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# *Inland Empire Utilities Agency*

*Chino, California*



## *Comprehensive Annual Financial Report*

*Fiscal Year Ended  
June 30, 2008*

*A Municipal Water District*

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*Prepared By the Fiscal Management Department  
Michael C. Chung  
Manager of Fiscal Management*

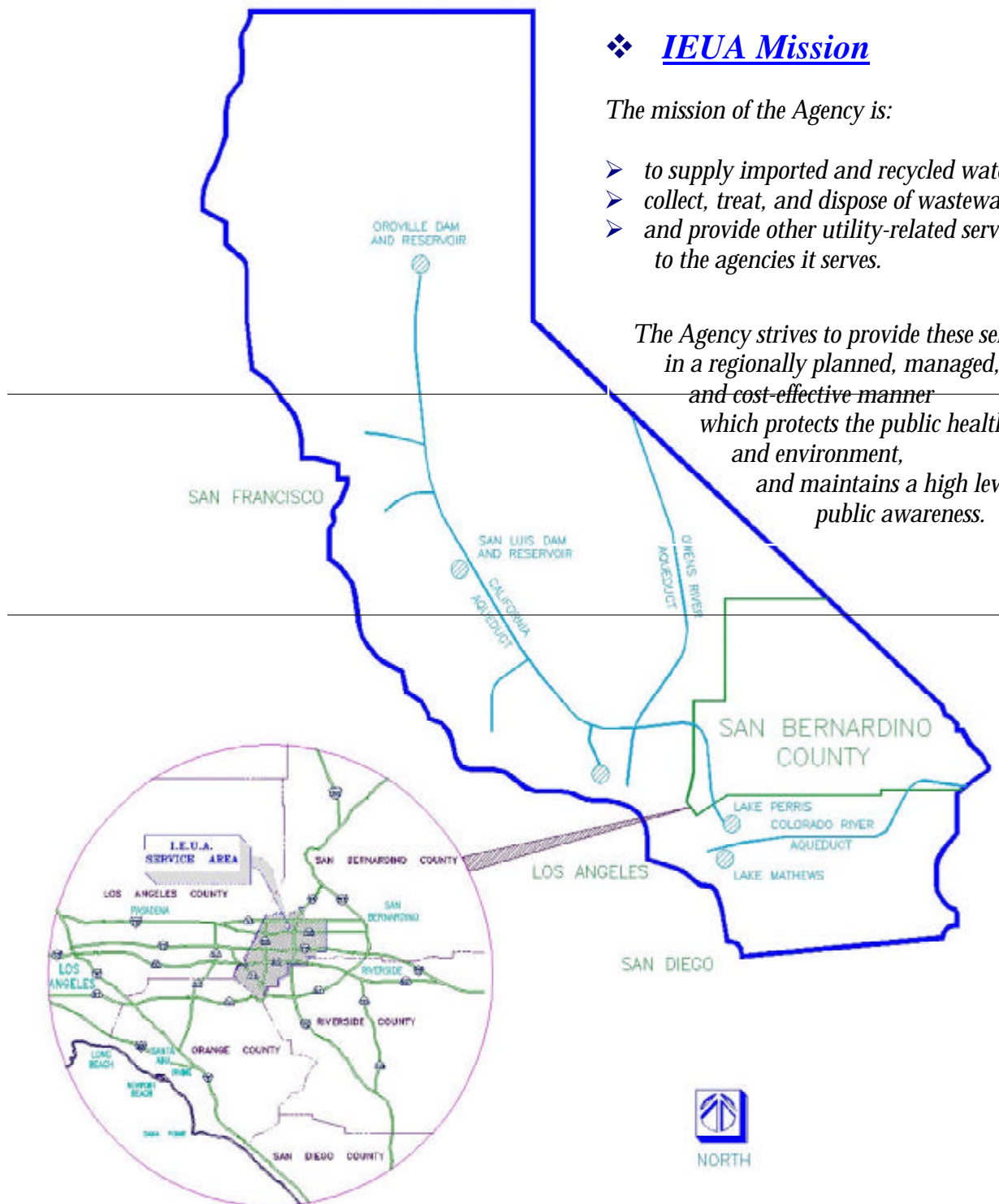
# INLAND EMPIRE UTILITIES AGENCY

## ❖ 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.*



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**INLAND EMPIRE UTILITIES AGENCY**  
**Comprehensive Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2008**

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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.

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January 21, 2009

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

State law and local ordinances require that the Agency to annually publish a comprehensive report of its financial condition and activities, audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, it is with pleasure that we present The Comprehensive Annual Financial Report of the Inland Empire Utilities Agency (herein after referred to as the Agency) for the fiscal year ended June 30, 2008.

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

The Inland Empire Utilities Agency's financial statements have been audited by Mayer Hoffman McCann P.C., a firm of certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Agency for the fiscal year ended June 30, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The independent audit concluded, based upon the audit, that there was reasonable basis for rendering an unqualified ("clean") opinion that the Inland Empire Utilities Agency's financial statements for the year ended June 30, 2008 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

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

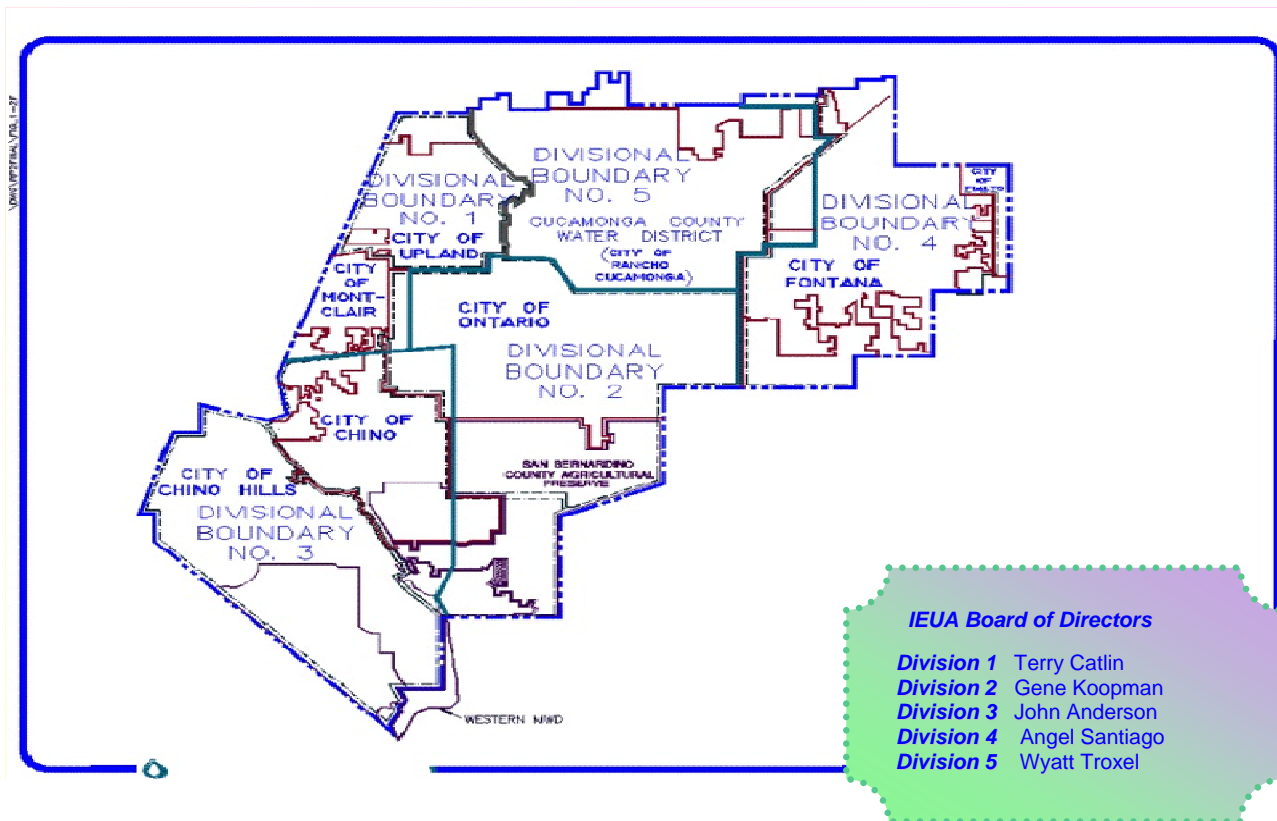
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<b>Wyatt L. Troxel</b> President	<b>Terry Catlin</b> Vice President	<b>Gene Koopman</b> Secretary/Treasurer	<b>Angel Santiago</b> Director	<b>John L. Anderson</b> Director	<b>Richard W. Atwater</b> Chief Executive Officer General Manager
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## INLAND EMPIRE UTILITIES AGENCY PROFILE

### Up to the Present

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



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

**INLAND EMPIRE UTILITIES AGENCY PROFILE (continued):**

**Up to the Present (continued):**

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

The Agency currently operates five 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, instead, it continues to handle solid processing.
- ◆ 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. Currently, the plant is near completion of the expansion project, bringing the capacity from 7 mgd to 14 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 16.7 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.

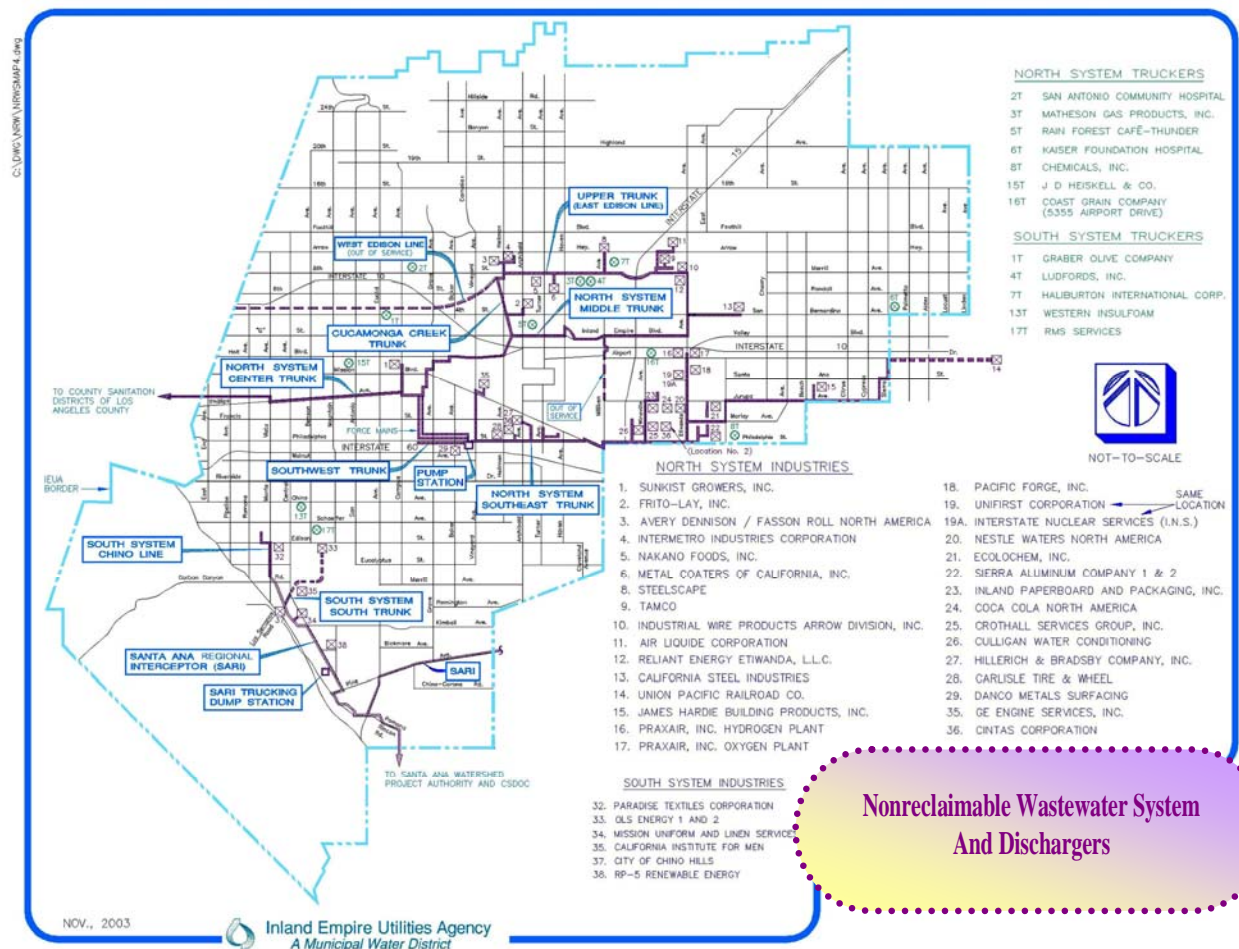
As of June 30, 2008, 55 companies discharged industrial wastewater to the Agency's Nonreclaimable Wastewater System. Some of the largest companies are California Steel Industries, Inland Paperboard and Packaging Inc., Frito Lay Inc., Mission Linen Companies, Crothall/Tartan Textile Services (Westar Linen), 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 14 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.

# INLAND EMPIRE UTILITIES AGENCY PROFILE (continued):

## 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.



Nonreclaimable Wastewater System  
 And Dischargers

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.

**INLAND EMPIRE UTILITIES AGENCY PROFILE (continued):**

**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**

Fiscal year 2007/08 has been a very unsettling year for our region. While the State has been struggling with budget shortfall, our region is adversely impacted by the ill effect of a major economic downturn. The Agency is being hit hard by the meltdown of the real estate market, which translates into drastic drop in connection fees. Although the State balanced its FY08/09 budget without tapping into local property taxes, the propensity of such action is still looming in the horizon. Expecting slow growth for the immediate future, we are taking the conservative approach by posturing ourselves with cost containment measures and deferral of a significant portion of our capital improvement projects.

While assessed values of real properties in our region are being adjusted, the real estate market will continue to see a rough road ahead for the next several years. This is certainly not a favorable condition for property tax revenue projection.

**MAJOR INITIATIVES AND ACCOMPLISHMENTS**

In the midst of financial turmoil of many sectors in our economy, IEUA managed to complete two bond issuances to re-finance our 2002A bonds and retire our \$75 million dollar Commercial Paper program.

Total capital expenditures came to \$66 million. Some of the major projects completed in FY 2007/2008 were as follows.

- ◆ RP1 - 3 Phase Digestion Improvement;
- ◆ RP1 / RP5 By-Pass;
- ◆ Carbon Canyon Plant Aeration Modification Improvements;
- ◆ RP2 Digester Gas System Modification;
- ◆ Edison-Merrill Recycled Water Pipeline; and
- ◆ West Edison SAC Recycled Water Pipelines.



**RP1-Newly Installed Overhead Gas Piping**

**View of the Newly Installed Gas Piping  
from Digesters No. 1 and No. 2**



**MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):**

***Regional Plant No. 1 – By-Pass***



***Carbon Canyon - Testing of Aeration Panels***



***West Edison San Antonio Channel (SAC)  
Recycled Water Pipeline***



**Major Accomplishments for FY 2007/2008**

The highlights of major activities and accomplishments are as follows:

- Completed the issuance of 2008A bonds for \$125 million to pay off commercial paper balance of \$50 million and provide additional funding for capital replacement and improvements. Also, completed the issuance of 2008B Variable Rate bonds for \$56 million to refinance the 2002A bonds.
- Adoption of the Recycled Water Three Year Business Plan to boost usage of recycled water.

**MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):**

**Major Accomplishments for FY 2007/2008 (continued):**

- Executed three SRF loan agreements for a total of \$10.9 million and received a \$4.9 million grants for phase III recycled water projects.
- The Agency secured commitments for the following grants/State Revolving Fund Loan applications which include:
  1. \$1.0 million from the State Department of Water Resources for Urban Drought Assistance;
  2. \$20.0 million from the State Department of Public Health for Chino II Expansion Project.

**Future Years**

Amidst the national economic turmoil and the California state budget crisis, our region continues to face water supply issues due to extended draught seasons. First and foremost, we continue to monitor the State's budget shortfall and potential shift of our property tax revenues.

As stated earlier, the slump of the real estate market in our region, causing lower connection fees, has a significant impact on our ability to support construction and improvements to our infrastructure. As a result, we have adjusted our ten year capital improvement plan to reflect the anticipated slow growth in future years.

In terms of water supply, the Agency's priorities remain focused on the Urban Water Management Plan to assure a 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 an adequate supply to our region. Meeting these challenges will be on the top of the Agency's priority list.

**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 in partnership with the communities we serve.



The mission of the Agency is to supply imported and recycled water, collect, treat, and dispose of wastewater and provide other utility-related (renewable electrical energy, compost) services to the communities it serves. The Agency strives to provide these services in a regionally planned, managed, and cost-effective manner.

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.

### **Future Years (continued):**

#### **Vision (continued):**

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

- Maintain a stable revenue base sufficient to meet operating and maintenance requirements.
- Upgrade and modernize existing facilities to enhance efficiency and productivity. Major regional capital improvements include, but are not limited to:
  1. Complete the expansion of Regional Plant No. 4 from 7 mgd to 14 mgd, to accommodate the regions growth, and reduce the Agency's operation costs by creating additional fuel for co-generation.
  2. Complete the Regional Plant No. 5 System Upgrade & Improvements. This project will replace the foul air ducting inside the solids building; replace the existing bucket conveyor with a vertical screw conveyor; provide a dewatered cake storage system; upgrade the existing biofilter; provide a meter to measure flow to the Santa Ana Regional Interceptor (SARI Line); provide a stand-by sludge pump for feeding sludge to the rotary presses; add two channels to one of the existing rotary presses; provide a stand-by rotary press unit; site drainage improvements (e.g., line storage pond, 8" drain line from pond to gravity sewer in Mountain Avenue, and provide v-ditches around the existing plug flow digester).
  3. Complete the Regional Plant No. 1 Dewatering Facilities Expansion. This project will expand the dewatering facilities at RP1 (e.g., add centrifuge(s). A storage system (e.g., storage silo(s) about 20ft high and conveyors) for dewatered cake will be considered to provide a minimum of 48 hours of cake storage. Two storage silos (each with a diameter of 20 ft. by 20 ft. high) would hold approximately two days of dewatered cake.
- Continue the effort to build recycled water infrastructure to promote usage of recycled water.
- Collaborate with the Chino Basin Watermaster on the implementation of the Optimum Basin Management Plan.
- Continue to implement the 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.

## **FINANCIAL INFORMATION (continued):**

### **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.

OTHER INFORMATION (continued):

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, 2007. 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.

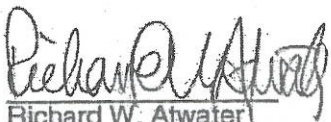
Acknowledgements

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

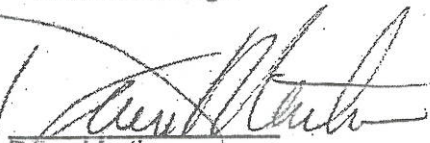
We further acknowledge the thorough and professional manner in which our auditors, Mayer Hoffman and McCann P.C. conducted the audit.

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, 2007

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*

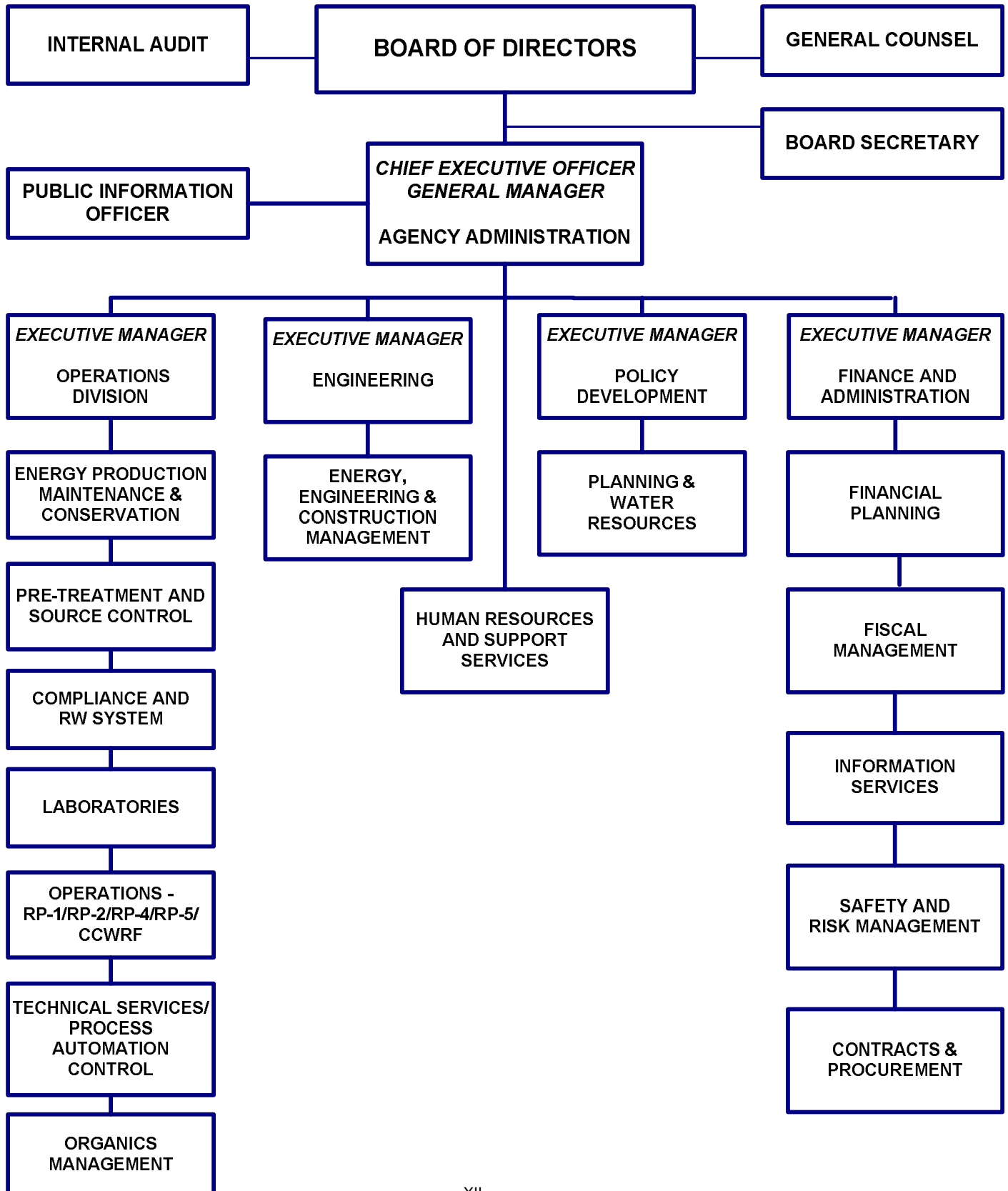
President

*Jeffrey R. Emer*

Executive Director

# INLAND EMPIRE UTILITIES AGENCY

## FY 2007/08 ORGANIZATIONAL CHART



# **INLAND EMPIRE UTILITIES AGENCY**

## ***Principal Officials***

***June 30, 2008***

### **BOARD OF DIRECTORS**

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

### **EXECUTIVE STAFF**

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

### **MANAGEMENT STAFF**

<b>Gary P. Bankston</b>	<i>Manager - Energy Production &amp; Maintenance</i>
<b>Chris Berch</b>	<i>Manager - Technical Support and Operations</i>
<b>Tina Y. Cheng</b>	<i>Budget Officer</i>
<b>Michael C. Chung</b>	<i>Manager - Fiscal Management</i>
<b>Neil W. Clifton</b>	<i>Manager - Engineering, Energy and Construction Management</i>
<b>Parivash Dezham</b>	<i>Manager - Pre-Treatment and Source Control</i>
<b>Sondra J. Elrod</b>	<i>Public Information Officer</i>
<b>Jack E. Frazier</b>	<i>Manager - Safety</i>
<b>Jonathan Glazier</b>	<i>Manager - Information Services</i>
<b>Warren Green</b>	<i>Manager - Safety and Risk Management</i>
<b>Nelletje Groenveld</b>	<i>Manager - Laboratories</i>
<b>Gary E. Hackney</b>	<i>Manager - Program Funding</i>
<b>Gina L. Hillary</b>	<i>Manager - Human Resources and Support Services</i>
<b>Cameron B. Langner</b>	<i>Manager - Contracts and Procurement</i>
<b>Robert H. Nienhuis</b>	<i>Manager - Compliance and RW System</i>
<b>Craig Parker</b>	<i>Manager - Construction Management</i>
<b>Marvin Shaw</b>	<i>Manager - Planning and Water Resources</i>
<b>Christina Valencia</b>	<i>Manager - Financial Planning</i>
<b>Teresa Velarde</b>	<i>Manager - Internal Audit</i>
<b>David R. Wall</b>	<i>Manager - Construction Management</i>
<b>April Woodruff</b>	<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 2007/2008:

### **First Half FY 2007/2008**

#### **Finance/Administration**

*Robert Fetzer – Network Administrator*

#### **Engineering/Planning**

*London Jones – Engineering Technician*

#### **Operations**

*Raymond Reyes – Instrumentation Tech I*

### **Second Half FY 2007/2008**

#### **Finance/Administration**

*Lucia Fuertez –Site Administrator*

#### **Engineering/Planning**

*Amy Jones – Assistant Engineer*

#### **Operations**

*Jose Catalan – Plant Maintenance Tech II*

### ★ **Employee of the Year** ★

For the Fiscal Year 2007/2008, **Robert Fetzer**, *Network Administrator*, was chosen by the Selection Committee as the Employee of the Year.

