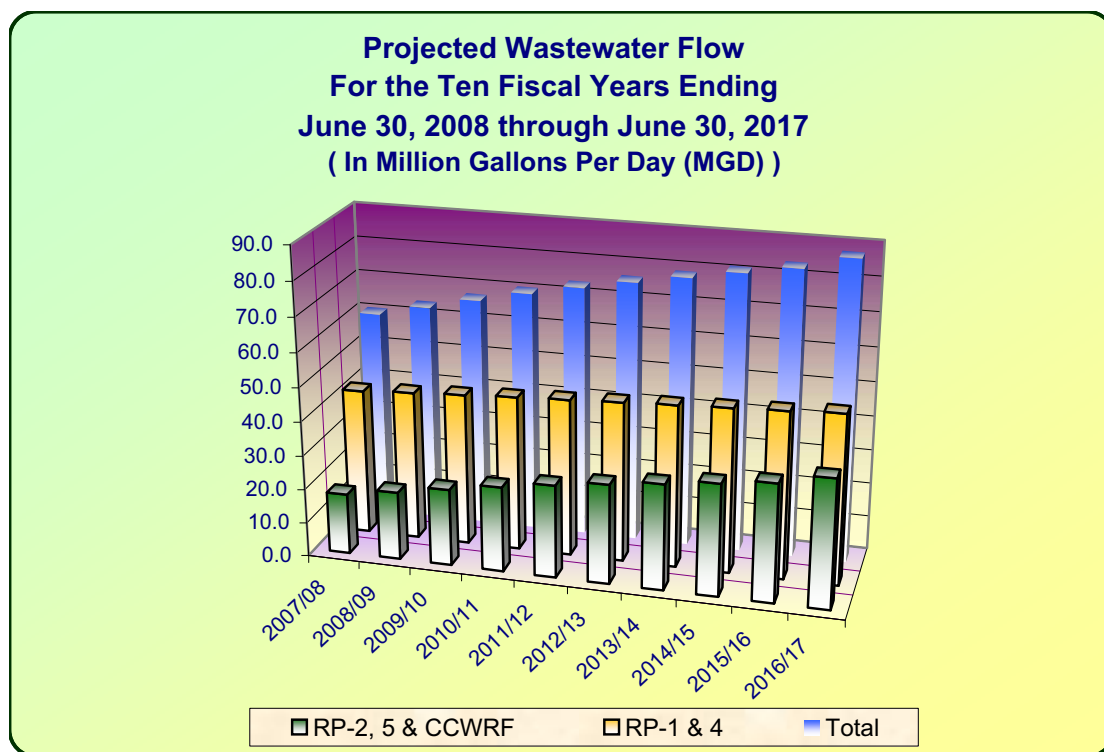
| Fiscal Year | RP-1 & 4 (MGD) | RP-2&5/CCWRF (MGD) | Total (MGD) |
|-------------|----------------|--------------------|-------------|
| 1997/98 | 38.4 | 12.5 | 50.9 |
| 1998/99 | 40.4 | 12.9 | 53.3 |
| 1999/00 | 40.4 | 13.6 | 54.0 |
| 2000/01 | 40.2 | 13.3 | 53.5 |
| 2001/02 | 42.5 | 12.8 | 55.3 |
| 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 |
| 2006/07 | 39.1 | 21.4 | 60.5 |

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, 2008 through June 30, 2017*
(In Million Gallons Per Day (MGD))

| Fiscal Year | RP-1 & 4 (MGD) | RP-2, 5 & CCWRF (MGD) | Total (MGD) |
|-------------|----------------|-----------------------|-------------|
| 2007/08 | 42.8 | 17.8 | 60.6 |
| 2008/09 | 43.7 | 20.1 | 63.8 |
| 2009/10 | 44.6 | 22.6 | 67.2 |
| 2010/11 | 45.4 | 25.0 | 70.4 |
| 2011/12 | 46.1 | 27.2 | 73.3 |
| 2012/13 | 46.9 | 29.2 | 76.1 |
| 2013/14 | 47.6 | 31.0 | 78.6 |
| 2014/15 | 48.3 | 32.9 | 81.2 |
| 2015/16 | 48.9 | 34.6 | 83.5 |
| 2016/17 | 49.8 | 37.7 | 87.5 |



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

INLAND EMPIRE UTILITIES AGENCY
Operating Indicators
FY 2006/07 Staffing Allocations
As of June 30, 2007

Total staffing positions: 308

FTE

| | |
|--|-------|
| Regional Operations | 149.8 |
| Regional Capital Programs | 50.7 |
| Recycled Programs | 17.9 |
| IERCA Operations/Organics Management | 19.9 |
| NRWS Programs | 11.5 |
| Desalter Operations & Capital Programs | 7.2 |
| Recharge Water Programs | 7.3 |
| Water Related Activities & Conservation Programs | 2.5 |
| General Administration | 14.6 |
| Total Staffing in FTE * | 281.4 |

Source: IEUA FY 2006/07 Adopted Budget

The above allocations are based on the FY 2006/07 labor distribution for all departments and staffing positions.