*IEUA Star Award Recipient  
Employee of the Year 2007/2008*



***Robert Fetzer***  
***Network Administrator***

*Robert Fetzer* began his employment with the Agency in 1990. Since that time, Robert has faced many challenges while working in the Information Systems department. He played a key role in expanding the Agency network from just 2 Personal Computers to over 300 workstations. Throughout his career, Robert has always kept his sense of humor and a smile on his face. He is always willing to help those in need of assistance and is considered a close friend by many of the Agency's staff members. Specific accomplishments for the past year include: Developing a disaster recovery plan for S.A.P. system hardware, doubling the capacity of the business network backup system and replacing the overhead paging system at each facility. When he is not at work, Robert can be found attending his daughter's soccer games or floating around in his pool.





**Mayer Hoffman McCann P.C.**

An Independent CPA Firm

**Conrad Government Services Division**

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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, 2008, 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, 2007 and, in our report dated December 10, 2007, 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, 2008, and the respective changes in financial position and cash flows of the Agency for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Board of Directors  
Inland Empire Utilities Agency  
Chino, California

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

In accordance with *Government Auditing Standards*, we have also issued a report dated January 21, 2009, 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 McLean P.C.*

Irvine, California  
January 21, 2009

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## **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, 2008. 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 method of accounting, which recognizes transactions when they occur, regardless of when cash is exchanged.

### **The Agency's Operations – an Overview**

As a municipal water district, Inland Empire Utilities Agency engages in primarily enterprise operations in various separate and distinct activities. These activities are: 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 2007/08 increased slightly from \$110.9 million to \$115.3 million. As expected, property tax revenue increased by \$3.4m. Non-operating revenue increased by \$9.1 million as a result of the sale of land in the Regional Sewage fund. Due to the slumping real estate market in our region, Regional Sewage Treatment program – connection fee suffered a drastic drop from \$24.7 million to \$16.6 million, a 33% decrease. As a response to the slow economy, Capital spending was curtailed to \$66.0 million.

## **FINANCIAL HIGHLIGHTS**

### **Cash and Investment Management**

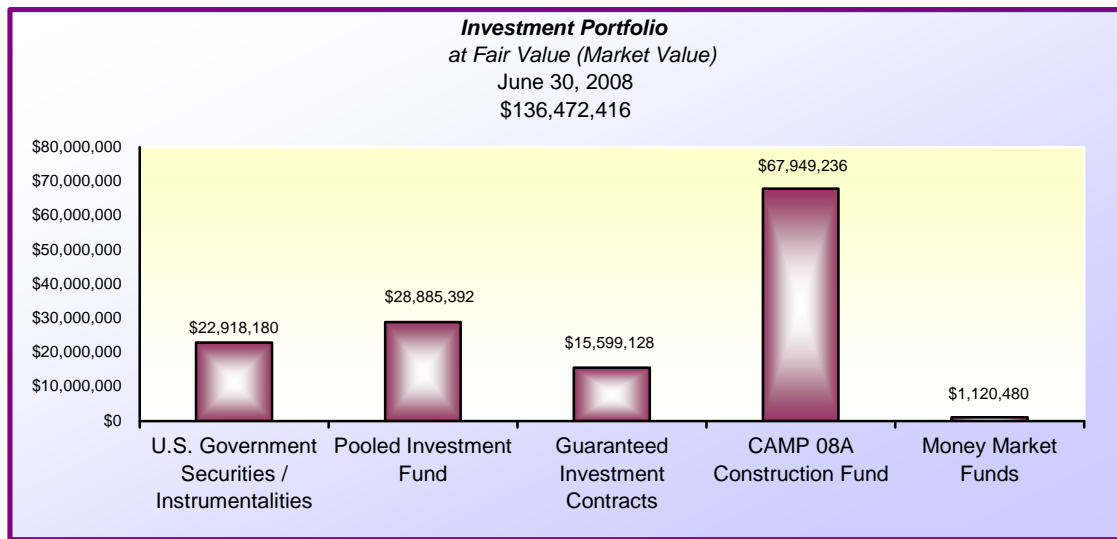
The Agency has a comprehensive cash and investment program subject to California State Code and bond covenants. These regulations are incorporated into the Agency's Investment Policy and Master Resolution, which identify the types of investments that are authorized and indicates any restrictions. Consistent 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, 2008 idle funds were invested in accordance with this policy. These investments primarily consisted of United States Government Securities/Instrumentalities and deposits in a pooled investment fund administered by the State of California.

## FINANCIAL HIGHLIGHTS (continued):

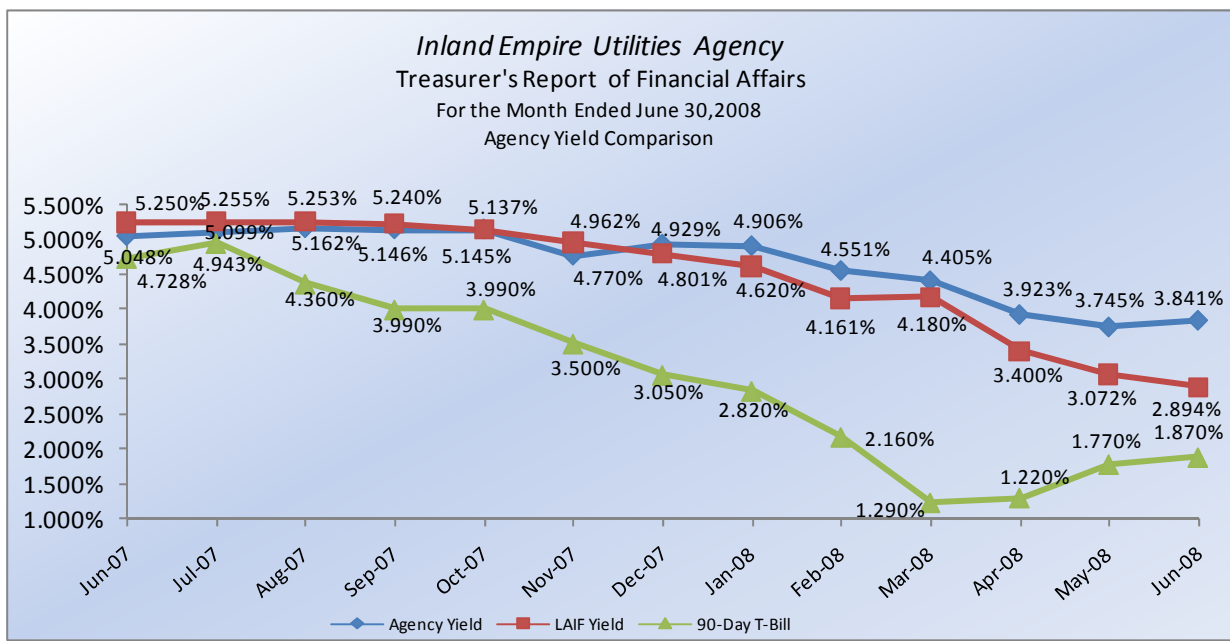
### Cash and Investment Management (continued):

#### Investment Portfolio Performance

Interest income for fiscal year 2007/08 totaled \$5,006,145. The Agency's portfolio fund balance for the fiscal years ended June 30, 2008 and 2007 were \$136,472,416 and \$73,143,984, 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 2007/08 and 2006/07 were 3.841% and 5.048%, respectively.

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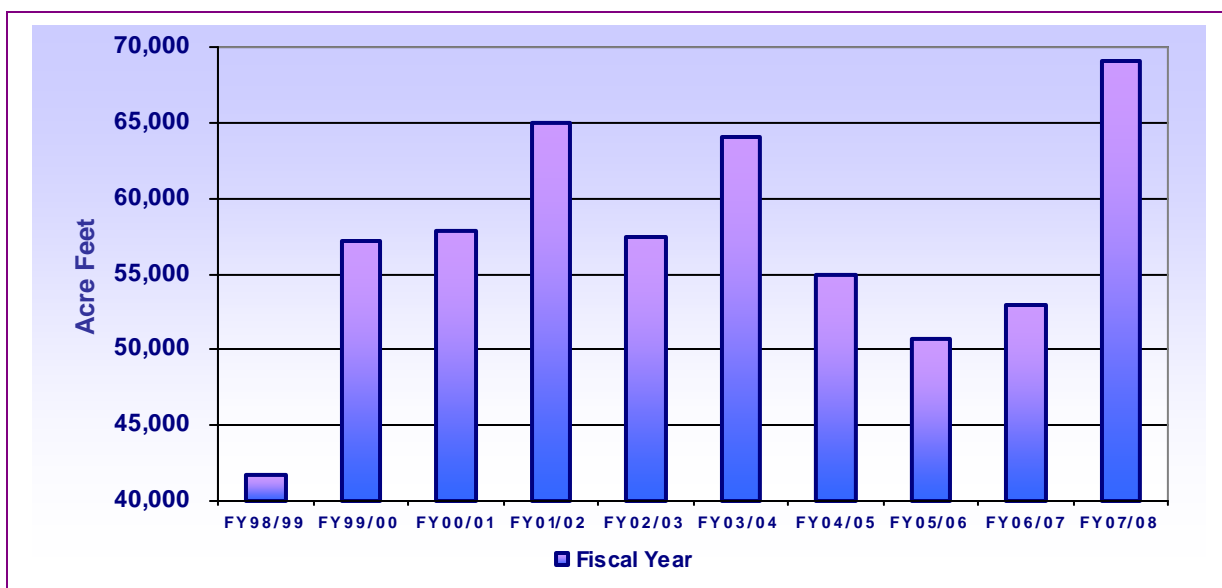
## **FINANCIAL HIGHLIGHTS (continued):**

### **Water Deliveries**

Total imported water deliveries for fiscal year 2007/08 were 69,041 acre feet (AF) against a budgeted total of 91,660 AF. The anticipated groundwater replenishment did not take place in the fiscal year. During the first six months of fiscal year 2007/08, the AF surcharge levied by IEUA to member agencies was \$9.00 per AF increasing to \$10.00 per AF effective January 2008. The total operating revenue was \$1,437,930 compared to \$1,831,429 for last fiscal year. The decrease was due to the lower volume of imported water delivered. All conservation programs were recorded as operating expenses. Total operating expenses decreased from \$4,944,122 to \$3,232,700 as a result of the completion of one major project: the retrofitting of flush valves at the California State Prisons in Chino. The increase in funding was offset by grant funding from the California Department of Water Resources, the U.S. Bureau of Reclamation and MWD. For the same reason, total grant funding of \$1,132,864 recorded was much lower than last year \$2.4 million dollars. Total net asset balance at June 30, 2008 was \$5,275,920 with a decrease of \$345,788 in FY07/08.

The following is a comparative chart of past ten years' of imported water deliveries:

**Comparative Acre Feet (AF) Deliveries**  
**(Includes Interim Agricultural Water Program)**



The conservation programs include incentives for indoor and outdoor water conserving devices for residential, commercial, institutional and industrial customers throughout the IEUA service area. In addition to the incentive programs, IEUA also offers several educational programs that include the National Theatre for Children and Garden in Every School, educating elementary school children on indoor and outdoor water conservation practices and promoting California Friendly landscape standards through the development of a regional "model landscape ordinance" and the work of the Landscape Alliance.

In fiscal year 2007/08, 10,168 incentives were distributed to customers throughout the IEUA service area. These devices included high efficiency toilets, urinals and washers, weather-based irrigation controllers and rotating nozzles for pop-up spray heads, synthetic turf installation and residential landscape conversions that remove turf.

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## **FINANCIAL HIGHLIGHTS (continued):**

### **Recycled Water Sales**

Recycled water recorded sales of \$2,007,144 in FY 07/08 and \$3,253,546 in FY 06/07, respectively. There was an over accrual of \$1,400,707 recorded in FY06/07's revenue total. As a result, the net assets for FY06/07 was restated to reflect the over accrual (See Note 18 of the Notes to the Basic Financial Statements for additional information). Total sales were 12,590 AF compared to 10,031 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 \$1,063,770. Capital grants receipts increased by \$1,844,987 to \$8,444,095 in support of the Regional Recycled Water Expansion program. Total operating expenses were \$5,025,079 including \$1,043,397 of depreciation.

Total net assets for FY07/08 increased by \$8,433,800 as a result of the additional grant funding and inter-fund transfer from the Regional Capital Improvement fund. At June 30, 2008, the ending balance of net assets was \$48,519,604.

### **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 and Inland Empire Utilities Agency as an ex-officio member.

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 2007/08, the total amount billed and reimbursed was \$1,509,845.

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## **FINANCIAL HIGHLIGHTS (continued):**

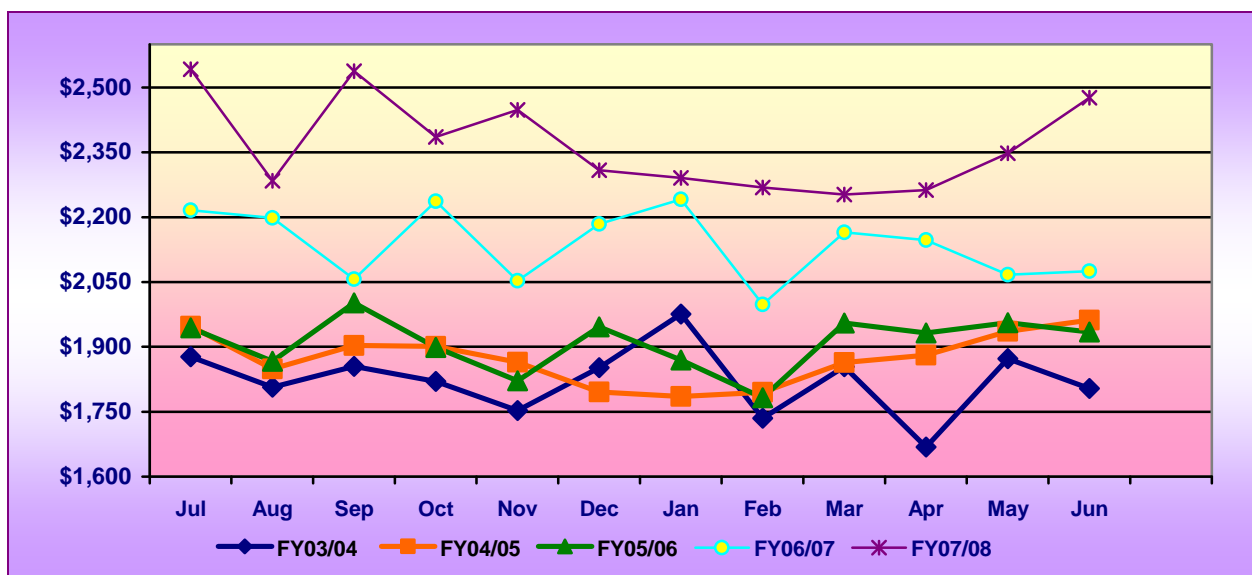
### **Wastewater Treatment Activities**

The Regional Wastewater Treatment Funds showed combined total operating revenue of \$29,444,443, registering a 4.8% increase over last the fiscal year. The EDU rate increased from \$8.44 to \$9.19. Total property tax revenues recorded were \$31,681,649 which represented an increase of \$3,163,911 over the prior fiscal year.

Total number of EDU connections reported by contracting agencies was 3,736 which represented \$16,625,720 in connection revenue at \$4,450 per connection. This represented a 32.6% decrease with a 6% increase in rate over the fiscal year 2006/07.

The Agency billed and collected a total of \$28,406,765 in revenue for its wastewater treatment operation, which represents a 7.8% increase over the past year. The total EDU's billed were 3,090,016 at an increased EDU rate of \$9.19, 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 2007/08 were \$35,933,844 compared to \$29,954,402 in the prior year, a 20.0% increase. The increase of \$6.0 million in operating costs can be attributed to: 1) labor - \$3.2 million increase over last fiscal year; chemical - \$.8m increase due to higher prices of chemicals; 3) Utilities showed an overall increase of \$.5m; 4) BOD charges experienced a \$.5m increase; 5) Materials & Supplies went up \$.6m.

There was a restatement of FY2006/07 net assets as a result of the reclassification of prior year revenue from a cost-sharing project with the City of Ontario in the amount of \$5,064,672 (See Note 18 of the Notes to the Basic Financial Statements for additional information). The total ending net asset balance at June 30, 2008 was \$303,911,214 with a net increase of \$8,222,829.

---

## **FINANCIAL HIGHLIGHTS (continued):**

### **Nonreclaimable Wastewater Treatment**

Total recorded service charges were \$6,678,150, a very slight decrease of \$192,824, compared to last fiscal year. Total operating expenses increased by \$1,119,141 or 19.8% from prior year. The primary reason for the increase was due to the realignment of general allocation of expenses to the various funds.

Total net assets at June 30, 2008 were \$47,928,453 with an increase of \$504,732 over the prior fiscal year.

There were 55 users in the Nonreclaimable Wastewater System during the FY07/08, with a total flow of 1,537 million gallons.

### **Organics Management**

For fiscal year 2007/08, total service charge revenues were \$1,898,678 which related to contracted services provided to Inland Empire Regional Composting Authority (IERCA) for the operation of the its facility.

Operations & Maintenance (O&M) expenses for the year increased substantially as a result of the aforementioned O&M agreement. Total O&M expenses were \$2,135,278 compared to \$4,441,793 for prior year. The primary reason for the decrease was the O&M contribution of \$3,000,000 recorded in FY06/07. Fiscal year 2007/08 was the first full year of operation of the Inland Empire Composting Facility, while FY06/07 was only a partial year.

As a result of the recording of the second installment related to the sale of the old co-composting site in FY06/07, OM fund made two cash contributions to IERCA for a total of \$8.0 million. These transactions should be treated as repayment of the advance from the Regional Capital Improvement fund. In FY07/08, the entry was made to recognize this settlement of advance. The total net asset balance at June 30, 2008 was \$48,418,523, with net a change of \$8,600,698.

### **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 G&A expenses recorded were \$2,426,238. Total reimbursement from CBW included: 1) fixed project cost including debt service charge - \$618,373; 2) O&M reimbursement of \$760,000. As a result of the decision made on the ownership of the basin improvements made on those basins belonging to other government agencies, the charge for \$19.7 million as "Contribution to Other Government Agencies" should be reversed. A restated fund balance (See Note 18 of the Notes to the Basic Financial Statements for additional information) reflected the \$19.7 million increase in the beginning net assets balance in the Schedule of Revenue, Expenses, and Changes in Fund Net Assets. With a positive change of \$724,519 in net assets, the ending net asset balance of FY07/08 was \$27,703,755.

## FINANCIAL HIGHLIGHTS (continued):

### Revenues

Combined revenues for the fiscal year totaled \$115,269,051 an increase of \$4,392,991, or 4.0%, more than the prior fiscal year. The following table presents a comparison of revenues by category for the two fiscal years 2007/08 and 2006/07.

**Combined Revenues by Category - All Funds**  
**For the Fiscal Year Ended June 30, 2008**  
*(With Comparative Totals for the Fiscal Year Ended June 30, 2007)*

Revenue Category	2007/08		2006/07		Increase/<Decrease> from 2006/07	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF CHANGE
Service Charges	39,459,201	34.0%	37,963,600	34.0%	\$1,495,601	4.0%
Recycled Water Sales	2,007,144	2.0%	3,253,546	3.0%	(\$1,246,402)	(38.0%)
Interest Income	5,006,145	4.0%	5,324,853	5.0%	(\$318,708)	(6.0%)
Property Tax Revenue	34,451,122	30.0%	31,018,196	28.0%	\$3,432,926	11.0%
Wastewater Connection Fees	16,625,720	14.0%	24,670,848	22.0%	(\$8,045,128)	(33.0%)
Other Non-operating Revenues	17,719,719	16.0%	8,645,017	8.0%	\$9,074,702	105.0%
<b>Total Revenues</b>	<b>\$115,269,051</b>	<b>100.0%</b>	<b>\$110,876,060</b>	<b>100.0%</b>	<b>\$4,392,991</b>	<b>4.0%</b>

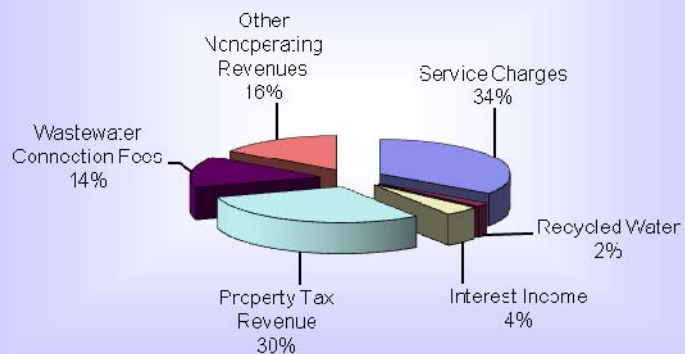
#### ***Other Non-operating Revenues***

*In FY 07/08 other non-operating revenues reported a total of \$14.0M of gain on sale of fixed asset related to a portion of the RP5 property.*

#### ***Wastewater Connection Fees***

*The decrease in wastewater connection fees is a direct result of the reduction in new home construction.*

**Combined Revenue by Category - All Funds**  
**Fiscal Year 2007/08**  
**\$115,269,051**



## FINANCIAL HIGHLIGHTS (continued):

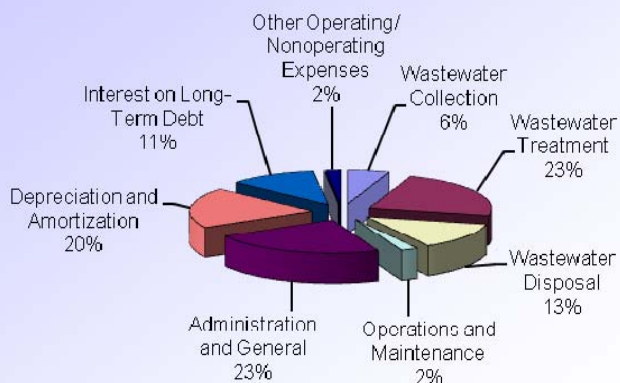
### Expenses

Combined expenses for the fiscal year totaled \$97,232,705 a decrease of \$31,773,199, or 24.6% over the prior fiscal year. The following table presents a comparison of expenses by category for the two fiscal years 2007/08 and 2006/07.

**Combined Expenses by Category - All Funds**  
**For the Fiscal Year Ended June 30, 2008**  
**(With Comparative Totals for the Fiscal Year Ended June 30, 2007)**

Expense Category	2007/08		2006/07		Increase/<Decrease> from 2006/07	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF CHANGE
Wastewater Collection	5,360,904	6.0%	1,085,686	1.0%	\$4,275,218	394.0%
Wastewater Treatment	22,429,388	23.0%	25,081,821	19.0%	(\$2,652,433)	(11.0%)
Wastewater Disposal	12,722,254	13.0%	7,433,865	6.0%	\$5,288,389	71.0%
Operations and Maintenance	2,175,342	2.0%	7,431,492	6.0%	(\$5,256,150)	(71.0%)
Administration and General	22,321,873	23.0%	24,446,561	19.0%	(\$2,124,688)	(9.0%)
Depreciation and Amortization	19,054,501	20.0%	18,943,577	15.0%	\$110,924	1.0%
Interest on Long-Term Debt	11,278,251	11.0%	9,540,066	7.0%	\$1,738,185	18.0%
Contributions to Other Gov't Agencies	0	0.0%	19,678,065	15.0%	(\$19,678,065)	N/A
Other Operating/ Non-operating Expenses	1,890,192	2.0%	15,364,771	12.0%	(\$13,474,579)	(88.0%)
<b>Total Expenses</b>	<b>\$97,232,705</b>	<b>100.0%</b>	<b>\$129,005,904</b>	<b>100.0%</b>	<b>(\$31,773,199)</b>	<b>(24.6%)</b>

**Combined Expenses by Category - All Funds**  
**Fiscal Year 2007/08**  
**\$97,232,705**



### **Wastewater Collection**

*In FY07/08, some Wastewater treatment items were reclassified to Wastewater collection*

### **Non-operating Expense**

*FY06/07 included a write down of capital assets at Regional Plants No. 2 and 4.*

### **Contribution to Other Gov't Agencies**

*Restatement of Net Assets to reflect reversal of FY06/07 recording of \$19.7M*

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

**Combined Net Assets-All Funds**  
**For the Fiscal Year Ended June 30, 2008**  
**(With Comparative Totals for the Fiscal Year Ended June 30, 2007)**

	2007/08	2006/07	Increase/<Decrease> from 2006/07	
<b>Assets</b>				
Current Assets	\$ 110,470,547	\$106,149,508	\$4,321,040	4.1%
Restricted assets	99,142,816	26,136,563	73,006,253	279.3%
Capital assets	575,071,836	514,071,731	61,000,104	11.9%
Other assets	91,296,858	78,871,369	15,826,419	15.8%
<b>Total Assets</b>	<b>875,982,057</b>	<b>725,229,171</b>	<b>154,153,816</b>	<b>20.8%</b>
<b>Liabilities</b>				
Current liabilities	55,675,003	87,717,765	(32,042,762)	(36.5%)
Non-current liabilities	303,861,663	165,318,419	141,944,174	83.8%
<b>Total liabilities</b>	<b>359,536,666</b>	<b>253,036,184</b>	<b>109,901,412</b>	<b>43.4%</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	355,793,681	330,897,443	(94,262,662)	7.5%
Restricted	123,619,788	66,071,455	70,933,775	87.1%
Unrestricted	37,031,922	75,224,089	67,581,291	(50.8%)
<b>TOTAL NET ASSETS</b>	<b>\$516,445,391</b>	<b>\$472,192,987</b>	<b>\$44,252,404</b>	<b>9.37%</b>

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

- The \$141.9 million increase in Non-current Liabilities was primarily due to the issuance of 2008A bonds. (Refer to Note 12 of the Notes to the Basic Financial Statements for additional information).
- The increase of restricted assets by \$73.0 million was primarily due to the issuance of 2008A Bonds which resulted in an increase in Assets held with trustee/fiscal agent.
- The decrease of Current liabilities of \$32.0 million was primarily due to the payoff 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).

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**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, 2008**  
**(With Comparative Totals for the Fiscal Year Ended June 30, 2007)**

Item Category	2007/08		2006/07		Increase/<Decrease> from 2006/07	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF CHANGE
Total Revenue	115,269,051	22.0%	110,876,060	23.0%	\$4,392,991	4.0%
Total Expenses	97,232,705	19.0%	129,005,904	27.0%	(\$31,773,199)	(25.0%)
Excess (deficiency) before contrib.	18,036,346	4.0%	(18,129,844)	(4.0%)	\$36,166,190	199.0%
Capital Grants	12,373,062	2.0%	13,882,647	3.0%	(\$1,509,585)	(11.0%)
Change in Net Assets	30,409,408	6.0%	(4,247,197)	(1.0%)	\$34,656,605	(816.0%)
Prior Year Adjustment			13,842,996	3.0%	(\$13,842,996)	(100.0%)
Beginning Net Assets	486,035,983	94.0%	476,440,184	98.0%	\$9,595,799	2.0%
<b>Ending Net Assets</b>	<b>516,445,391</b>	<b>100.0%</b>	<b>\$ 486,035,983</b>	<b>100.0%</b>	<b>\$30,409,408</b>	<b>6.3%</b>

**Capital Assets**

Net of accumulated depreciation and amortization, the Agency had a total capital assets of \$575,071,836 in fiscal year 2007/08 compared to \$514,071,731 in fiscal year 2006/07. 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 (\$38,483,354)
- Completion of Edison-Merrill Recycled Water Pipelines (\$9,059,214)
- Completion of RP1/RP5 By-Pass (\$15,355,055)
- RP1 Odor Control – Phase I (\$6,784,165)
- Completion of West Edison SAC Recycled Water Pipeline (\$6,610,157)
- Completion of Basin Improvement Capitalization (\$19,678,065)
- RP5 Systems Facility Upgrade & Improvements (\$20,807,173)
- Completion of Upland Interceptor Relief Phase II (\$16,026,205).

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

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**FINANCIAL HIGHLIGHTS (continued):**

**Debt Management**

At June 30, 2008, the Agency had four bond debt issues outstanding; \$ 62,399,755 for the 1994 Revenue Bonds, \$2,102,589 for the 1999 Revenue Bonds, \$22,182,956 for the 2005A Revenue Bonds, \$130,024,691 for the 2008A Revenue Bonds, and \$55,141,515 for the 2008B Variable Rate Revenue Bonds. The 2008A and B bonds were new issues in FY07/08. Please refer to Note 12 of the Notes to the Basic Financial Statements for detailed information.

Notes and loans payable at June 30, 2008, included a note from the Santa Ana Watershed Project Authority pertaining to the purchases of pipeline capacity, with an outstanding balance of \$1,966,522, and State Revolving Financing loans in the amount of \$28,984,380 from the State Water Resources Control Board

**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.



# **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, 2008, 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, 2008**

(With Comparative Totals for June 30, 2007)

<b>ASSETS</b>	Enterprise Funds	
	Regional Wastewater	Recharge Water
Current assets		
Cash and investments (note 2)	\$27,732,317	\$ 5,809
Accounts receivable	5,417,489	1,922,244
Interest receivable	518,134	0
Taxes receivable	3,902,273	0
Other receivables	76,070	0
Due from other funds (note 15)	3,000,000	0
Inventory	0	0
Prepaid items	75,254	0
Total current assets	40,721,537	1,928,053
Noncurrent assets		
Restricted assets (note 2 & 3)		
Deposits held by governmental agencies	12,541,961	0
Assets held for 401(a) plan (note 4)	0	0
Assets held with trustee/fiscal agent	69,487,547	844,091
Total restricted assets	82,029,508	844,091
Capital assets (note 7)		
Land	13,878,879	0
Jobs in progress	123,622,763	4,265,414
Capital assets, net of accumulated depreciation	270,358,010	40,728,447
Total capital assets	407,859,652	44,993,861
Other assets		
Long-term receivables (note 10)	2,924,451	0
Intangible assets, net of accumulated amortization (note 7)	6,421,728	82,719
Long-term investments (note 11)	0	0
Deferred costs	2,473,611	61,092
Total other assets	11,819,790	143,811
Total noncurrent assets	501,708,950	45,981,763
Total assets	542,430,487	47,909,816

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

Recycled Water	Non-Major	Totals	
		2008	2007
\$ 82,732	\$31,055,097	\$58,875,955	\$59,121,292
11,455,796	13,435,052	32,230,581	39,521,519
0	306,056	824,190	1,194,904
0	346,401	4,248,674	3,549,006
0	121,911	197,981	105,357
0	9,000,000	12,000,000	25,476
0	1,579,594	1,579,594	1,497,598
73,500	364,818	513,572	363,959
11,612,028	56,208,929	110,470,547	105,379,111
0	0	12,541,961	10,591,879
0	1,095,604	1,095,604	891,682
10,174,531	4,999,082	85,505,251	14,653,002
10,174,531	6,094,686	99,142,816	26,136,563
0	20,829	13,899,708	14,033,998
35,069,446	10,140,494	173,098,117	178,200,480
49,728,376	27,259,178	388,074,011	336,450,646
84,797,822	37,420,501	575,071,836	528,685,124
0	169,653	3,094,104	210,622
40,864	28,971,338	35,516,649	29,936,312
0	49,355,944	49,355,944	47,016,694
661,457	134,001	3,330,161	1,707,741
702,321	78,630,936	91,296,858	78,871,369
95,674,674	122,146,123	765,511,510	633,693,056
107,286,702	178,355,052	875,982,057	739,072,167

(continued)

**INLAND EMPIRE UTILITIES AGENCY**  
**Statement of Net Assets (Continued from previous page)**  
**June 30, 2008**  
(With Comparative Totals for June 30, 2007)

	Enterprise Fund Types	
	Regional Wastewater	Recharge Water
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	6,966,916	1,247,594
Accrued liabilities	310,719	230,615
Due to other funds (note 15)	0	0
Compensated absences (note 1)	0	0
Retentions payable	1,047,304	17,051
Notes payable, commercial papers	0	0
Notes payable, due within one year (note 12)	89,063	0
Long-term debt, due within one year (note 12)	4,520,763	481,356
Interest payable	2,692,253	17,820
Retention deposits and escrows	1,686,851	0
Total current liabilities	17,313,869	1,994,436
Noncurrent liabilities		
Compensated absences (note 1)	0	0
Long-term debt, due in more than one year (note 12)	218,806,747	18,211,625
Notes payable, due in more than one year (note 12)	547,550	0
Liability for 401(a) plan (note 4)	0	0
Advances from other funds	0	0
Other noncurrent liabilities (note 13)	1,851,107	0
Total noncurrent liabilities	221,205,404	18,211,625
Total liabilities	238,519,273	20,206,061
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	192,790,869	26,444,690
Restricted for:		
Capital construction	66,365,206	0
Debt service	23,621,102	844,092
Bond operating contingency requirement	14,546,592	0
Total restricted	104,532,900	844,092
Unrestricted	6,587,445	414,973
Total net assets	\$303,911,214	\$27,703,755

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

Recycled Water	Non-Major	Totals	
		2008	2007
6,807,465	7,237,026	22,259,001	17,867,282
19,605	7,110,046	7,670,985	5,401,600
12,000,000	0	12,000,000	25,477
0	1,621,058	1,621,058	1,197,558
0	317,919	1,382,274	1,510,491
0	0	0	50,160,000
421,242	178,125	688,430	932,398
0	312,881	5,315,000	4,685,922
136,791	71,687	2,918,551	2,326,637
132,853	0	1,819,704	3,610,400
19,517,956	16,848,742	55,675,003	87,717,765
0	2,101,682	2,101,682	1,528,219
10,180,933	19,337,201	266,536,506	121,915,898
28,563,138	1,151,785	30,262,473	38,203,951
0	1,095,604	1,095,604	891,682
0	0	0	0
505,071	1,509,220	3,865,398	2,778,669
39,249,142	25,195,492	303,861,663	165,318,419
58,767,098	42,044,234	359,536,666	253,036,184
46,334,829	90,223,293	355,793,681	345,510,836
9,794,760	4,331,233	80,491,199	24,505,126
379,771	667,849	25,512,814	23,281,199
0	3,069,183	17,615,775	18,285,130
10,174,531	8,068,265	123,619,788	66,071,455
(7,989,756)	38,019,260	37,031,922	74,453,692
\$48,519,604	\$136,310,818	\$516,445,391	\$486,035,983

**INLAND EMPIRE UTILITIES AGENCY**  
**Statement of Revenues, Expenses, and**  
**Changes in Fund Net Assets**  
**For the Fiscal Year Ended June 30, 2008**  
(With Comparative Totals for June 30, 2007)

	Enterprise Fund Types	
	Regional Wastewater	Recharge Water
<b>OPERATING REVENUES</b>		
Service charges	\$ 29,444,443	\$0
Recycled water sales	0	0
Total operating revenues	29,444,443	0
<b>OPERATING EXPENSES</b>		
Wastewater collection	783,682	0
Wastewater treatment	22,427,908	0
Wastewater disposal	12,722,254	0
Operations and maintenance	0	0
Administration and general	7,705,931	2,426,238
Depreciation and amortization	13,498,041	715,578
Total operating expenses	57,137,816	3,141,816
Operating income (loss)	(27,693,373)	(3,141,816)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	3,129,406	1,882
Property tax revenue	31,681,649	0
Wastewater capital connection fees	16,625,720	0
Other nonoperating revenues	14,362,011	1,694,824
Interest on long-term debt	(9,550,126)	(652,248)
Other nonoperating expenses	(742,517)	(214,863)
Contributions to other government agencies	0	0
Total nonoperating revenues (expenses)	55,506,143	829,595
Income (loss) before contributions and transfers	27,812,770	(2,312,221)
<b>TRANSFERS AND CAPITAL CONTRIBUTIONS</b>		
Transfers in (note 16)	56,365,335	1,335,607
Transfers out (note 16)	(71,984,840)	0
Capital grants	1,094,236	1,701,133
Change in net assets	13,287,501	724,519
Total net assets - beginning (note 18)	290,623,713	26,979,236
Total net assets - ending	\$303,911,214	\$27,703,755
Prior period adjustment (note 18)		
Total net assets - ending	\$303,911,214	\$27,703,755

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

Recycled Water	Non-Major	Totals	
		2008	2007
\$0	\$ 10,014,758	\$ 39,459,201	\$ 37,963,600
2,007,144	0	2,007,144	3,253,546
2,007,144	10,014,758	41,466,345	41,217,146
0	4,577,222	5,360,904	1,085,686
0	1,480	22,429,388	25,081,821
0	0	12,722,254	7,433,865
0	2,175,342	2,175,342	7,431,492
3,981,682	8,208,022	22,321,873	24,446,561
1,043,397	3,797,485	19,054,501	18,943,577
5,025,079	18,759,551	84,064,262	84,423,002
(3,017,935)	(8,744,793)	(42,597,917)	(43,205,856)
153,438	1,721,419	5,006,145	5,324,853
0	2,769,473	34,451,122	31,018,196
0	0	16,625,720	24,670,848
415,982	1,246,902	17,719,719	8,645,017
(524,901)	(550,976)	(11,278,251)	(9,540,066)
(197,030)	(735,782)	(1,890,192)	(15,364,771)
0	0	0	(19,678,065)
(152,511)	4,451,036	60,634,263	25,076,012
(3,170,446)	(4,293,757)	18,036,346	(18,129,844)
3,200,000	13,202,228	74,103,170	54,669,453
(39,849)	(2,078,481)	(74,103,170)	(54,669,453)
8,444,095	1,133,598	12,373,062	13,882,647
8,433,800	7,963,588	30,409,408	(4,247,197)
40,085,804	128,347,230	486,035,983	476,440,184
\$48,519,604	\$136,310,818	\$516,445,391	\$472,192,987
			13,842,996
\$48,519,604	\$136,310,818	\$516,445,391	\$486,035,983

**INLAND EMPIRE UTILITIES AGENCY****Statement of Cash Flows****For the Fiscal Year ended June 30, 2008**

(With Comparative Totals for June 30, 2007)

	Enterprise Funds	
	Regional Wastewater	Recharge Water
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$28,345,788	(\$218,932)
Cash received from interfund services provided	0	0
Cash payments to suppliers for goods and services	(18,319,707)	(1,434,961)
Cash payments to employees for services	(2,979,569)	(313,311)
Cash payments for interfund services used	(21,064,793)	(509,745)
Cash received from others	0	0
Net cash provided by (used for) operating activities	(14,018,281)	(2,476,949)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers in	56,365,335	1,335,607
Transfers out	(71,984,840)	0
Other receivables	0	0
Contract reimbursement from others	0	0
Tax revenues	31,681,648	0
Long term receivable	0	0
Due to other funds	(25,476)	0
Due from other funds	(3,000,000)	0
Net cash provided by (used for) noncapital financing activities	13,036,667	1,335,607
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from capital debt	133,422,561	18,692,981
Acquisition and construction of capital assets	(37,861,738)	(886,068)
Completion of capital assets	0	0
Proceeds from sale of assets	16,424,601	0
Calls on deposits held by members	16,625,720	0
Capital grants received	1,094,236	1,701,133
Principal paid on capital debt	(22,870,432)	(17,962,175)
Interest paid on capital debt	(10,112,110)	(678,990)
Other nonoperating expenses	(742,521)	0
Changes in contractor deposits/retentions	(1,495,887)	0
Net cash provided by (used for) capital and related financing activities	94,484,430	866,881

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

Recycled Water	Non-Major	Totals	
		2008	2007
\$2,620,046	\$11,977,060	\$42,723,962	\$20,763,068
0	30,466,507	30,466,507	20,790,488
(1,313,776)	(10,325,640)	(31,394,084)	(43,175,769)
(171,316)	(29,692,287)	(33,156,483)	(35,363,032)
(2,103,158)	(2,437,581)	(26,115,277)	(7,902,507)
0	0	0	7,570,414
(968,204)	(11,941)	(17,475,375)	(37,317,338)
3,200,000	13,202,228	74,103,170	54,641,502
(39,849)	(2,078,481)	(74,103,170)	(54,669,450)
415,982	343,111	759,093	0
0	903,791	903,791	0
0	2,769,472	34,451,120	31,018,195
0	40,969	40,969	35,576
12,000,000	25,476	12,000,000	5,000,000
0	(9,000,000)	(12,000,000)	(4,698,665)
15,576,133	6,206,566	36,154,973	31,327,158
19,119,200	19,512,718	190,747,460	0
(20,103,000)	(9,957,387)	(68,808,193)	(120,002,484)
0	0	0	19,678,064
0	0	16,424,601	10,005,612
0	0	16,625,720	24,670,848
8,444,095	1,133,598	12,373,062	11,280,625
(444,530)	(11,631,884)	(52,909,021)	51,516,446
(643,168)	(508,252)	(11,942,520)	(9,316,871)
0	(161,384)	(903,905)	(15,244,752)
(294,809)	0	(1,790,696)	1,425,288
6,077,788	(1,612,591)	99,816,508	(25,987,224)
			(Continued)

**INLAND EMPIRE UTILITIES AGENCY**  
**Statement of Cash Flows (Continued from previous page)**  
**For the Fiscal Year ended June 30, 2008**  
(With Comparative Totals for June 30, 2007)