Budgeted employee = 308, FTE = 281.4

Remaining 26.6 FTE represents staff time allocated for estimated vacation, sick leave, training, and safety training:

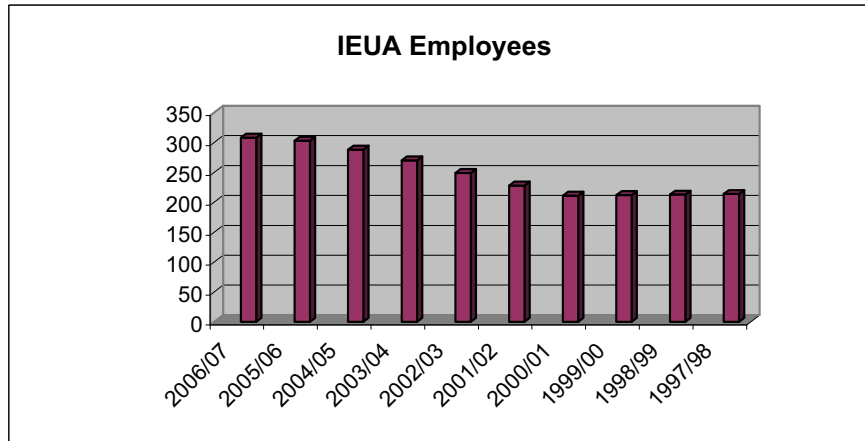
Average range -
 Vacation leave: 10 to 20 days
 Holidays: 9 to 12 days
 Sick leave: 8 to 10 days
 Training 2 to 6 days
 Safety 2 to 4 days
Total 31 to 53 days

Remaining days for leaves = 6916 days/292 employees (assuming 5% vacancy factor for 308)
 = 23.7 days per employee

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

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

| <u>Fiscal Year</u> | <u>Number of Employees</u> |
|--------------------|----------------------------|
| 2006/07 | 308 |
| 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 |



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.

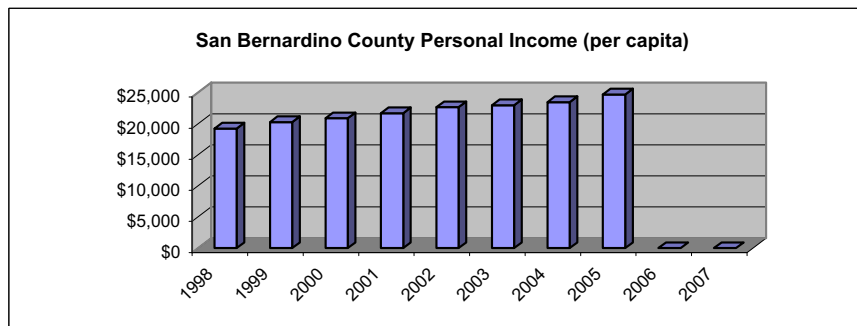
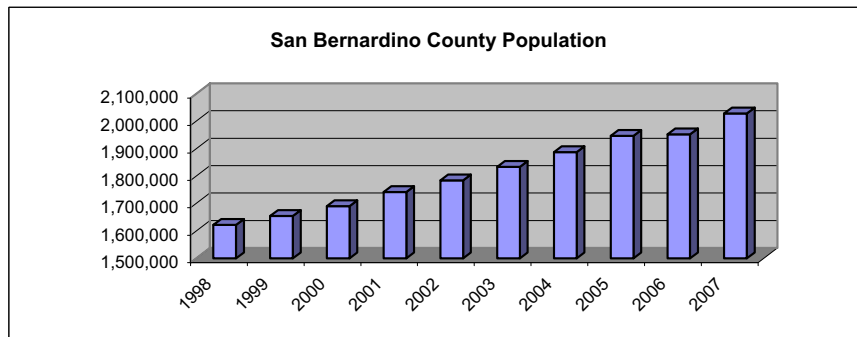
Pipeline System

| | <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 most recent information.

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) |
| 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 |
| 2007 (2) | 2,028,013 | 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

Area's largest public and private employers:

| FIRM | LOCATION | NUMBER OF EMPLOYEES |
|-----------------------------------|----------|---------------------|
| Ontario International Airport | Ontario | 6,300 |
| Kaiser Medical Center | Fontana | 5,500 |
| United Parcel Service | Ontario | 4,100 |
| Fontana Unified School District | Fontana | 3,600 |
| Chino Unified School District | Chino | 2,600 |
| California Institution for Men | Chino | 2,100 |
| San Antonio Community Hospital | Upland | 2,000 |
| North American Medical Management | Ontario | 1,400 |
| Target Distribution Center | Fontana | 1,300 |
| California Steel Industries | Fontana | 900 |

Sources: San Bernardino Area Chamber of Commerce, Company's Websites

Note: No data available prior to most recent information.



Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

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