	Enterprise Funds	
	Regional Wastewater	Recharge Water
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	3,508,244	1,882
Sale of investments	0	0
Purchase of investments	(38,225,194)	0
Net cash provided by (used for) investing activities	(34,716,950)	1,882
Net increase (decrease) in cash and cash equivalents	58,785,866	(272,579)
Cash and cash equivalents - beginning	(10,673,113)	1,122,479
Cash and cash equivalents - ending	<u>\$48,112,753</u>	<u>\$849,900</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>		
Operating income (loss)	(\$27,693,373)	(\$3,141,816)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities		
Depreciation and amortization	13,498,041	715,578
Changes in assets and liabilities		
(Increase) decrease in		
Accounts receivable	2,540,786	(335,147)
Long-term receivables	(2,924,450)	0
Other receivable	(76,070)	0
Taxes Receivable	(638,921)	0
Inventory	0	0
Prepaid items	(57,197)	0
Deferred costs	0	116,215
Increase (decrease) in		
Accounts payable	1,945,315	(79,445)
Rententions payable	(463,187)	17,051
Accrued liabilities	(243,358)	230,615
Other liabilities	94,133	0
Compensated absences	0	0
Liability for 401(a) plan	0	0
Net cash provided by (used for) operating activities	<u>(\$14,018,281)</u>	<u>(\$2,476,949)</u>

Recycled Water	Non-Major	Totals	
		2008	2007
153,437	1,713,305	5,376,868	6,127,471
0	(175,135)	(175,135)	(6,512,527)
0	426,391	(37,798,803)	(213,563)
153,437	1,964,561	(32,597,070)	(598,619)
20,839,154	6,546,595	85,899,036	(32,576,023)
(10,581,890)	29,500,936	9,368,412	41,944,435
<u>\$10,257,264</u>	<u>\$36,047,531</u>	<u>\$95,267,448</u>	<u>\$9,368,412</u>
(\$3,017,935)	(\$8,744,793)	(\$42,597,917)	(\$35,635,444)
1,043,397	3,797,482	19,054,498	18,943,579
612,902	2,133,145	4,951,686	(20,076,540)
0	0	(2,924,450)	(19,942)
0	(16,554)	(92,624)	0
0	(60,748)	(699,669)	(365,489)
0	(81,997)	(81,997)	407,265
(70,000)	(22,418)	(149,615)	(127,733)
(661,457)	(93,542)	(638,784)	7,091
1,055,512	(1,646,662)	1,274,720	(1,590,727)
0	317,919	(128,217)	(154,334)
724	2,515,334	2,503,315	832,748
68,653	690,008	852,794	56,936
0	996,963	996,963	169,397
0	203,922	203,922	235,854
<u>(\$968,204)</u>	<u>(\$11,941)</u>	<u>(\$17,475,375)</u>	<u>(\$37,317,339)</u>

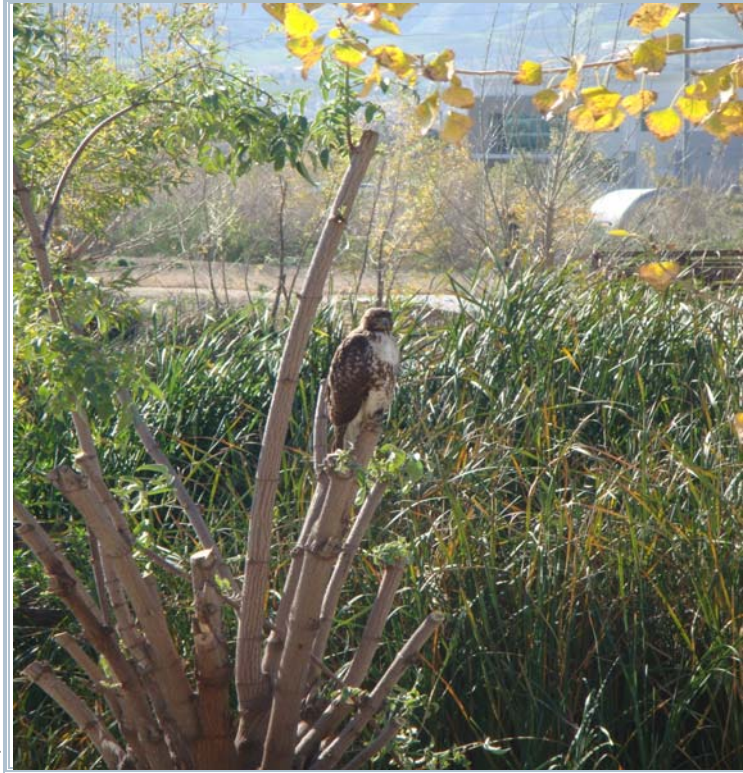
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**INLAND EMPIRE UTILITIES AGENCY**  
**Statement of Cash Flows - (Continued from previous page)**  
**For the Fiscal Year Ended June 30, 2008**  
(With Comparative Totals for June 30, 2007)

	Enterprise Funds	
	Regional	Recharge
	Wastewater	Water
<b>RECONCILIATION OF CASH &amp; CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:</b>		
Cash & cash equivalents at end of year	\$48,112,753	\$849,900
Investments	49,107,111	0
Total cash, short-term investments and restricted cash	<u>\$97,219,864</u>	<u>\$849,900</u>
Cash	(\$606,321)	(\$587,049)
Short-term investments	28,338,638	592,858
Restricted assets	69,487,547	844,091
Total cash, short-term investments and restricted cash	<u>\$97,219,864</u>	<u>\$849,900</u>
	<u>2008</u>	<u>2007</u>
<b>Noncash capital, financing and investing activities:</b>		
Regional Wastewater - Disposal of Obsolete Assets		14,659,088
Gain (Loss) on Long Term Investments		(235,854)
Water Fund -Disposal of Obsolete Assets		6,649
Nonreclaimable 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	
		2008	2007
\$10,257,264	\$36,047,531	\$95,267,448	\$9,368,412
0	1,102,252	50,209,363	49,107,112
<u>\$10,257,264</u>	<u>\$37,149,783</u>	<u>\$145,476,811</u>	<u>\$58,475,524</u>
\$2,206,944	\$6,066,033	7,079,607	\$19,293,316
(2,124,211)	24,989,064	51,796,349	39,197,665
10,174,531	6,094,686	86,600,855	14,653,002
<u>\$10,257,264</u>	<u>\$37,149,783</u>	<u>\$145,476,811</u>	<u>\$73,143,983</u>



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

**June 30, 2008**

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## **NOTES TO THE BASIC FINANCIAL STATEMENTS**

### **JUNE 30, 2008**

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#### ***(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, 2008. 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.

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 FY07/08 Capital Revenue sources included \$8.4 million of loan proceeds from the State Revolving Fund (SRF) and \$8.4 million in State and local grants. A \$3.2 million operating transfer from the Regional Wastewater Fund, a MWD LLP credit of \$1,063,770 and \$943,374 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, 2008, 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, 2008, the accumulated vacation leave payable was \$1,771,620, an increase of \$370,416 over the previous fiscal year; the sick and compensatory leave balance was \$1,951,120, an increase of \$626,546 over the previous fiscal year; and, has been recorded in the Administrative Service Fund as a combined total of \$3,722,740 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:

- A) 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.
- B) 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.
- C) 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.
- D) 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):**

- E) 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, 2008, the Agency paid \$192,441 for 43 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 2007/08.

	2006/07	2007/08
Actuarial Accrued Liability	\$7,971,198	\$8,513,594
Actuarial Value of Assets	0	0
Unfunded AAL	\$7,971,198	\$8,513,594
Amortization Period	30 years	29 years
Amortization Factor - based on 5% discount rate	15.372	15.372
Annual Level Dollar Amortization of Unfunded AAL	\$ 518,538	\$ 562,285
Normal Cost	\$ 354,398	\$ 373,890
Annual Required Contribution	\$ 872,936	\$ 936,175

During Fiscal Year 2006/07, the Agency opted to implement early the provisions of GASB Statement #45. The Fiscal Year 2007/08 net obligation of \$690,008 (\$936,175 less \$235,457 contribution and less net adjustment of \$10,710) has been recorded in the Administrative Service Fund with the related cumulative liability of \$1,357,457. 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, 2008, 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.

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.

Estimated useful lives are:

Ω Furniture, machinery and equipment	5 - 10 years
 Improvements	15 years
 Interceptors, buildings and plants	5 - 50 years
 Intangible Assets	30 - 50 years

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

### **Inventories**

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

### **Property Taxes**

Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments on December 10 and April 10. Any unpaid amounts at the end of the fiscal year are recorded as accounts receivable. The County of San Bernardino bills and collects the property taxes and subsequently remits the amount due to the Agency in installments during the year. The Agency accrues those taxes which are received from the County within sixty days after year end. The Agency does not collect property taxes in advance; therefore no deferred revenue is shown on the financial statements.

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

### **Prior Year Data**

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

## ***2) Cash and Investments:***

Cash and investments as of June 30, 2008 are classified in the accompanying financial statement as follows:

Statement of net assets:	
Cash and investments	\$ 58,875,955
Cash and investments held by bond trustee	<u>85,505,251</u>
<b>Total cash and investments</b>	<b><u>\$ 144,381,206</u></b>

Cash and investments as of June 30, 2008 consist of the following:

Cash on hand	\$ 2,250
Deposits with financial institutions	8,994,609
Investments	<u>135,384,347</u>
<b>Total cash and investments</b>	<b><u>\$ 144,381,206</u></b>

## 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.

<b><u>Authorized Investment Type</u></b>	<b><u>Maximum Maturity</u></b>	<b><u>Maximum Percentage of Portfolio</u></b>	<b><u>Maximum Investment in One Issuer</u></b>
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.

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.

<b><u>Authorized Investment Type</u></b>	<b><u>Minimum Rating</u></b>	<b><u>Maximum Maturity</u></b>	<b><u>Maximum Percentage Allowed</u></b>	<b><u>Maximum Investment In One Issuer</u></b>
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	\$ 22,918,180	\$ 0	\$7,022,820	\$5,968,340	\$9,927,020
Money Market Fund	1,120,480	1,120,480			
State Investment Pool	22,051,349	22,051,349	0	0	0
Held by Bond Trustee:					
Debt Service Money					
Market Funds	89,294,338	89,294,338	0	0	0
<b>Total</b>	<b>\$135,384,347</b>	<b>\$112,466,167</b>	<b>\$7,022,820</b>	<b>\$5,968,340</b>	<b>\$9,927,020</b>

### Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

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

### Disclosures Relating to Credit Risk

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

## 2) Cash and Investments (continued):

### Disclosures Relating to Credit Risk (continued):

Presented below is the minimum rating required by the Agency's investment policy, and the actual rating as of fiscal year ended June 30, 2008 for each investment type:

Investment Type		Minimum Legal Rating	Not Required To Be Rated	Rating as of June 30, 2008		
				AAA	A-1+	Unrated
U.S. Agency Securities	\$ 22,918,180	N/A	\$0	\$22,918,180	\$ 0	\$ 0
Money Market Fund	1,120,480			1,120,480		
State Investment Pool	22,051,349	N/A	0	0	0	22,051,349
Held by Bond Trustee:						
Debt Service Money						
Market Funds	89,294,338	N/A	0	0	0	89,294,338
<b>Total</b>	<b>\$135,384,347</b>		<b>\$0</b>	<b>\$24,038,660</b>	<b>\$ 0</b>	<b>\$111,795,687</b>

### 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	\$ 7,025,940
Freddie Mac	Bonds and Discount Notes	7,973,880
Federal Farm Credit	Bonds	3,943,760
Fannie May	Bonds and Discount Notes	3,974,600
Ambac GIC	Investment Contracts/GIC	11,186,726

### 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 \$46,000 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 \$1,095,604 and \$891,682 at fiscal years ended June 30, 2008 and 2007, respectively.

### ***(5) Defined Benefit Pension Plan***

#### **Plan Description**

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

## **(5) Defined Benefit Pension Plan (continued):**

### **Plan Description (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 "Q" Street - Sacramento, CA 95811.

### **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, 2008 was 9.804%. 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**

Under GASB27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2007 to June 30, 2008 has been determined by an actuarial valuation of the plan as of June 30, 2005. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2008, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2007 to June 30, 2008. The Agency's annual pension cost for the fiscal year ended June 30, 2008 was \$4,060,603.

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

Valuation Date	June 30, 2005
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percentage of Payroll
Average Remaining Period	26 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):**

### **Annual Pension Costs (continued):**

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30 year rolling period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period. The unfunded actuarial liability is amortized over a period ending June 30, 2035.

The Schedule of Funding Progress below shows the recent history of the actuarial value of the actuarial value of assets, entry age normal actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll. This schedule of funding progress, presented below presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

<b>Valuation Date</b>	<b>Entry Age Normal Accrued Liability (a)</b>	<b>Actuarial Value of Assets (b)</b>	<b>Unfunded Liability (Excess Assets) (a-b)</b>	<b>Funded Ratio Status (b/a)</b>	<b>Annual Covered Payroll (c)</b>	<b>UAAL as a % of Payroll [(a) - (b)]/c</b>
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%
6/30/2007	71,918,900	63,177,134	8,741,766	87.80%	21,314,206	41.0%

### **Three-year Trend information for the IEUA CalPERS**

<b>Fiscal Year Ending</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
6/30/2006	3,093,213	100%	0
6/30/2007	3,467,665	100%	0
6/30/2008	4,060,603	100%	0

## **(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, 2008, the interfund premiums did not exceed reimbursable expenditures.

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

### **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:

	<b>Worker's Compensation</b>		<b>General Liability</b>	
	<b>2007/08</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2006/07</b>
Unpaid Claims, beginning of fiscal year	73,534	73,232	0	0
Incurred claims (including IBNRs)	243,348	75,745	52,986	3,282
Claim payments	(150,051)	(75,443)	(52,986)	(3,282)
<b>Unpaid claims, end of fiscal year</b>	<b>\$166,831</b>	<b>\$73,534</b>	<b>\$0</b>	<b>\$0</b>

## **(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, 2008:

### **Capital Assets**

<b>Capital Assets-</b>	<b>Balance at 6/30/07</b>	<b>Additions</b>	<b>Transfers &amp; Retirements</b>	<b>Balance at 06/30/08</b>	<b>Accumulated Depreciation at 6/30/08</b>	<b>Net Book Value at 6/30/08</b>
<b>Capital Assets-not being depreciated:</b>						
Land	\$ 14,033,998	\$2,041,288	\$( 2,175,578)	\$ 13,899,708	\$ 0	\$ 13,899,708
Jobs in progress	183,265,152	66,812,987	( 76,980,022)	173,098,117	0	173,098,117
Total capital assets, not being depreciated	\$ 197,299,150	\$ 68,854,275	\$(79,155,600)	\$186,997,825	\$ 0	\$186,997,825
<b>Capital Assets- being depreciated:</b>						
Interceptors, trunk lines and inter-ties	\$ 9,094,119	\$ 0	\$ 4,437,463	\$ 13,531,582	\$ ( 3,081,452)	\$ 10,450,130
Office facilities	15,309,802	14,084	( 3,905,334)	11,418,552	(918,549)	10,500,003
Collection, outfall, and transmission lines	84,550,457	275,273	22,416,891	107,242,621	(26,999,010)	80,243,611
Reservoirs, settling basins, ponds, and chlorination stations	56,865,497	20,900,137	( 2,817,192)	74,948,442	(10,287,572)	64,660,870
Recycled water distribution systems	30,067,362	51,150,914	( 7,658,244)	73,560,032	( 2,617,290)	70,942,742
Treatment plants, pump stations and office buildings	242,521,871	9,879,882	(39,667,118)	212,734,635	(94,013,518)	118,721,117
Equipment	22,549,857	5,843,700	21,088,043	49,481,600	(25,178,203)	24,303,397
Land improvement	5,901,117	1,086,157	5,859,389	12,846,663	( 4,594,522)	8,252,141
Total capital assets, being depreciated	\$466,860,082	\$ 89,150,147	\$( 246,102)	\$555,764,127	\$(167,690,116)	\$ 388,074,011
<b>Less accumulated depreciation for:</b>						
Interceptors, trunk lines and inter-ties	\$ ( 3,209,141)	\$ ( 186,647)	\$ 314,336	( 3,081,452)		
Office facilities	( 3,153,235)	( 280,195)	2,514,881	( 918,549)		
Collection, outfall, and transmission lines	( 26,870,130)	( 1,900,465)	1,771,585	(26,999,010)		
Reservoirs, settling basins, ponds, and chlorination stations	( 4,956,949)	( 1,512,392)	( 3,818,231)	(10,287,572)		
Recycled water distribution systems	( 1,791,483)	( 1,034,828)	209,021	( 2,617,290)		
Treatment plants, pump stations and office buildings	( 97,762,807)	( 7,243,754)	10,993,043	(94,013,518)		
Equipment	( 10,181,490)	( 5,002,501)	( 9,994,212)	(25,178,203)		
Land improvement	( 2,162,266)	( 612,333)	( 1,819,923)	(4,594,522)		
Total accumulated depreciation	(150,087,501)	(17,773,115)	170,500	(167,690,116)		
Total capital assets, being depreciated, net	\$316,772,581	\$ 71,377,032	\$( 75,602)	\$388,074,011		
<b>Total capital assets-Enterprise Funds, net</b>	<b>\$514,071,731</b>	<b>\$140,231,307</b>	<b>\$(79,231,202)</b>	<b>\$575,071,836</b>		

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

**Capital Assets (continued):**

**Intangible Assets**

Intangible Assets-	Balance at 6/30/07	Additions	Transfers & Retirements	Balance at 06/30/08	Accumulated Amortization at 6/30/08	Net Book Value at 6/30/08
<b>Intangible Assets-being amortized:</b>						
Computer Software	\$ 0	\$ 5,311,018	\$ 219,014	\$ 5,530,032	\$ ( 449,402)	\$ 5,080,630
Metropolitan Water District connections	198,891	0	0	198,891	( 149,169)	49,722
Corps of Engineers-Cucamonga Creek	43,489	0	0	43,489	( 20,359)	23,130
San Bernardino County Flood Control- Chino Road Barrier	48,078	0	0	48,078	( 7,211)	40,867
County Sanitation Districts of Los Angeles County's facilities and capacity rights	29,418,849	1,479,950	0	30,898,799	(10,179,717)	20,719,082
Santa Ana Watershed Project Authority capacity rights	12,467,002	0	0	12,467,002	( 4,311,658)	8,155,344
Organization and master planning	1,845,512	0	( 975)	1,844,537	( 396,663)	1,447,874
Total intangible assets being amortized	\$ 44,021,821	\$ 6,790,968	\$ 218,039	\$ 51,030,828	\$(15,514,179)	\$35,516,649
<b>Less accumulated amortization for:</b>						
Computer Software	\$ 0	\$ ( 301,141)	\$ ( 148,261)	\$ ( 449,402)		
Metropolitan Water District connections	( 145,191)	( 3,978)	0	( 149,169)		
Corps of Engineers-Cucamonga Creek berm	( 19,489)	( 870)	0	( 20,359)		
San Bernardino County Flood Control- Chino Road Barrier	( 5,608)	( 1,603)	0	( 7,211)		
County Sanitation Districts of Los Angeles County's facilities and capacity rights	( 9,546,095)	( 633,622)	0	(10,179,717)		
Santa Ana Watershed Project Authority capacity rights	( 4,014,074)	( 297,584)	0	( 4,311,658)		
Organization and master planning	( 355,052)	( 42,586)	975	( 396,663)		
Total accumulated amortization	(14,085,509)	(1,281,384)	( 147,286)	(15,514,179)		
<b>Total Intangible Assets-Enterprise Funds, net</b>	<b>\$ 29,936,312</b>	<b>\$ 5,509,584</b>	<b>\$ 70,753</b>	<b>\$35,516,649</b>		

Computer Software was reclassified from capital assets to intangible assets during the Agency computer conversion, to more appropriately reflect the type of asset. This software had historically been recorded throughout various capital asset groups / categories.

The ending balance of accumulated depreciation and amortization for all capital assets has been adjusted to the Statement of Net Assets for 2008 (rounding difference). For the fiscal year ended June 30, 2008, depreciation and amortization expense was \$19,054,501.

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

### ***Jobs in Progress***

At the Fiscal Year ended June 30, 2008, 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, 2008, were as follows:

Other Projects (less than \$1,000,000 each)	\$10,974,425
RP4 Liquid Expansion to 14 MGD	38,483,354
RP5 System Fac Upgrade & Imprv	20,807,173
RP5 Renewable Energy Efficiency	20,240,840
San Antonio Channel Pipeline-B	8,465,404
RP1 3-Phase Digestion Improvement	8,369,857
RP1 Odor Control - Phase I	6,784,165
RP1 Facilities Improvements	6,680,268
RP4 1158 & 1270 PZ Pump Station	6,638,094
San Bernardino Ave Pump Station	5,809,289
Complete Mix Digestion Tech	5,599,632
RP1 South RW Pump Station	4,782,098
RP4 Area 1158 Reservoir	4,453,617
West Edison SAC RW Pipeline-A	4,042,634
Recharge Enhancement Project	4,019,112
NRW System Upgrades	3,177,315
RP4 Area 1158 Pipeline	3,006,002
RP5/RP2 Recycled Water Pipelines	2,233,455
MWD/IEUA/CBWM Dry Year Storage	1,342,802
RP5/RP2 Capacity Improvements	1,313,191
Etiwanda Ave 42" Pipeline 22Kft	1,236,482
ERP/CMMS Procurement	1,221,315
RW Lines Rebuild- City Chino	1,180,296
City of Ontario - Brine Line	1,145,284
RP1 Aeration Basin Modification	1,092,013
<b>TOTAL JOBS IN PROGRESS</b>	<b>\$ 173,098,117</b>

## ***8) Construction Commitments***

The Agency is committed to several material construction contracts. Total outstanding obligation was \$9,485,755 at June 30, 2008. 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 RP1, two recycled water projects, and several smaller projects at each facility with a remaining combined obligation of \$2,652,429.00. The major projects include: 1) **WR04441**-RP-4 1158 & 1270 Pressure Zone Pump Stations – to increase the plant capacity to meet area growth forecasts with outstanding obligation of \$3,395,926. 2) **WR04448**- RP4 Area 1158 Reservoir has an outstanding obligation of \$1,073,854. 3) **EN07816** – RP1 Assessment work with an outstanding obligation of \$856,572. 4) **WR04446**-San Antonio Channel Recycled Water Pipeline B with an outstanding obligation of \$1,052,045; and 5) **WR04442**-Etiwanda Avenue 42" Recycled Water Pipeline had an outstanding obligation of \$454,929.

## ***(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, 2008, 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, 2008, \$191,560 has been collected through the taxing process, and interest has accrued in the amount of \$134,330. The receivable amount is \$10,770 and is recorded in the Administrative Services Fund.

### **Niagara Bottling, L.L.C.**

In March 2004, the Agency entered into an agreement with Niagara Bottling, L.L.C. for the construction of a Nonreclaimable Wastewater (NRW) lateral pipeline with a not-to-exceed cost of \$250,000. Niagara is responsible for reimbursing the Agency in equal monthly installments over a ten (10) year period with interest added at 3% per annum. The initial payment on this loan was due June 1, 2005. As of June 30, 2008, the receivable amount is \$158,883, and is recorded in the Nonreclaimable Wastewater Capital Improvement Fund.

### **City of Ontario**

On June 4, 2004, the Agency entered into an amendment to its original contract with the City of Ontario for the reimbursement of the RP1 to RP5 By-Pass Project. As of March 31, 2008 the project was completed and as of June 30, 2008, the receivable amount is \$2,924,451 and is recorded in the Regional 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.

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

### **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.

### **Santa Ana Watershed Project Authority**

Unaudited financial information for the operation of SAWPA as of and for the fiscal year ended June 30, 2008, the most recent reporting period available, is summarized as follows:

Cash and investments	\$ 62,431,110
Other assets	<u>128,531,121</u>
Total assets	<u>\$190,962,231</u>
Total liabilities	\$131,818,286
Total equity	<u>59,143,945</u>
Total liabilities and equity	<u>\$190,962,231</u>
Total revenues	21,749,524
Total expenses	<u>17,742,812</u>
<b>Net increase in equity</b>	<b><u>\$ 4,006,712</u></b>

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.

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

***Santa Ana Watershed Project Authority (continued):***

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

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

### **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, 2008, Desalter 1 and Desalter 2 delivered a total of 26,577.5 acre feet of water. Financial data is available at the Agency's main office.

### **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, 2008, 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.

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

### **Santa Ana River Watermaster (continued):**

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	<u>20%</u>
Total	<u>100%</u>

Summary of unaudited financial information for the fiscal year ended June 30, 2007, the most recent reporting period available, is as follows:

Total assets - cash	<u>\$ 3,867</u>
Fund balance	<u>\$ 3,867</u>
Total revenues	\$25,995
Total expenses	<u>(43,699)</u>
<b>Net increase/(decrease) in equity</b>	<b><u>(\$17,704)</u></b>

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, 2008:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Amounts Due Within One Year</b>	<b>Amounts Due After One Year</b>
<b><u>Bonds Payable:</u></b>						
1994 Revenue Bonds	\$64,803,386	\$0	\$2,403,631	\$62,399,755	\$2,690,000	\$59,709,755
1999 Revenue Bonds	3,072,031	0	969,442	2,102,589	1,040,000	1,062,589
2002A Variable Rate Revenue Bonds	52,988,415	0	52,988,415	0	0	0
2005A Revenue Bonds (1999 Refinancing)	22,276,420	0	93,464	22,182,956	165,000	22,017,956
2008A Revenue Bonds	0	130,024,691	0	130,024,691	0	130,024,691
2008B Variable Rate (2002A Refinancing)	0	55,591,515	450,000	55,141,515	1,420,000	53,721,515
	<b><u>\$143,140,252</u></b>	<b><u>\$185,616,206</u></b>	<b><u>\$56,904,952</u></b>	<b><u>\$271,851,506</u></b>	<b><u>\$5,315,000</u></b>	<b><u>\$266,536,506</u></b>

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

### **Long-term Debt (continued):**

#### **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.

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, 2008 was \$62,399,755.

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, 2008 was \$2,102,589.

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

### **Long-term Debt (continued):**

#### **2002A Variable Rate Revenue Bonds**

- On May 7, 2008, the Chino Basin Regional Financing Authority issued the Inland Empire Utilities Agency Variable Rate Revenue Bonds, Series 2008B to refund the outstanding Chino Basin Regional Financing Authority Variable Rate Revenue Bond Series 2002A. (Refer to note on 2008A Variable Rate Revenue Bonds.)

#### **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 2009 were Uninsured Serial Bonds payable in annual installments ranging from \$155,000 to \$1,320,000 with interest ranging from 3.00% to 3.50% on November 1. The bonds maturing between 2010 and 2023 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, 2008 was \$22,182,956.

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.)

#### **2008A Revenue Bonds**

- On Nov. 1, 2007, the Chino Basin Regional Financing Authority issued the Inland Empire Utilities Agency Revenue Bonds, Series 2008A in the total amount of \$125,000,000.

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

The bonds maturing through 2028 are Serial Bonds payable in annual installments ranging from \$2,620,000 to \$4,305,000 with an interest rate of 5.00%. The bonds maturing through 2034 are Term Bonds payable in annual installments ranging from \$5,495,000 to \$10,735,000 with an interest rate of 5.00%. The bonds maturing through 2039 are Term Bonds payable in annual installments ranging from \$11,285,000 to \$13,785,000 with an interest rate of 5.00%. The balance outstanding at June 30, 2008 was \$130,024,691.

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

### Long-term Debt (continued):

#### 2008B Revenue Bonds

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

The Bonds were issued to refund all of the outstanding Chino Basin Regional Financing Authority (Inland Empire Utilities Agency) Variable Rate Revenue Bond Series 2002A. The refunding resulted in a \$700,406 amortization in the deferred cost balance of the Series 2002A Bonds, expensed in the current year, and the recording of \$249,242 of deferred cost for the Series 2008B Bonds to be amortized through the year 2032. The net present value of economic gain (loss) (difference between the present value of the new and old debt service payments) was \$0, based on the estimated variable interest rate.

The bonds maturing through 2032 are Serial Bonds payable in annual installments ranging from \$1,420,000 to \$3,480,000 with a variable interest rate no higher than 12.00% per annum.

### Aggregate Long Term Debt

As of June 30, 2008, the aggregate debt service requirements on bonded indebtedness to maturity are summarized as follows:

<b>Year Ending June 30</b>	<b>Principal Payments</b>	<b>Interest Payments</b>	<b>Total</b>
2009	\$5,315,000	\$14,349,752	\$19,664,752
2010	6,775,000	13,988,747	20,763,747
2011	5,920,000	13,631,810	19,551,810
2012	6,175,000	13,292,780	19,467,780
2013	6,535,000	12,944,504	19,479,504
2014-2018	38,080,000	58,619,560	96,699,560
2019-2023	48,465,000	46,750,443	95,215,443
2024-2028	31,555,000	35,682,175	67,237,175
2029-2033	47,130,000	25,007,850	72,137,850
2034-2038	59,470,000	11,177,000	70,647,000
2039	13,785,000	344,625	14,129,625
Subtotal	269,205,000	245,789,246	514,994,246
Less: Deferred amount on refunding	(2,144,292)		(2,144,292)
Plus: Net Premium (Discount)	4,790,798		4,790,798
<b>Total Debt Service Payable</b>	<b>\$271,851,506</b>	<b>\$245,789,246</b>	<b>\$517,640,752</b>

## 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, 2008. (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, 2008, the 1994 SWAP agreement had generated revenues in the amount of \$243,862.

##### ■ 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, 2008, the 2005 SWAP agreement had generated revenues in the amount of \$77,332.

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	\$63,715,000	5/19/2005	BMA	62.4%LIBOR +0.604	\$83,047	8/1/2022	AA/Aa1
2005 Bond	23,135,000	5/19/2005	BMA	62.4%LIBOR +0.664	115,306	11/1/2022	AA/Aa1
Total SWAP	<b>\$86,850,000</b>				<b>\$198,353</b>		

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

### Long-term Debt (continued):

#### Interest Rate SWAP

##### ■ Fair Value

As of June 30, 2008, the SWAP had a fair value of \$198,353 (\$83,047 for the 1994 bonds SWAP and \$115,306 for the 2005 Bonds SWAP). The fair values were estimated on the basis of mid market levels, and include accrued interest.

##### ■ Credit risk

The SWAP's fair values represent the Agency's credit exposure to the counterparties as of June 30, 2008. 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, 2008, 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, 2008 was as follows:

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Amounts Due Within One Year</b>	<b>Amounts Due After One Year</b>
<b><u>Notes Payable:</u></b>						
SARI Pipeline Cap. 1.5mgd	\$2,107,273	\$0	\$140,751	\$1,966,522	\$149,196	\$1,817,326
State Revolving Fund Loan	20,490,644	9,126,750	633,013	28,984,381	421,242	28,563,139
Total Notes Payable	<b>\$22,597,917</b>	<b>\$9,126,750</b>	<b>\$773,764</b>	<b>\$30,950,903</b>	<b>\$570,438</b>	<b>\$30,380,465</b>

The financial statement included imputed interest @ 6% in the Notes payable, due within one year of \$117,992 from the Notes payable, due in more than one year.

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

### Notes Payable (continued):

#### Santa Ana Watershed Project Authority

- As a result of the purchase of 1.5 mgd SARI pipeline capacity from the Santa Ana Watershed Project Authority (SAWPA) in Fiscal Year 1997/98, the Agency signed a 20 year term note in the amount of \$5,625,000 with an initial deposit of \$281,250, and zero interest. The balance of \$5,343,750 is payable in 20 annual installments of \$267,188 through July 15, 2017. The June 30, 1998 note balance was discounted at 6%, to derive a principal balance of \$2,981,310. The tenth installment is due on July 15, 2008. This is a combined note payable from the Nonreclaimable Wastewater and Regional Wastewater Funds.

As of June 30, 2008, the future payments for the remaining note payable obligation by year is as follows:

<u>Year Ending June 30</u>	<u>Principal Payments</u>	<u>Imputed Interest</u>	<u>Total</u>
2009	\$149,196	\$117,992	\$267,188
2010	158,148	109,040	267,188
2011	167,637	99,551	267,188
2012	177,695	89,493	267,188
2013	188,357	78,831	267,188
2014/2018	1,125,489	210,446	1,335,935
<b>Total SAWPA Note</b>	<b><u>\$1,966,522</u></b>	<b><u>\$705,353</u></b>	<b><u>\$2,671,875</u></b>

#### 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, 2008, the three projects were approximately 75% complete and have received \$11,305,343 of SRF funding.
- The RP4 Pump Station, Pipeline and Reservoir projects are also in part funded by the State Revolving Fund (SRF). As of June 30, 2008, the three projects were approximately 50% complete and received \$3,207,043 of SRF funding.

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

### **Notes Payable (continued):**

- As of June 30, 2008, the future payments for the remaining loan obligation by year are as follows:

<b>Year Ending June 30</b>	<b>Principal Payment</b>	<b>Interest Payment</b>	<b>Total Payment</b>
2009	\$421,242	\$512,638	\$933,880
2010	1,186,519	615,815	1,802,334
2011	1,365,265	589,949	1,955,214
2012	1,393,619	561,488	1,955,107
2013	1,422,643	532,356	1,954,999
2014/2018	7,573,140	2,200,131	9,773,271
2019/2023	8,408,771	1,361,386	9,770,157
2024/2028	6,269,314	497,864	6,767,178
2029	943,868	16,736	960,604
<b>Total SRF Loans</b>	<b><u>\$28,984,381</u></b>	<b><u>\$6,888,363</u></b>	<b><u>\$35,872,744</u></b>

## **(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 and 2008A Revenue, 2005A Variable Rate and 2008B Refunding Revenue 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 2005A Variable Rate Revenue Bonds will be due on May 2010 and on the 2008A and 2008B Bonds will be due on June 2013. The Agency's arbitrage rebate liability was calculated by Willdan Financial Services, formerly MuniFinancial Inc. and is included in "Other noncurrent liabilities" for the Regional Wastewater Fund reflected on the Statement of Net Assets at June 30, 2008 as a combined total of \$386,753.

## **(14) Commercial Paper Notes**

On November 1, 2007, 2008A Revenue Bonds were issued to pay off the \$51,600,000 balance of commercial papers. Please refer to Note 12 for detailed information on the 2008A Revenue Bonds.

### ***(15) Due to/from Other Funds***

The composition of due to/from other funds balances as of June 30, 2008, is as follows:

Funds	Due From Other Funds:		
	Regional Operations & Maintenance Fund	Recycled Water Fund	Total
<b>Due To Other Funds:</b>			
Regional Capital Improvement Fund	\$3,400,930	\$3,000,000	\$6,400,930
Non-Major Funds:			
Nonreclaimable Wastewater Capital Improvement Fund	0	9,000,000	9,000,000
<b>Total</b>	<b>\$3,400,930</b>	<b>\$12,000,000</b>	<b>\$15,400,930</b>

#### **Regional Capital Improvement Fund & Regional Operations & Maintenance Fund**

In fiscal year 2007/08, data from the Agency's legacy computer system for fiscal year 2006/07 was converted to the new SAP system. During the conversion of fixed asset data, certain assets belonging to the Regional Capital Improvement Fund were inadvertently recorded thru the Fixed Asset module, to the Regional Operations and Maintenance Fund. The Due To the Regional Capital Fund, and the Due From the Regional Operations and Maintenance Fund, for the \$3,400,930 of assets has been recorded to offset the effect of that transaction. This Due To/Due From will be reversed in fiscal year 2008/09 when the affected assets are reclassified to the Regional Capital Improvement Fund.

#### **Regional Capital Improvement Fund & Recycled Water Fund**

At June 30, 2008, the Regional Capital Improvement Fund recorded a Due From, and the Recycled Water Fund recorded a Due To, in the amount of \$3,000,000. This interfund transaction was necessitated by the delay of SRF loan reimbursement of expenditures for Recycled Water projects. This Due To/Due From is to be reversed in July 2008.

#### **Nonreclaimable Wastewater Capital Improvement Fund & Recycled Water Fund**

At June 30, 2008, the Nonreclaimable Wastewater Capital Improvement Fund recorded a Due From, and the Recycled Water Fund recorded a Due To, in the amount of \$9,000,000 to cover the remainder of the Recycled Water Fund deficit caused by the delay of SRF loan reimbursement of expenditures for Recycled Water projects. This Due To/Due From is to be reversed in July 2008.

### ***(16) Interfund Transfers***

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 \$1,335,607 and \$3,200,000 respectively.

### **(16) Interfund Transfers (continued):**

Non-Major Enterprise Funds received transfers in the amount of \$13,202,228 including \$13,122,530 from the Regional Wastewater Funds. These transfers included \$10,559,374 in capital support from the RC Fund to the Organics Management Fund (OM) and Administrative Service Fund (GG). The remaining amount of \$2,642,854 primarily consisted of operational support to the Water Fund (WW) Organics Management and debt service from the OP and GG Fund.

The following table reflects the interfund transfer balances in and out by fund as of June 30, 2008.

	<b>Transfers In:</b>				<b>Total</b>
	<b>Regional Wastewater</b>	<b>Recharge Water</b>	<b>Recycled Water</b>	<b>Non-Major Enterprise Funds</b>	
<b>Transfers out:</b>					
Regional Wastewater Fund	\$54,326,703	\$1,335,607	\$3,200,000	\$13,122,530	\$71,984,840
Recycled Water Fund				39,849	39,849
Non-Major Enterprise Fund	2,038,632			39,849	2,078,481
<b>Total Transfers</b>	<b>\$56,365,335</b>	<b>\$1,335,607</b>	<b>\$3,200,000</b>	<b>\$13,202,228</b>	<b>\$74,103,170</b>

### **(17) Operating Leases**

The Agency has one operating lease at June 30, 2008:

- One postage meter lease extending to August, 2009.

Total operating lease costs were \$2,852 for the year ended June 30, 2008. The future minimum lease payments for equipment leases are as follows:

<b><u>Year Ended June 30</u></b>	<b><u>Amount</u></b>
2009	\$2,852
2010	475
2011	0
2012	0
2013	0
<b>Total</b>	<b><u>\$3,327</u></b>

## **(18) Restatement of Net Assets and Related Accounts**

### **Administrative Service Fund**

Net Assets for the Fiscal Year ended June 30, 2007 have been restated to reflect Fiscal Year 2006/07 recording of investment losses of \$630,310.

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

Net assets as previously reported June 30, 2007	\$34,853,666
Reversal of prior years' investment losses	<u>630,310</u>
Net assets as restated, June 30, 2007	<u>\$35,483,976</u>

### **Recharge Water Fund**

Net Assets for the Fiscal Year ended June 30, 2007 have been restated to reflect prior period recording of Contribution to Other Governmental Agencies associated with the determination of the ownership of Recharge Basin Improvements of reversal of \$19,678,065 in the Recharge Water Fund.

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

Net assets as previously reported June 30, 2007	\$ 7,301,171
Contribution to Other Governmental Agencies - reversed	<u>19,678,065</u>
Net assets as restated, June 30, 2007	<u>\$26,979,236</u>

### **Regional Wastewater Capital Improvement Fund**

Net Assets for the Fiscal Year ended June 30, 2007 have been restated to reflect prior years' recording of cost reimbursements on project PL02012 – RP1/RP5 Bypass. A total of \$5,064,672 of cost reimbursement, that should have been a contra to project costs, was inadvertently recorded as revenue

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

Net assets as previously reported June 30, 2007	\$295,688,385
Other non-operating revenue	<u>( 5,064,672)</u>
Net assets as restated, June 30, 2007	<u>\$290,623,713</u>

### **Recycled Water Fund**

Net Assets for the Fiscal Year ended June 30, 2007 have been restated to reflect Fiscal Year 2006/07 duplicate recording of recycled water revenue of \$1,400,707.

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

Net assets as previously reported June 30, 2007	\$41,486,511
Duplicate recording of recycled water revenue	<u>( 1,400,707)</u>
Net assets as restated, June 30, 2007	<u>\$40,085,804</u>

**INLAND EMPIRE UTILITIES AGENCY**  
**SUPPLEMENTARY INFORMATION – ALL FUNDS**

**SUPPLEMENTARY SCHEDULES -**

Non-Major Enterprise Funds Statements.

**INDIVIDUAL FUNDS -**

Individual Schedules of all funds are provided as supplementary information.

**INLAND EMPIRE UTILITIES AGENCY**
**Combining Statement of Net Assets**
**June 30, 2008**

(With Comparative Totals for June 30, 2007)

	Non-Major Enterprise Funds	
	Non Reclaimable	
<b>ASSETS</b>	Water	Wastewater
Current assets		
Cash and investments	\$4,836,963	\$10,669,002
Accounts receivable	5,013,858	1,989,108
Interest receivable	35,159	142,970
Taxes receivable	0	26,761
Other receivables	0	23,813
Due from other funds	0	9,000,000
Inventory	0	0
Prepaid items	0	224,332
Total current assets	9,885,980	22,075,986
Noncurrent assets		
Restricted assets		
Assets held for 401(a) plan	0	0
Assets held with trustee/fiscal agent	0	4,450,523
Total restricted assets	0	4,450,523
Capital assets		
Land	0	0
Jobs in progress	2,457,167	4,566,320
Capital assets, net of accumulated depreciation	23,750	4,686,387
Total capital assets	2,480,917	9,252,707
Other assets		
Long-term investments	0	0
Long-term receivables	0	158,883
Intangible assets, net of accumulated amortization	58,575	23,997,219
Deferred costs	0	93,542
Total other assets	58,575	24,249,644
Total noncurrent assets	2,539,492	37,952,874
Total assets	12,425,472	60,028,860

Organics	Administrative	Totals	
Management	Services	2008	2007
\$3,760,275	\$11,788,857	\$31,055,097	\$30,108,384
451,482	5,980,604	13,435,052	17,907,448
27,333	100,594	306,056	297,937
0	319,640	346,401	285,654
0	98,098	121,911	105,357
0	0	9,000,000	25,476
0	1,579,594	1,579,594	1,497,598
8,911	131,575	364,818	342,401
4,248,001	19,998,962	56,208,929	50,570,255
0	1,095,604	1,095,604	891,682
548,559	0	4,999,082	32,234
548,559	1,095,604	6,094,686	923,916
0	20,829	20,829	20,829
26,071	3,090,936	10,140,494	8,137,565
6,582,655	15,966,386	27,259,178	29,019,943
6,608,726	19,078,151	37,420,501	37,178,337
49,355,944	0	49,355,944	47,016,694
0	10,770	169,653	210,622
0	4,915,544	28,971,338	23,374,619
39,701	758	134,001	115,979
49,395,645	4,927,072	78,630,936	70,717,914
56,552,930	25,100,827	122,146,123	108,820,167
60,800,931	45,099,789	178,355,052	159,390,422
(continued)			

**INLAND EMPIRE UTILITIES AGENCY**  
**Combining Statement of Net Assets (Continued from previous page)**  
**June 30, 2008**  
(With Comparative Totals for June 30, 2007)

	<u>Non-Major Enterprise Funds</u>	
	<u>Water</u>	<u>Non Reclaimable Wastewater</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	3,634,818	760,873
Accrued liabilities	3,514,734	2,155,127
Rententions payable	0	291,969
Compensated absences	0	0
Notes payable, due within one year	0	178,125
Long-term debt, due within one year	0	0
Interest payable	0	60,104
	<u>7,149,552</u>	<u>3,446,198</u>
Total current liabilities		
Noncurrent liabilities		
Compensated absences	0	0
Long-term debt, due in more than one year (note 12)	0	7,502,424
Notes payable, due in more than one year	0	1,151,785
Liability for 401(a) plan	0	0
Other noncurrent liabilities	0	0
	<u>0</u>	<u>8,654,209</u>
Total noncurrent liabilities		
	<u>7,149,552</u>	<u>12,100,407</u>
Total liabilities		
	<u>7,149,552</u>	<u>12,100,407</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	<u>2,539,493</u>	<u>24,511,135</u>
Restricted for:		
Capital construction	0	4,331,233
Debt service	0	119,290
Bond operating contingency requirement	0	1,891,646
	<u>0</u>	<u>6,342,169</u>
Total restricted		
	<u>0</u>	<u>6,342,169</u>
Unrestricted	<u>2,736,427</u>	<u>17,075,149</u>
Total net assets	<u>\$5,275,920</u>	<u>\$47,928,453</u>

Organics Management	Administrative Services	Totals	
		2008	2007
175,643	2,665,692	7,237,026	8,883,693
10,000	1,430,185	7,110,046	4,594,708
0	25,950	317,919	0
0	1,621,058	1,621,058	1,197,558
0	0	178,125	459,057
312,881	0	312,881	0
11,583	0	71,687	28,965
<u>510,107</u>	<u>5,742,885</u>	<u>16,848,742</u>	<u>15,163,981</u>
0	2,101,682	2,101,682	1,528,219
11,834,777	0	19,337,201	0
0	0	1,151,785	12,640,100
0	1,095,604	1,095,604	891,682
37,524	1,471,696	1,509,220	819,210
<u>11,872,301</u>	<u>4,668,982</u>	<u>25,195,492</u>	<u>15,879,211</u>
<u>12,382,408</u>	<u>10,411,867</u>	<u>42,044,234</u>	<u>31,043,192</u>
<u>39,178,213</u>	<u>23,994,452</u>	<u>90,223,293</u>	<u>47,453,798</u>
0	0	4,331,233	1,798,720
548,559	0	667,849	138,831
0	1,177,537	3,069,183	2,812,104
<u>548,559</u>	<u>1,177,537</u>	<u>8,068,265</u>	<u>4,749,655</u>
<u>8,691,751</u>	<u>9,515,933</u>	<u>38,019,260</u>	<u>76,143,777</u>
<u>\$48,418,523</u>	<u>\$34,687,922</u>	<u>\$136,310,818</u>	<u>\$128,347,230</u>

**INLAND EMPIRE UTILITIES AGENCY**  
**Combining Statement of Revenues, Expenses, and**  
**Changes in Fund Net Assets**  
**For the Fiscal Year Ended June 30, 2008**  
(With Comparative Totals for June 30, 2007)

	<u>Non-Major Enterprise Funds</u>	
		Non Reclaimable
	<u>Water</u>	<u>Wastewater</u>
<b>OPERATING REVENUES</b>		
Service charges	<u>\$1,437,930</u>	<u>\$6,678,150</u>
Total operating revenues	<u>1,437,930</u>	<u>6,678,150</u>
<b>OPERATING EXPENSES</b>		
Wastewater collection	0	4,577,222
Wastewater treatment	0	1,480
Operations and maintenance	40,064	0
Administration and general	3,185,919	1,096,237
Depreciation and amortization	<u>6,717</u>	<u>1,106,191</u>
Total operating expenses	<u>3,232,700</u>	<u>6,781,130</u>
Operating income (loss)	<u>(1,794,770)</u>	<u>(102,980)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	191,667	862,446
Property tax revenue	0	8
Other nonoperating revenues	328,520	14,591
Interest on long-term debt	0	(84,291)
Other nonoperating expenses	<u>(254,069)</u>	<u>(145,193)</u>
Total nonoperating revenues (expenses)	<u>266,118</u>	<u>647,561</u>
Income (loss) before contributions and transfers	<u>(1,528,652)</u>	<u>544,581</u>
<b>TRANSFERS AND CAPITAL CONTRIBUTIONS</b>		
Transfers in	50,000	0
Transfers out	0	(39,849)
Capital grants	<u>1,132,864</u>	<u>0</u>
Change in net assets	<u>(345,788)</u>	<u>504,732</u>
Total net assets - beginning	5,621,708	47,423,721
Prior period adjustment		
Total net assets - ending	<u>\$5,275,920</u>	<u>\$47,928,453</u>

Organics Management	Administrative Services	Totals	
		2008	2007
\$1,898,678	\$0	\$10,014,758	\$9,875,337
1,898,678	0	10,014,758	9,875,337
0	0	4,577,222	452,487
0	0	1,480	3,194,483
2,135,278	0	2,175,342	7,431,492
393,255	3,532,611	8,208,022	7,692,511
258,645	2,425,932	3,797,485	3,246,917
2,787,178	5,958,543	18,759,551	22,017,890
(888,500)	(5,958,543)	(8,744,793)	(12,142,553)
150,227	517,079	1,721,419	1,626,210
0	2,769,465	2,769,473	2,500,458
0	903,791	1,246,902	5,129,743
(466,685)	0	(550,976)	(518,539)
(161,385)	(175,135)	(735,782)	(90,894)
(477,843)	4,015,200	4,451,036	8,646,978
(1,366,343)	(1,943,343)	(4,293,757)	(3,495,575)
9,967,041	3,185,187	13,202,228	7,471,319
0	(2,038,632)	(2,078,481)	(10,132,356)
0	734	1,133,598	2,525,267
8,600,698	(796,054)	7,963,588	(3,631,345)
39,817,825	35,483,976	128,347,230	131,348,265
			630,310
\$48,418,523	\$34,687,922	\$136,310,818	\$128,347,230

**INLAND EMPIRE UTILITIES AGENCY**  
**Statement of Cash Flows**  
**For the Fiscal Year ended June 30, 2008**  
(With Comparative Totals for June 30, 2007)

	<u>Non-Major Enterprise Funds</u>	
	Water	Non Recaimable Wastewater
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$7,752,712	\$6,289,655
Cash received from interfund services provided	0	0
Cash payments to suppliers for goods and services	(4,233,882)	(2,813,767)
Cash payments to employees for services	(395,666)	(345,351)
Cash payments for interfund services used	(492,834)	(1,077,449)
Cash received from others	<u>0</u>	<u>0</u>
Net cash provided by (used for) operating activities	<u>2,630,330</u>	<u>2,053,088</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers in	50,000	0
Transfers out	0	(39,849)
Other receivable	328,520	14,591
Contract reimbursement from others	0	0
Tax revenues	0	8
Long term receivable	0	23,813
Due from other funds	0	(9,000,000)
Due to other funds	<u>0</u>	<u>0</u>
Net cash provided by (used for) noncapital financing activities	<u>378,520</u>	<u>(9,001,437)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from capital debt	0	7,502,424
Acquisition and construction of capital assets	(1,368,436)	(5,574,621)
Proceeds from sale of assets	0	0
Capital grants	1,132,864	0
Principal paid on capital debt	0	(93,834)
Interest paid on capital debt	0	(24,185)
Bond administration fees	<u>0</u>	<u>0</u>
Net cash provided by (used for) capital and related financing activities	<u>(235,572)</u>	<u>1,809,784</u>

Organics Management	Administrative Services	Totals	
		2008	2007
\$3,248,363	(\$5,313,670)	\$11,977,060	\$665,776
0	30,466,507	30,466,507	20,790,488
(107,906)	(3,170,085)	(10,325,640)	(14,202,582)
(1,560,872)	(27,390,398)	(29,692,287)	(20,062,162)
(867,298)	0	(2,437,581)	(1,485,255)
0	0	-	5,974,457
<u>712,287</u>	<u>(5,407,646)</u>	<u>(11,941)</u>	<u>(8,319,278)</u>
9,967,041	3,185,187	13,202,228	7,471,317
0	(2,038,632)	(2,078,481)	(10,132,356)
0	0	343,111	0
0	903,791	903,791	0
0	2,769,464	2,769,472	2,500,457
0	17,156	40,969	35,576
0	0	(9,000,000)	0
0	25,476	25,476	301,335
<u>9,967,041</u>	<u>4,862,442</u>	<u>6,206,566</u>	<u>176,329</u>
12,010,294	0	19,512,718	0
75,521	(3,089,851)	(9,957,387)	(14,555,095)
0	0	0	9,960,777
0	734	1,133,598	1,379,217
(11,538,050)	0	(11,631,884)	(348,025)
(484,067)	0	(508,252)	(518,937)
<u>(161,384)</u>	<u>0</u>	<u>(161,384)</u>	<u>(53,934)</u>
<u>(97,686)</u>	<u>(3,089,117)</u>	<u>(1,612,591)</u>	<u>(4,135,997)</u>

(Continued)

**INLAND EMPIRE UTILITIES AGENCY****Statement of Cash Flows (Continued from previous page)****For the Fiscal Year ended June 30, 2008**

(With Comparative Totals for June 30, 2007)

	<u>Non-Major Enterprise Funds</u>	
	Non Reclaimable	
	<u>Water</u>	<u>Wastewater</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	163,996	859,671
Sale of investments	0	0
Purchase of investments	<u>0</u>	<u>0</u>
Net cash provided by (used for) investing activities	<u>163,996</u>	<u>859,671</u>
Net increase (decrease) in cash and cash equivalents	<u>2,937,274</u>	<u>(4,278,894)</u>
Cash and cash equivalents - beginning	<u>1,893,041</u>	<u>19,398,419</u>
Cash and cash equivalents - ending	<u><u>\$4,830,315</u></u>	<u><u>\$15,119,525</u></u>

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES**

Operating income (loss)	(\$1,794,770)	(\$102,980)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities		
Depreciation and amortization	6,717	1,106,188
Changes in assets and liabilities		
(Increase) decrease in		
Accounts receivable	6,314,782	(294,248)
Other receivables	0	(703)
Taxes Receivable	0	(2)
Inventory	0	0
Prepaid items	0	(30,263)
Deferred costs	0	(93,542)
Increase (decrease) in		
Accounts payable	(3,465,374)	432,937
Retention payable	0	291,969
Accrued liabilities	1,568,975	743,732
Other Noncurrent liabilities	0	0
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>\$2,630,330</u></u>	<u><u>\$2,053,088</u></u>

Organics Management	Administrative Services	Totals	
		2008	2007
127,198	562,440	1,713,305	2,574,858
0	(175,135)	(175,135)	(272,841)
0	426,391	426,391	(213,563)
127,198	813,696	1,964,561	2,088,454
10,708,840	(2,820,625)	6,546,595	(10,190,492)
(6,400,006)	14,609,482	29,500,936	39,691,428
<u>\$4,308,834</u>	<u>\$11,788,857</u>	<u>\$36,047,531</u>	<u>\$29,500,936</u>

(\$888,500)	(\$5,958,543)	(8,744,793)	(\$6,168,099)
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258,645	2,425,932	3,797,482	3,246,919
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1,349,684	(5,237,073)	2,133,145	(9,160,583)
0	(15,851)	(16,554)	(19,942)
0	(60,746)	(60,748)	(29,036)
0	(81,997)	(81,997)	407,265
0	7,845	(22,418)	(128,033)
0	0	(93,542)	0

(17,542)	1,429,267	(1,620,712)	2,489,762
0	0	291,969	(133,459)
10,000	192,627	2,515,334	770,677
0	690,008	690,008	0
0	996,963	996,963	169,397
0	203,922	203,922	235,854

<u>\$712,287</u>	<u>(\$5,407,646)</u>	<u>(\$11,941)</u>	<u>(\$8,319,278)</u>
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(Continued)

**INLAND EMPIRE UTILITIES AGENCY**

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

**For the Fiscal Year Ended June 30, 2008**

(With Comparative Totals for June 30, 2007)

	<u>Non-Major Enterprise Funds</u>	
		Non Reclaimable
	<u>Water</u>	<u>Wastewater</u>
<b>RECONCILIATION OF CASH &amp; CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:</b>		
Cash & cash equivalents at end of year	\$4,830,315	\$15,119,525
Investments	6,648	0
	<hr/>	<hr/>
Total cash, short-term investments and restricted cash	<u>\$4,836,963</u>	<u>\$15,119,525</u>
Cash	\$1,593,348	(\$1,637,522)
Short-term investments	3,243,615	12,306,524
Restricted assets	0	4,450,523
	<hr/>	<hr/>
Total cash, short-term investments and restricted cash	<u>\$4,836,963</u>	<u>\$15,119,525</u>

Organics Management	Administrative Services	Total Non-Major Funds	
		2008	2007
\$4,308,834	\$11,788,857	\$36,047,531	\$29,500,936
0	1,095,604	\$1,102,252	0
<u>\$4,308,834</u>	<u>\$12,884,461</u>	<u>\$37,149,783</u>	<u>\$29,500,936</u>
\$3,268,223	\$2,841,984	\$6,066,033	\$10,517,301
492,052	8,946,873	24,989,064	18,960,772
548,559	1,095,604	6,094,686	32,234
<u>\$4,308,834</u>	<u>\$12,884,461</u>	<u>\$37,149,783</u>	<u>\$29,510,307</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, 2005A and 2008 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, 2008**  
(With Comparative Totals for June 30, 2007)

	Regional Capital Improvement	Regional Operations & Maintenance	Obligation Payment	Eliminations	Totals	
					2008	2007
<b>ASSETS</b>						
Current assets						
Cash and investments	\$1,290,489	\$18,485,028	\$7,956,800	\$0	\$27,732,317	\$38,900,821
Accounts receivable	612,294	4,805,195	0	0	5,417,489	7,958,276
Interest receivable	383,043	135,091	0	0	518,134	896,967
Taxes receivable	2,848,377	1,053,896	0	0	3,902,273	3,263,352
Due from other funds	6,400,930	0	0	(3,400,930)	3,000,000	0
Other Receivable	76,070	0	0	0	76,070	0
Prepaid items	66,039	9,215	0	0	75,254	18,058
Total current assets	11,677,242	24,488,425	7,956,800	(3,400,930)	40,721,537	51,037,474
Noncurrent assets						
Restricted assets						
Deposits held by governmental agencies	12,541,961	0	0	0	12,541,961	10,591,879
Deposits held by retentions	1,686,851	0	0	0	1,686,851	3,182,737
Assets held with trustee/fiscal agents	66,100,038	1,700,658	0	0	67,800,696	11,009,529
Total restricted assets	80,328,850	1,700,658	0	0	82,029,508	24,784,145
Capital assets						
Land	13,696,496	182,383	0	0	13,878,879	14,013,169
Jobs in progress	122,526,241	1,096,522	0	0	123,622,763	135,210,323
Capital assets, net of accumulated depreciation	267,236,692	3,121,318	0	0	270,358,010	236,237,556
Total capital assets	403,459,429	4,400,223	0	0	407,859,652	385,461,048
Other assets						
Intangible assets, net of accumulated amortization	6,398,598	23,130	0	0	6,421,728	6,519,226
Long Term Receivable	2,924,451	0	0	0	2,924,451	0
Deferred costs	2,418,005	55,606	0	0	2,473,611	1,414,457
Total other assets	11,741,054	78,736	0	0	11,819,790	7,933,683
Total noncurrent assets	495,529,333	6,179,617	0	0	501,708,950	418,178,876
Total assets	507,206,575	30,668,042	7,956,800	(3,400,930)	542,430,487	469,216,350

(Continued)

	Regional Capital Improvement	Regional Operations & Maintenance	Obligation Payment	Eliminations	Totals	
					2008	2007
<b>LIABILITIES</b>						
Current liabilities						
Accounts payable	4,712,942	2,253,974	0	0	6,966,916	5,021,602
Accrued liabilities	101,842	208,877	0	0	310,719	554,078
Due to other funds	0	3,400,930	0	(3,400,930)	0	25,477
Retentions payable	1,042,974	4,330	0	0	1,047,304	1,510,491
Notes payable, commercial papers	0	0	0	0	0	50,160,000
Notes payable, due within one year	89,063	0	0	0	89,063	89,063
Long-term debt, due within one year	4,520,763	0	0	0	4,520,763	4,226,865
Interest payable	2,656,524	35,729	0	0	2,692,253	2,195,084
Retention deposits and escrows	1,686,851	0	0	0	1,686,851	3,182,737
Total current liabilities	14,810,959	5,903,840	0	(3,400,930)	17,313,869	66,965,397
Noncurrent liabilities						
Long-term debt, due in more than one year	214,346,900	4,459,847	0	0	218,806,747	109,275,798
Notes payable, due in more than one year	547,550	0	0	0	547,550	594,468
Advances from other funds	0	0	0	0	0	0
Other noncurrent liabilities (note 13)	386,753	1,464,354	0	0	1,851,107	1,756,974
Total noncurrent liabilities	215,281,203	5,924,201	0	0	221,205,404	111,627,240
Total liabilities	230,092,162	11,828,041	0	(3,400,930)	238,519,273	178,592,637
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	192,771,757	19,112	0	0	192,790,869	234,758,113
Restricted for						
Capital construction	64,694,830	1,670,376	0	0	66,365,206	18,769,657
Debt service	15,634,020	30,282	7,956,800	0	23,621,102	23,142,368
Bond operating contingency requirement	1,055,788	13,490,804	0	0	14,546,592	13,953,575
Total restricted	81,384,638	15,191,462	7,956,800	0	104,532,900	55,865,600
Unrestricted	2,958,018	3,629,427	0	0	6,587,445	0
Total net assets	\$277,114,413	\$18,840,001	\$7,956,800	\$0	\$303,911,214	\$290,623,713

**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, 2008**  
(With Comparative Totals for June 30, 2007)

	Regional Capital Improvement	Regional Operations & Maintenance	Obligation Payment	Eliminations	Totals	
					2008	2007
<b>OPERATING REVENUES</b>						
Service charges	\$1,756	\$29,442,687	\$0	\$0	\$29,444,443	\$28,088,263
Total operating revenues	1,756	29,442,687	0	0	29,444,443	28,088,263
<b>OPERATING EXPENSES</b>						
Wastewater collection	0	783,682	0	0	783,682	633,199
Wastewater treatment	0	22,427,908	0	0	22,427,908	21,887,338
Wastewater disposal	0	12,722,254	0	0	12,722,254	7,433,865
Administration and general	3,167,364	4,538,567	0	0	7,705,931	11,906,319
Depreciation and amortization	13,123,526	374,515	0	0	13,498,041	14,361,439
Total operating expenses	16,290,890	40,846,926	0	0	57,137,816	56,222,160
Operating income (loss)	(16,289,134)	(11,404,239)	0	0	(27,693,373)	(28,133,897)
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Interest income	2,370,339	759,067	0	0	3,129,406	3,685,772
Property tax revenue	22,300,234	9,381,415	0	0	31,681,649	28,517,738
Wastewater capital connection fees	16,625,720	0	0	0	16,625,720	24,670,848
Other nonoperating revenues	14,046,893	315,118	0	0	14,362,011	1,595,957
Interest on long-term debt	(9,463,185)	(86,941)	0	0	(9,550,126)	(7,900,622)
Other nonoperating expenses	(742,696)	179	0	0	(742,517)	(15,190,818)
Total nonoperating revenues (expenses)	45,137,305	10,368,838	0	0	55,506,143	35,378,875
Income (loss) before capital contributions and transfers	28,848,171	(1,035,401)	0	0	27,812,770	7,244,978
<b>TRANSFERS AND CAPITAL CONTRIBUTIONS</b>						
Transfers in	20,296,179	6,919,551	29,149,605	0	56,365,335	30,659,964
Transfers out	(35,589,654)	(7,367,926)	(29,027,260)	0	(71,984,840)	(42,221,483)
Capital grants	1,094,236	0	0	0	1,094,236	3,302,300
Change in net assets	14,648,932	(1,483,776)	122,345	0	13,287,501	(1,014,241)
Total net assets - beginning	262,465,481	20,323,777	7,834,455	0	290,623,713	296,702,626
Prior period adjustment (note 18)	0	0	0	0	0	(5,064,672)
Total net assets - ending	\$ 277,114,413	\$ 18,840,001	\$ 7,956,800	\$ -	\$ 303,911,214	\$ 290,623,713

# **INLAND EMPIRE UTILITIES AGENCY**

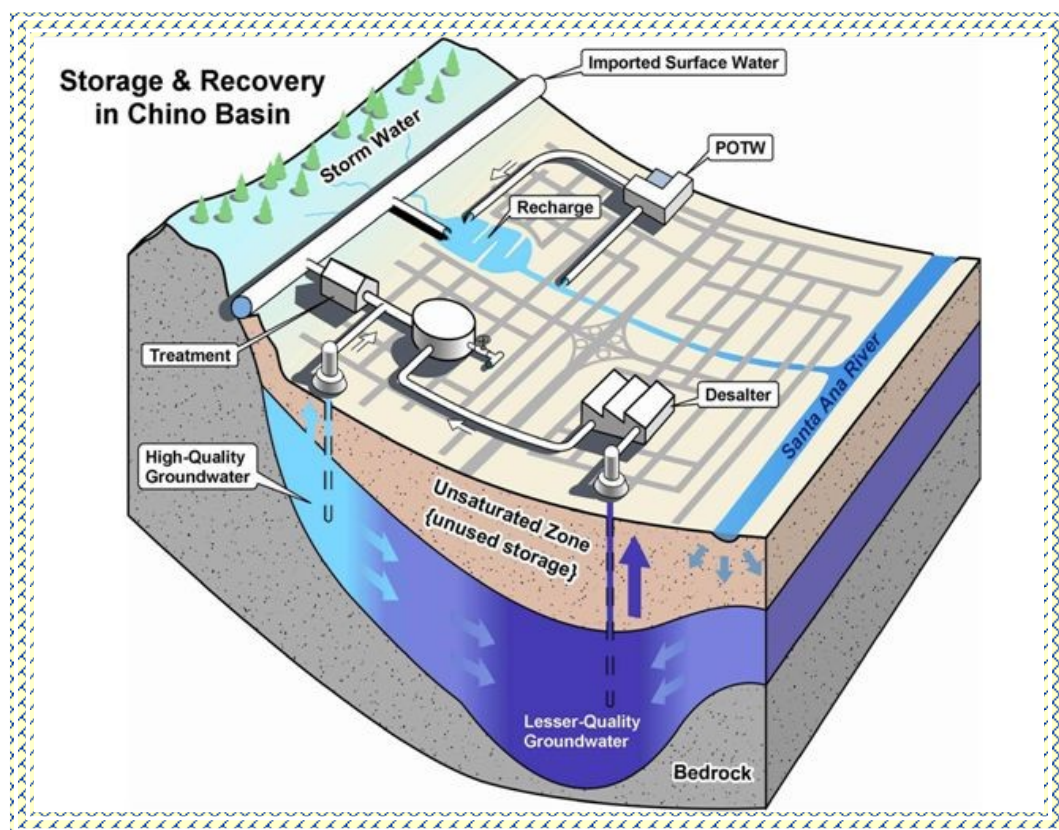
## **RECHARGE WATER FUND**

### **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, 2008**  
(With Comparative Totals for June 30, 2007)

	Totals	
	2008	2007
<b>ASSETS</b>		
Current assets		
Cash and investments	\$5,809	\$1,121,639
Accounts receivable	1,922,244	1,587,097
Total current assets	1,928,053	2,708,736
Noncurrent assets		
Restricted assets		
Assets held with trustee/fiscal agents	844,091	840
Total restricted assets	844,091	840
Capital assets		
Capital assets, net of accumulated depreciation	40,728,447	40,959,605
Jobs in progress	4,265,414	2,466,524
Total capital assets	44,993,861	43,426,129
Other assets		
Intangible assets, net of accumulated amortization	82,719	0
Deferred costs	61,092	177,305
Total other assets	143,811	177,305
Total noncurrent assets	45,981,763	43,604,274
Total assets	47,909,816	46,313,010

(Continued)

	Totals	
	2008	2007
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	1,247,594	1,327,039
Accrued liabilities	230,615	0
Retentions payable	17,051	0
Long-term debt, due within one year	481,356	432,203
Interest payable	17,820	44,560
Total current liabilities	1,994,436	1,803,802
Noncurrent liabilities		
Long-term debt, due in more than one year	18,211,625	17,529,972
Total noncurrent liabilities	18,211,625	17,529,972
Total liabilities	20,206,061	19,333,774
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	26,444,690	25,463,954
Restricted for		
Debt service	844,092	1,129,506
Bond operating contingency requirement	0	675,154
Total Restricted	844,092	1,804,660
Unrestricted	414,973	(289,378)
Total net assets	\$27,703,755	\$26,979,236

**INLAND EMPIRE UTILITIES AGENCY**  
**Recharge Water Fund**  
**Schedule of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**For the Fiscal Year Ended June 30, 2008**  
(With Comparative Totals for June 30, 2007)

	Totals	
	2008	2007
<b>OPERATING REVENUES</b>		
Recycled water sales	\$0	\$0
Total operating revenues	0	0
<b>OPERATING EXPENSES</b>		
Administration and general	2,426,238	2,314,839
Depreciation and amortization	715,578	545,394
Total operating expenses	3,141,816	2,860,233
Operating income (loss)	(3,141,816)	(2,860,233)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	1,882	12,871
Other nonoperating revenues	1,694,824	1,947,264
Interest on long-term debt	(652,248)	(644,920)
Other nonoperating expenses	(214,863)	(83,059)
Contributions to other government agencies	0	(19,678,065)
Total nonoperating revenues (expenses)	829,595	(18,445,909)
Income (loss) before contributions and transfers	(2,312,221)	(21,306,142)
<b>TRANSFERS AND CAPITAL CONTRIBUTIONS</b>		
Transfers in	1,335,607	5,089,855
Transfers out	0	(2,304,355)
Capital grants	1,701,133	1,455,972
Change in net assets	724,519	(17,064,670)
Total net assets - beginning	26,979,236	24,365,841
Prior period adjustment (note 18)		19,678,065
Total net assets - ending	\$27,703,755	\$26,979,236

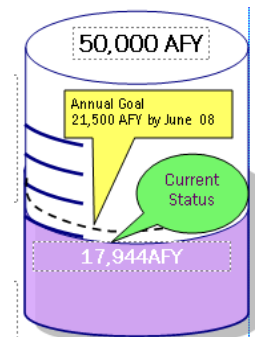
# INLAND EMPIRE UTILITIES AGENCY RECYCLED WATER FUND COMPARATIVE SCHEDULES

## 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 includes the operation of the Carbon Canyon and other Regional Plants distribution systems, and the Ely Basin Groundwater Recharge Project.



**Project WR04446 –  
San Antonio Channel Segment B**



**Local Area Irrigation with Recycled Water**

**INLAND EMPIRE UTILITIES AGENCY**  
**Recycled Water Fund**  
**Schedule of Net Assets by Subfund**  
**June 30, 2008**  
(With Comparative Totals for June 30, 2007)

	Totals	
	2008	2007
<b>ASSETS</b>		
Current assets		
Cash and investments	\$82,732	(\$11,009,552)
Accounts receivable	11,455,796	12,068,698
Prepaid items	73,500	3,500
Total current assets	11,612,028	1,062,646
Noncurrent assets		
Restricted assets		
Assets held with trustee/fiscal agents	10,174,531	427,662
Total restricted assets	10,174,531	427,662
Capital assets		
Jobs in progress	35,069,446	32,386,068
Capital assets, net of accumulated depreciation	49,728,376	30,233,542
Total capital assets	84,797,822	62,619,610
Other assets		
Intangible assets, net of accumulated amortization	40,864	42,467
Deferred costs	661,457	0
Total other assets	702,321	42,467
Total noncurrent assets	95,674,674	63,089,739
Total assets	107,286,702	64,152,385

(Continued)

	Totals	
	2008	2007
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	6,807,465	2,634,948
Accrued liabilities	19,605	252,814
Notes payable, due within one year	421,242	411,132
Interest payable	136,791	58,028
Due to other funds	12,000,000	0
Retention deposits and escrows	132,853	427,663
Total current liabilities	19,517,956	3,784,585
Noncurrent liabilities		
Long-term debt, due in more than one year (note 12)	10,180,933	0
Notes payable, due in more than one year	28,563,138	20,079,511
Other non current liabilities	505,071	202,485
Total noncurrent liabilities	39,249,142	20,281,996
Total liabilities	58,767,098	24,066,581
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	46,334,829	37,834,971
Restricted for		
Capital construction	9,794,760	2,807,243
Bond debt service	379,771	0
Bond operating contingency requirement	0	844,297
Total restricted	10,174,531	3,651,540
Unrestricted	(7,989,756)	(1,400,707)
Total net assets	\$48,519,604	\$40,085,804

**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, 2008**  
(With Comparative Totals for June 30, 2007)

	Totals	
	2008	2007
<b>OPERATING REVENUES</b>		
Recycled water sales	\$2,007,144	\$3,253,546
Total operating revenue	2,007,144	3,253,546
<b>OPERATING EXPENSES</b>		
Administration and general	3,981,682	2,532,892
Depreciation and amortization	1,043,397	789,827
Total operating expenses	5,025,079	3,322,719
Operating income (loss)	(3,017,935)	(69,173)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	153,438	0
Other nonoperating revenues	415,982	(27,947)
Other nonoperating expenses	(197,030)	0
Interest on long-term debt	(524,901)	(475,985)
Total nonoperating revenues (expenses)	(152,511)	(503,932)
Income (loss) before contributions and transfers	(3,170,446)	(573,105)
<b>TRANSFERS AND CAPITAL CONTRIBUTIONS</b>		
Transfers in	3,200,000	11,448,315
Transfers out	(39,849)	(11,259)
Capital grants	8,444,095	6,599,108
Change in net assets	8,433,800	17,463,059
Total net assets - beginning	40,085,804	24,023,452
Total net assets - ending	48,519,604	41,486,511
Prior period adjustment (note 18)	0	(1,400,707)
Total net assets - Adjusted ending	\$48,519,604	\$40,085,804

# 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 water provided to member agencies. Effective January 2008, the surcharge amount increased to \$10.00 per acre-foot, of which \$4.00 per acre-foot is 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.



#### High Efficiency Clothes Washers (HECW)

- Rebate: \$135

*In Fiscal Year 2007/08, the conservation programs rebated 1,595 High Efficiency Clothes Washers*



Save Water --



#### Water Wise Landscape Rebate

##### Say Goodbye to Mowing your Lawn

Reduce or eliminate the need for watering your lawn.

- Rebate: \$2.00/ Square foot or \$2,000 per service address

*In Fiscal Year 2007/08, IEUA processed 112 applications and paid 20 rebates totaling 21,506 sq ft of turf removed.*



#### Rotating Sprinkler Nozzles

- Rotating Nozzles for Pop-Up Spray Heads
- Rebate: \$4 per nozzle
- In Fiscal Year 2007/08, 1,258 nozzles were rebated

*Properly direct water flow and use 20% less water than conventional spray heads.*

**INLAND EMPIRE UTILITIES AGENCY**  
**Water Fund**  
**Schedule of Net Assets**  
**June 30, 2008**  
(With Comparative Totals for June 30, 2007)

	<b>Totals</b>	
	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Current assets		
Cash and investments	\$ 4,836,963	\$ 1,899,689
Accounts receivable	5,013,858	11,328,640
Interest receivable	<u>35,159</u>	<u>7,487</u>
Total current assets	<u>9,885,980</u>	<u>13,235,816</u>
Noncurrent assets		
Capital assets		
Jobs in progress	2,457,167	1,342,801
Capital assets, net of accumulated depreciation	<u>23,750</u>	<u>25,646</u>
Total capital assets	<u>2,480,917</u>	<u>1,368,447</u>
Other assets		
Intangible assets, net of accumulated amortization	<u>58,575</u>	<u>63,396</u>
Total other assets	<u>58,575</u>	<u>63,396</u>
Total noncurrent assets	<u>2,539,492</u>	<u>1,431,843</u>
Total assets	<u>12,425,472</u>	<u>14,667,659</u>
<b>LIABILITIES</b>		
Accounts payable	3,634,818	7,100,192
Accrued liabilities	<u>3,514,734</u>	<u>1,945,759</u>
Total liabilities	<u>7,149,552</u>	<u>9,045,951</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	2,539,493	1,431,844
Unrestricted	2,736,427	4,189,864
Total net assets	<u>\$5,275,920</u>	<u>\$5,621,708</u>

**INLAND EMPIRE UTILITIES AGENCY**  
**Water Fund**  
**Schedule of Revenues, Expenses, and**  
**Changes in Fund Net Assets**  
**For the Fiscal Year Ended June 30, 2008**  
(With Comparative Totals for June 30, 2007)

	Totals	
	2008	2007
<b>OPERATING REVENUES</b>		
Service charges	\$1,437,930	\$1,831,429
Total operating revenues	1,437,930	1,831,429
<b>OPERATING EXPENSES</b>		
Operations and maintenance	40,064	2,989,699
Administration and general	3,185,919	1,948,806
Depreciation and amortization	6,717	5,617
Total operating expenses	3,232,700	4,944,122
Operating income (loss)	(1,794,770)	(3,112,693)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	191,667	85,749
Other nonoperating revenues	328,520	1,015,026
Other nonoperating expenses	(254,069)	(6,648)
Contributions to other government agencies	0	0
Total nonoperating revenues (expenses)	266,118	1,094,127
Income (loss) before contributions and transfers	(1,528,652)	(2,018,566)
<b>TRANSFERS AND CAPITAL CONTRIBUTIONS</b>		
Transfers in	50,000	135,110
Capital grants	1,132,864	2,447,279
Change in net assets	(345,788)	563,823
Total net assets - beginning	5,621,708	5,057,885
Total net assets - ending	\$5,275,920	\$5,621,708



On our way to work

## **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 pre- payment of the Annual Wastewater Disposal Charge to the County Sanitation Districts of the Los Angeles County (CSDLAC).



Installation of New Manhole Rings  
and Covers at the NRW Line



Test Sampling at Headquarters Wetlands

**INLAND EMPIRE UTILITIES AGENCY**  
**Nonreclaimable Wastewater Fund**  
**Schedule of Net Assets by Subfund**  
**June 30, 2008**  
(With Comparative Totals for June 30, 2007)

	Totals	
	2008	2007
<b>ASSETS</b>		
Current assets		
Cash and investments	\$ 10,669,002	\$19,401,141
Accounts receivable	1,989,108	1,694,860
Interest receivable	142,970	140,196
Taxes receivable	26,761	26,759
Other receivable	23,813	23,110
Due from other funds	9,000,000	0
Prepaid items	224,332	194,069
Total current assets	22,075,986	21,480,135
Noncurrent assets		
Restricted assets		
Assets held with trustee/fiscal agent	4,450,523	0
Total restricted assets	4,450,523	0
Capital assets		
Jobs in progress	4,566,320	649,508
Capital assets, net of accumulated depreciation	4,686,387	4,963,235
Total capital assets	9,252,707	5,612,743
Other assets		
Long-term receivables	158,883	182,696
Deferred costs	93,542	0
Intangible assets, net of accumulated amortization	23,997,219	23,311,223
Total other assets	24,249,644	23,493,919
Total noncurrent assets	37,952,874	29,106,662
Total assets	60,028,860	50,586,797

(Continued)

	Totals	
	2008	2007
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	760,873	327,941
Accrued liabilities	2,155,127	1,411,392
Retention deposits and escrows	291,969	0
Notes payable, due within one year	178,125	178,125
Interest payable	60,104	0
Total current liabilities	3,446,198	1,917,458
Noncurrent liabilities		
Long-term debt, due in more than one year (note 12)	7,502,424	0
Notes payable, due in more than one year	1,151,785	1,245,618
Total noncurrent liabilities	8,654,209	1,245,618
Total liabilities	12,100,407	3,163,076
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	24,511,135	27,500,223
Restricted for		
Bond operating contingency requirement	1,891,646	1,538,004
Capital construction	4,331,233	0
Bond debt service	119,290	0
Total restricted	6,342,169	1,538,004
Unrestricted	17,075,149	18,385,494
Total net assets	\$47,928,453	\$47,423,721

**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, 2008**  
(With Comparative Totals for June 30, 2007)

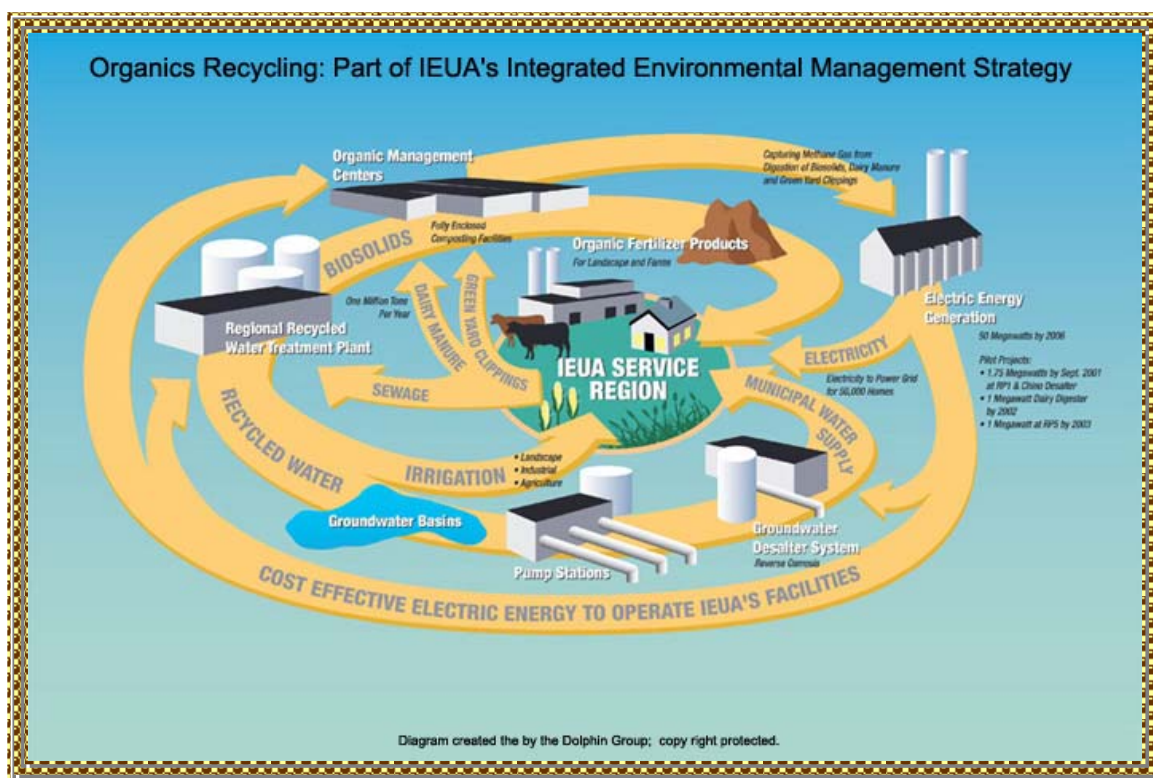
	Totals	
	2008	2007
<b>OPERATING REVENUES</b>		
Service charges	\$6,678,150	\$6,870,974
Total operating revenues	6,678,150	6,870,974
<b>OPERATING EXPENSES</b>		
Wastewater collection	4,577,222	452,487
Wastewater treatment	1,480	3,194,483
Administration and general	1,096,237	967,040
Depreciation and amortization	1,106,191	1,047,980
Total operating expenses	6,781,130	5,661,990
Operating income (loss)	(102,980)	1,208,984
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	862,446	750,127
Property tax revenue	8	1,515
Other nonoperating revenues	14,591	301,335
Interest on long-term debt	(84,291)	(99,340)
Other nonoperating expenses	(145,193)	(2,726)
Total nonoperating revenues (expenses)	647,561	950,911
Income (loss) before contributions and transfers	544,581	2,159,895
<b>TRANSFERS</b>		
Transfers in	0	0
Transfers out	(39,849)	(65,300)
Change in net assets	504,732	2,094,595
Total net assets - beginning	47,423,721	45,329,126
Total net assets - ending	\$47,928,453	\$47,423,721

# 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, 2008**

(With Comparative Totals for June 30, 2007)

	Totals	
	2008	2007
<b>ASSETS</b>		
Current assets		
Cash and investments	\$3,760,275	(\$6,400,550)
Accounts receivable	451,482	4,140,417
Interest receivable	27,333	4,304
Prepaid items	8,911	8,911
Total current assets	4,248,001	(2,246,918)
Noncurrent assets		
Restricted assets		
Assets held with trustee/fiscal agents	548,559	545
Total restricted assets	548,559	545
Capital assets		
Jobs in progress	26,071	30,172
Capital assets, net of accumulated depreciation	6,582,655	6,837,199
Total capital assets	6,608,726	6,867,371
Other assets		
Investment in joint venture	49,355,944	47,016,694
Deferred costs	39,701	115,221
Total other assets	49,395,645	47,131,915
Total noncurrent assets	56,552,930	53,999,831
Total assets	60,800,931	51,752,913

(Continued)

	Totals	
	2008	2007
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	175,643	193,185
Accrued Liabilities	10,000	0
Long-term debt, due within one year	312,881	280,932
Interest payable	11,583	28,965
Total current liabilities	510,107	503,082
Noncurrent liabilities		
Long-term debt, due in more than one year	11,834,777	11,394,482
Other noncurrent liabilities	37,524	37,524
Total noncurrent liabilities	11,872,301	11,432,006
Total liabilities	12,382,408	11,935,088
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	39,178,213	(4,808,044)
Restricted for		
Bond operating contingency requirement	0	1,798,720
Debt service	548,559	138,831
Total restricted	548,559	1,937,551
Unrestricted	8,691,751	42,688,318
Total net assets	\$48,418,523	\$39,817,825

**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, 2008**  
(With Comparative Totals for June 30, 2007)

	Totals	
	2008	2007
<b>OPERATING REVENUES</b>		
Service charges	\$1,898,678	\$1,172,934
Total operating revenues	1,898,678	1,172,934
<b>OPERATING EXPENSES</b>		
Operations and maintenance	2,135,278	4,441,793
Administration and general	393,255	954,365
Depreciation and amortization	258,645	327,894
Total operating expenses	2,787,178	5,724,052
Operating income (loss)	(888,500)	(4,551,118)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	150,227	182,065
Other nonoperating revenues	0	2,551,509
Other nonoperating (expenses)	(161,385)	(53,933)
Interest on long-term debt	(466,685)	(419,199)
Total nonoperating revenues (expenses)	(477,843)	2,260,442
Income (loss) before contributions and transfers	(1,366,343)	(2,290,676)
<b>TRANSFERS AND CAPITAL CONTRIBUTIONS</b>		
Transfers in	9,967,041	3,308,276
Transfers out	0	(8,201,513)
Change in net assets	8,600,698	(7,183,913)
Total net assets - beginning	39,817,825	47,001,738
Total net assets - ending	\$48,418,523	\$39,817,825

# **INLAND EMPIRE UTILITIES AGENCY ADMINISTRATIVE SERVICES FUND COMPARATIVE SCHEDULES**

## ***Administrative Services Fund***

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

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



**Headquarter Building A**



**Headquarters Connecting Bridge**



**Headquarters Building B**

**INLAND EMPIRE UTILITIES AGENCY**  
**Administrative Services Fund**  
**Schedule of Net Assets**  
**June 30, 2008**  
(With Comparative Totals for June 30, 2007)

	Totals	
	2008	2007
<b>ASSETS</b>		
Current assets		
Cash and investments	\$11,788,857	\$15,208,104
Accounts receivable	5,980,604	743,531
Interest receivable	100,594	145,950
Taxes receivable	319,640	258,895
Other receivables	98,098	82,247
Due from other funds	0	25,476
Inventory	1,579,594	1,497,598
Prepaid items	131,575	139,421
Total current assets	19,998,962	18,101,222
Noncurrent assets		
Restricted assets		
Assets held for 401(a) plan	1,095,604	891,682
Assets held with trustee/fiscal agent	0	31,689
Total restricted assets	1,095,604	923,371
Capital assets		
Land	20,829	20,829
Jobs in progress	3,090,936	6,115,084
Capital assets, net of accumulated depreciation	15,966,386	17,193,863
Total capital assets	19,078,151	23,329,776
Other assets		
Intangible assets, net of accumulated amortization	4,915,544	0
Long-term receivables	10,770	27,926
Deferred costs	758	758
Total other assets	4,927,072	28,684
Total noncurrent assets	25,100,827	24,281,831
Total assets	45,099,789	42,383,053

(Continued)

	Totals	
	2008	2007
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	2,665,692	1,262,375
Accrued liabilities	1,430,185	1,237,557
Retentions payable	25,950	0
Compensated absences	1,621,058	1,197,558
Current liabilities	5,742,885	3,697,490
Noncurrent liabilities		
Compensated absences	2,101,682	1,528,219
Liability for 401(a) plan	1,095,604	891,682
Other noncurrent liabilities	1,471,696	781,686
Total noncurrent liabilities	4,668,982	3,201,587
Total liabilities	10,411,867	6,899,077
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	23,994,452	23,329,775
Restricted for		
Bond operating contingency requirement	1,177,537	1,274,100
Total Restricted	1,177,537	1,274,100
Unrestricted	9,515,933	10,880,101
Total net assets	\$34,687,922	\$35,483,976

**INLAND EMPIRE UTILITIES AGENCY**  
**Administrative Services Fund**  
**Schedule of Revenues, Expenses and**  
**Changes in Fund Net Assets**  
**For the Fiscal Year Ended June 30, 2008**  
(With Comparative Totals for June 30, 2007)

	Totals	
	2008	2007
<b>OPERATING REVENUES</b>		
Service charges	\$0	\$0
Total operating revenues	0	0
<b>OPERATING EXPENSES</b>		
Administration and general	3,532,611	3,822,300
Depreciation and amortization	2,425,932	1,865,426
Total operating expenses	5,958,543	5,687,726
Operating income (loss)	(5,958,543)	(5,687,726)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	517,079	608,269
Property tax revenue	2,769,465	2,498,943
Other nonoperating revenues	903,791	1,261,873
Other nonoperating expenses	(175,135)	(27,587)
Total nonoperating revenues (expenses)	4,015,200	4,341,498
Income (loss) before contributions and transfers	(1,943,343)	(1,346,228)
<b>TRANSFERS AND CAPITAL CONTRIBUTIONS</b>		
Transfers in	3,185,187	4,027,933
Transfers out	(2,038,632)	(1,865,543)
Capital grants	734	77,988
Change in net assets	(796,054)	894,150
Total net assets - beginning	35,483,976	33,959,516
Prior period adjustment (note 18)		630,310
Total net assets - ending	\$34,687,922	\$35,483,976

**INLAND EMPIRE UTILITIES AGENCY**  
*Index of Statistical Section Schedules*

**June 30, 2008**

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.....102*
  - 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.....106*
  - a. *These schedules contain information to help the reader assess IEUA's most significant revenue sources.*
- (3) *Debt Capacity.....111*
  - 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.....116*
  - a. *These schedules contain service and infrastructure data to help the reader understand the information in IEUA's financial reports and how it relates to the services that IEUA provides and the activities it performs.*
- (5) *Demographic and Economic Information.....121*
  - 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, 1999 through 2008**  
**(Dollars in Thousands)**

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Operating Revenues</b>					
Service charges	\$38,021	\$36,132	\$31,716	\$27,091	\$25,579
Other charges	0	0	0	1,755	1,707
Total operating revenues	<u>38,021</u>	<u>36,132</u>	<u>31,716</u>	<u>28,845</u>	<u>27,286</u>
<b>Operating Expenses</b>					
Wastewater collection	5,361	1,086	1,143	1,052	967
Wastewater treatment	22,429	25,082	22,694	19,194	18,677
Wastewater disposal	12,722	7,434	6,235	5,851	4,749
Operations and maintenance	2,135	4,442	42	1,067	0
Administration and general	12,728	17,650	16,607	15,483	11,997
Depreciation and amortization	17,289	17,603	18,261	16,160	14,178
Total operating expenses	<u>72,665</u>	<u>73,297</u>	<u>64,982</u>	<u>58,807</u>	<u>50,568</u>
Operating income (loss)	<u>(34,644)</u>	<u>(37,165)</u>	<u>(33,266)</u>	<u>(29,962)</u>	<u>(23,282)</u>
<b>Nonoperating Revenues (Expenses)</b>					
Interest income	4,659	5,226	3,670	2,642	2,693
Property tax revenue	34,451	31,018	20,070	16,674	21,508
Wastewater Capital Connection Fees	16,626	24,671	20,896	27,958	28,451
Other nonoperating revenues	15,280	5,711	6,302	2,005	12,780
Interest on long-term debt	(10,101)	(8,419)	(7,029)	(6,613)	(6,669)
Other nonoperating expenses	(1,224)	(15,275)	(1,415)	(804)	(3,152)
Total nonoperating revenues (expenses)	<u>59,692</u>	<u>42,932</u>	<u>42,494</u>	<u>41,862</u>	<u>55,612</u>
Income (loss) before contributions and transfers	25,048	5,767	9,228	11,900	32,329
Capital Grants	1,095	3,380	2,493	975	221
Contribution in Aid	0	0	75	0	1,225
Transfers (to non-sewer funds)	(4,546)	(14,358)	(3,107)	(6,124)	(4,838)
Capital Contributions					
Change in net assets	<u>21,597</u>	<u>(5,210)</u>	<u>8,689</u>	<u>6,751</u>	<u>28,938</u>
Total net assets - beginning	<u>417,231</u>	<u>422,441</u>	<u>413,752</u>	<u>407,001</u>	<u>378,063</u>
Total net assets - ending	<u>\$438,827</u>	<u>\$417,231</u>	<u>\$422,441</u>	<u>\$413,752</u>	<u>\$407,001</u>

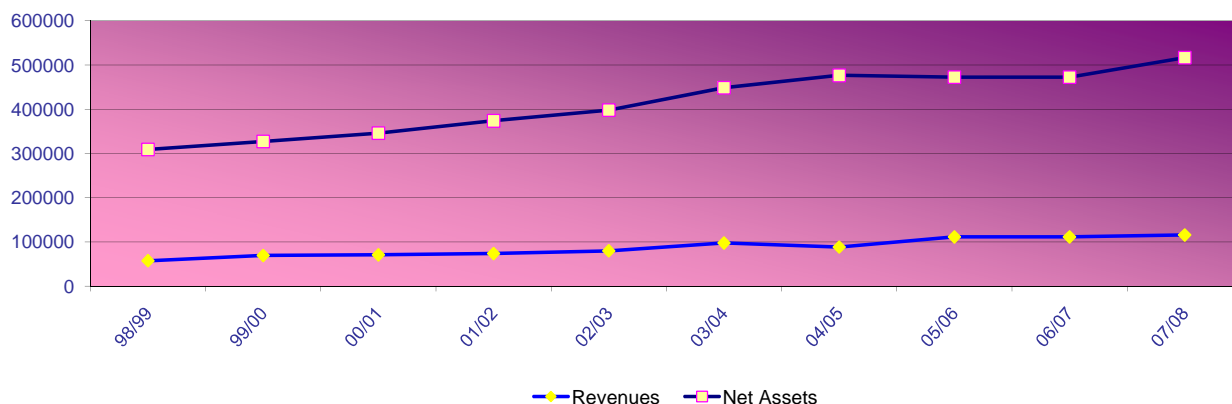
**INLAND EMPIRE UTILITIES AGENCY**  
**Historical Operating Results**  
**Wastewater Revenue Funds' Combined Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Fiscal Years Ended June 30, 1999 through 2008**  
**(Dollars in Thousands)**

<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
\$25,253	\$24,768	\$22,970	\$28,795	\$22,198
1,677	1,609	1,590	1,568	1,499
<u>26,930</u>	<u>26,376</u>	<u>24,560</u>	<u>30,363</u>	<u>23,697</u>
1,521	875	584	670	468
15,790	15,876	13,472	12,591	12,511
4,663	4,037	3,735	3,942	3,771
0	0			
10,937	8,514	8,691	12,684	6,505
13,614	13,555	13,167	12,392	10,641
<u>46,525</u>	<u>42,857</u>	<u>39,649</u>	<u>42,280</u>	<u>33,896</u>
<u>(19,595)</u>	<u>(16,481)</u>	<u>(15,089)</u>	<u>(11,917)</u>	<u>(10,199)</u>
3,735	4,449	6,345	5,574	3,802
19,292	17,269	15,933	15,135	14,268
23,999	20,135	17,672	15,028	
935	963	544	1,132	508
(7,134)	(7,038)	(6,915)	(6,546)	(5,643)
(908)	(86)	(662)	(113)	(106)
<u>39,919</u>	<u>35,693</u>	<u>32,917</u>	<u>30,210</u>	<u>12,829</u>
20,324	19,212	17,828	18,293	
79	1,010	0	0	0
0	0	0	0	
(3,888)	(4,080)	(6,085)	(328)	(265)
<u>16,515</u>	<u>16,142</u>	<u>11,743</u>	<u>17,965</u>	<u>2,365</u>
361,548	345,406	333,664	315,699	218,439
<u>\$378,063</u>	<u>\$361,548</u>	<u>\$345,407</u>	<u>\$333,664</u>	<u>\$220,804</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)**

	2007/08	2006/07	2005/06	2004/05	2003/04
<b>Operating revenues</b>					
Service charges	\$39,459	\$37,964	\$33,837	\$29,194	\$27,509
Other Charges	0	0	0	1,755	1,707
Recycled water sales	2,007	3,254	1,147	653	589
Total operating revenues	41,466	41,217	34,984	31,602	29,805
<b>Operating expenses</b>					
Wastewater collection	5,361	1,086	1,143	1,052	967
Wastewater treatment	22,429	25,082	22,694	19,194	18,677
Wastewater disposal	12,723	7,434	6,236	5,851	4,749
Administration and general	22,322	24,447	23,568	20,605	14,415
Depreciation and amortization	19,054	18,944	18,719	16,311	14,328
Operations and maintenance	2,175	7,431	67	1,688	1,788
Total operating expenses	84,063	84,423	72,427	64,701	54,924
Operating income (loss)	(42,598)	(43,206)	(37,443)	(33,099)	(25,119)
<b>Nonoperating revenues (expenses)</b>					
Interest income	5,006	5,325	3,868	2,903	2,874
Property tax revenue	34,451	31,018	20,070	16,674	21,508
Wastewater capital connection fees	16,626	24,671	20,895	27,958	28,451
Other nonoperating revenues	17,720	8,645	8,007	4,195	14,288
Interest on long-term debt	(11,278)	(9,540)	(7,796)	(7,138)	(6,876)
Other nonoperating expenses	(1,890)	(19,678)	(1,478)	(868)	(3,211)
Total nonoperating revenues (expenses)	60,634	40,441	43,566	43,722	57,034
Income (loss) before contributions and transfers	18,036	(2,765)	6,123	10,623	31,915
Capital grants	12,373	13,883	6,656	4,220	17,480
Contributions in aid	-	-	68	26	1,482
<b>Change in net assets</b>	<b>\$30,409</b>	<b>\$11,118</b>	<b>\$12,847</b>	<b>\$14,869</b>	<b>\$50,877</b>
<b>Net assets by component:</b>					
Invested in capital assets, net of related debt	355,794	330,897	339,320	300,869	256,642
Restricted for Debt service & Capital construction	123,620	66,071	59,447	101,162	138,875
Unrestricted	37,032	75,224	77,673	61,563	53,208
<b>Total net assets</b>	<b>\$ 516,446</b>	<b>\$ 472,193</b>	<b>\$ 476,440</b>	<b>\$ 463,594</b>	<b>\$ 448,725</b>

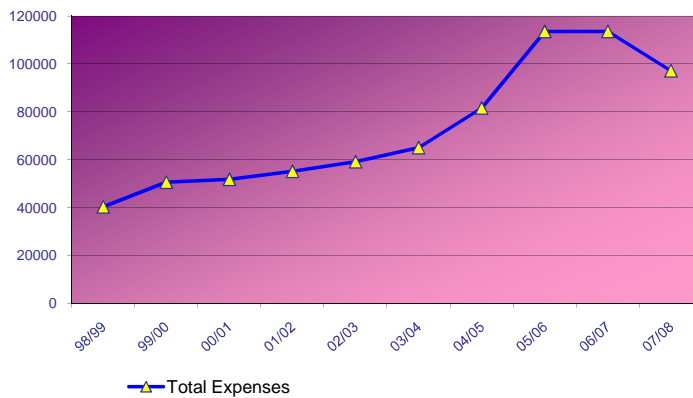
**Operating & Nonoperating Revenues & Net Assets**  
**Trends For the Past Ten Fiscal Years**



**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)**

2002/03	2001/02	2000/01	1999/00	1998/99
\$26,586	\$25,781	\$23,963	\$29,387	\$22,567
1,677	1,608	1,590	1,568	1,499
586	1,642	1,809	985	599
28,849	29,031	27,362	31,940	24,665
1,521	875	584	670	467
15,790	15,876	13,472	12,591	12,511
4,663	4,037	3,735	3,942	3,771
13,515	11,898	11,128	13,783	7,023
13,769	13,700	13,310	12,483	10,667
1,367	1,606	1,808	116	121
50,625	47,992	44,037	43,585	34,560
(21,776)	(18,961)	(16,675)	(11,645)	(9,895)
4,246	4,657	6,601	5,753	3,941
19,292	17,269	15,934	15,135	14,268
23,999	20,135	17,672	15,028	13,367
2,848	2,013	2,850	993	530
(7,355)	(7,037)	(7,153)	(6,921)	(5,644)
(1,176)	(160)	(668)	(113)	(106)
41,854	36,877	35,236	29,875	26,356
20,078	17,916	18,561	18,230	16,461
3,104	9,679	0	0	0
866	188	75	0	0
\$24,048	\$27,783	\$18,636	\$18,230	\$16,461
219,305	234,640	198,171	171,249	217,581
127,349	102,648	97,913	89,535	60,047
51,193	36,511	6,488	18,424	31,522
\$ 397,847	\$ 373,799	\$ 302,572	\$ 279,208	\$ 309,150

**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
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
2007/08	1,281,723	829,631	1,133,832	2,048,768
Percentage	14.2%	9.2%	12.6%	22.7%

**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 2007/08 are subject to further adjustment after audit.

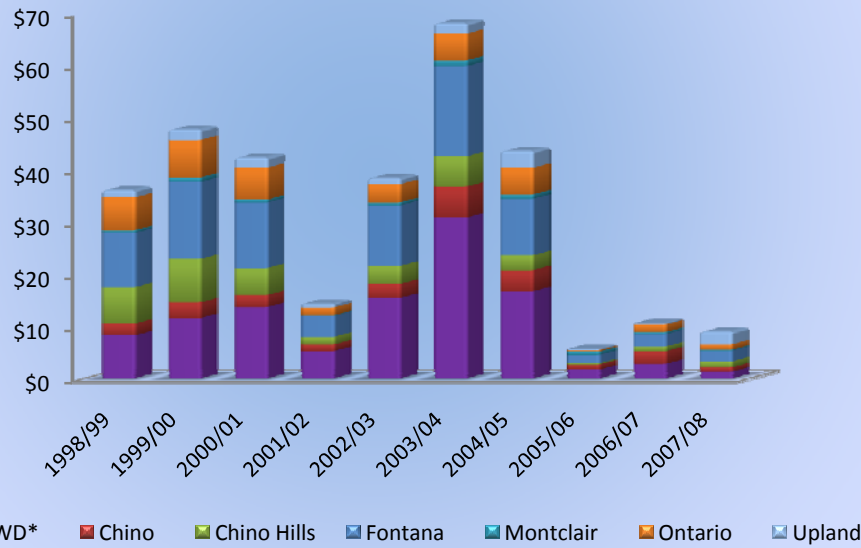
\*Cucamonga Valley Water District

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

Fiscal Year	Montclair	Ontario	Upland	Total
1998/99	483,396	6,279,099	1,449,551	36,177,647
1999/00	827,955	7,236,695	1,991,221	47,783,114
2000/01	561,524	6,144,974	1,991,221	42,448,584
2001/02	100,714	1,517,605	734,711	14,388,401
2002/03	560,484	3,531,167	1,177,653	38,478,058
2003/04	1,109,833	5,132,842	2,041,227	68,204,314
2004/05	831,738	5,137,652	3,244,291	43,669,962
2005/06	645,129	241,894	259,375	5,668,934
2006/07	400,636	1,478,984	243,823	10,591,879
2007/08	192,565	1,044,450	2,484,719	9,015,687
Percentage	2.1%	11.6%	27.6%	100.0%

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

Millions



**INLAND EMPIRE UTILITIES AGENCY**  
**Wastewater Revenue Funds' Capital Requirements**  
**For the Ten Fiscal Years Ending June 30, 2017\***  
**(Dollars in Thousands)**

<u>Project Description</u>	<u>Actual Thru</u>	<u>Projected</u>	
	<u>07/08</u>	<u>08/09</u>	<u>09/10</u>
Replacement Projects			
All Facilities Capital Upgrade	\$0	\$0	\$0
RP-1 Asset Replacement	654	1,165	408
RP1 Aeration Basin Modification	561	1,377	0
Various Replacement Projects	286	2,286	328
Total Replacement Projects	1,501	4,828	736
Equipment Projects			
Install Blower #4 at RP-1	554	300	0
Gas Cleaning System for RP1, RP2, & RP5	77	3,463	
Various Equipment Projects	133	850	100
Total Replacement Projects	764	4,613	100
Construction Projects			
RP5 Phase II Expansion	1,313	298	463
RP5 Utility Water Pipeline	20,807	3,146	3,745
RP-2 Dewatered Cake Storage System & Energy Efficiency Improvement	312	759	0
San Bernardino Ave. Pump Station	5,809	3,000	0
RP5 Renewable Energy Generation Efficiency Project	20,241	1,555	0
RP4- Liquids Expansion to 14 MGD	38,483	735	0
RP1 Dewatering Facilities Expansion	371	2,009	9,519
San Bernardino Pump Station By-Pass	8,153	0	0
New Operations Laboratory	0	127	0
RP1 Facilities Improvements	6,680	3,030	1,832
Upland Interceptor Relief, Phase II	16,022	0	0
RP5 Warehouse/Maintenance Facility	0	0	0
CCWRF Aeration System Modification	4,970	0	0
CCWRF Filter & Contact Tank Exchange	426	272	0
RP1 Odor Control - Phase I	6,784	700	0
RP1 to RP5 By Pass	16,340	0	0
RP1 3-Phase Digestion Improvement	8,370	0	0
RP1 Modernization	225	0	0
RP4 Land Acquisition	2,041	0	0
Miscellaneous RC Construction Projects	253	0	0
Various Construction Projects	1,241	4,371	454
Total Construction Projects	158,841	20,002	16,013
<b>Total Projected Capital Costs</b>	<b>\$161,106</b>	<b>\$29,443</b>	<b>\$16,849</b>

\* 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 2016/17.

**INLAND EMPIRE UTILITIES AGENCY**  
**Wastewater Revenue Funds' Capital Requirements**  
**For the Ten Fiscal Years Ending June 30, 2017\* (continued)**  
**(Dollars in Thousands)**

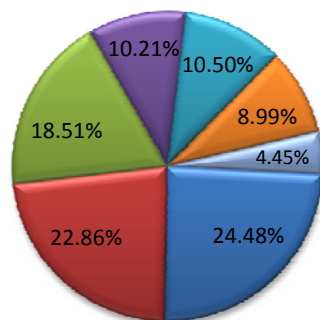
<b>Projected</b>							<b>Total</b>
<b><u>10/11</u></b>	<b><u>11/12</u></b>	<b><u>12/13</u></b>	<b><u>13/14</u></b>	<b><u>14/15</u></b>	<b><u>15/16</u></b>	<b><u>16/17</u></b>	
\$0	\$5,000	\$5,000	\$5,000	\$0	\$0	\$0	\$15,000
3,400	2,700	2,000	50	250	0	0	10,627
0	0	0	0	0	0	0	1,938
1,039	89	604	558	0	0	0	5,190
4,439	7,789	7,604	5,608	250	0	0	32,755
0	0	0	0	0	0	0	854
304	350	350	0	0	0	0	2,087
304	350	350	0	0	0	0	2,941
1,000	0	0	1,200	10,000	5,000	0	19,274
0	0	0	0	0	0	0	27,698
0	0	0	0	0	0	0	1,071
0	0	0	0	0	0	0	8,809
0	0	0	0	0	0	0	21,796
0	0	0	0	0	0	0	39,218
11,112	0	0	0	0	0	0	23,011
0	0	0	0	0	0	0	8,153
6,637	6,637	0	0	0	0	0	13,401
3,941	3,941	0	0	0	0	0	19,424
0	0	0	0	0	0	0	16,022
0	2,939	0	0	0	0	0	2,939
0	0	0	0	0	0	0	4,970
340	1,000	0	0	0	0	0	2,038
0	0	0	0	0	0	0	7,484
0	0	0	0	0	0	0	16,340
0	0	0	0	0	0	0	8,370
0	0	0	0	0	0	0	225
0	0	0	0	0	0	0	2,041
0	0	0	0	0	0	0	253
5,992	6,254	277	0	249	1,000	7,000	26,838
29,022	20,771	277	1,200	10,249	6,000	7,000	269,375
<b>\$33,765</b>	<b>\$28,910</b>	<b>\$8,231</b>	<b>\$6,808</b>	<b>\$10,499</b>	<b>\$6,000</b>	<b>\$7,000</b>	<b>\$305,071</b>

**INLAND EMPIRE UTILITIES AGENCY**  
**Regional Wastewater Funds**  
**Service Charge Revenue and Rates by Contracting Agency**  
**For the Fiscal Year Ended June 30, 2008**

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 2007/2008.

Contracting Agency	Total EDU's	Rate	Service Charge Revenue	% of Service Charge Revenue
Cucamonga Valley Water District	756,408	9.19	\$6,951,390	24.48%
City of Ontario	706,528	9.19	\$6,492,996	22.86%
City of Fontana	572,108	9.19	\$5,257,675	18.51%
City of Upland	315,544	9.19	\$2,899,850	10.21%
City of Chino	324,314	9.19	\$2,980,445	10.50%
City of Chino Hills	277,724	9.19	\$2,552,282	8.99%
City of Montclair	137,390	9.19	\$1,262,610	4.45%
<b>Total Contracting Agencies' Service Charge Revenue</b>	<b>3,090,016</b>		<b>28,397,248</b>	<b>100.00%</b>

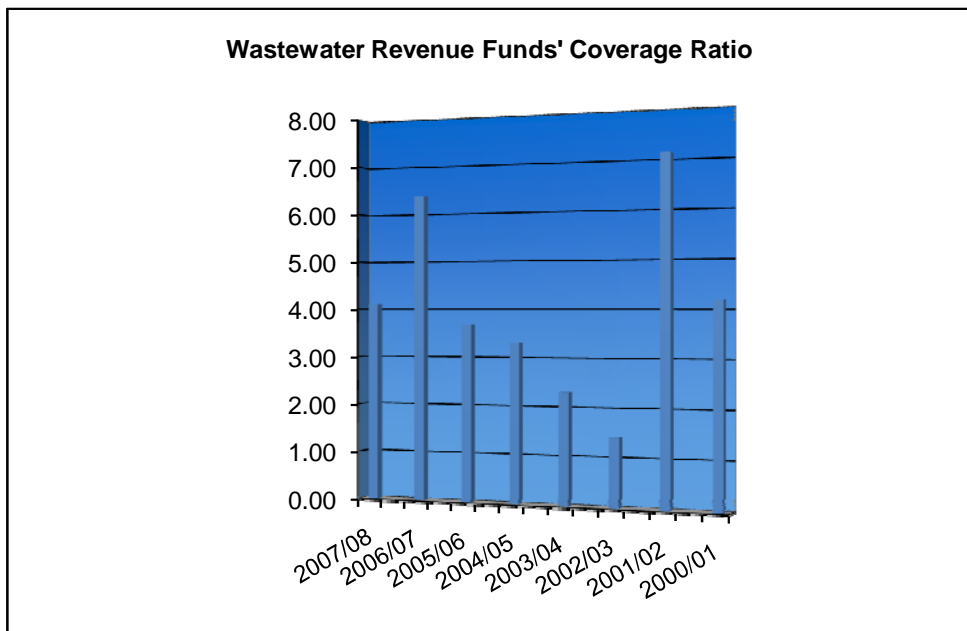
**Total Service Charge Revenue by Contracting Agency**  
**For the Fiscal Year Ended June 30, 2008**



- 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 Eight Fiscal Years**

<b>Fiscal Year</b>	<b>Funds Available</b>	<b>Debt Service Payments</b>	<b>Debt Coverage Ratio</b>
2007/08	\$30,944,589	\$7,532,623	4.11
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, 2008**  
**(With Comparative Totals for the Fiscal Year Ended June 2007)**

	<u>2008</u>	<u>2007</u>
<u>Revenues:</u>		
Wastewater System Service Charges	\$ 29,444,443	\$ 28,088,263
Wastewater Capital Connection Fees	16,625,720	24,670,848
Property Tax	34,451,121	31,018,195
NRW System Service Charges	6,678,150	6,870,973
Interest	4,814,488	5,239,104
Recycled Water Sales	2,007,144	3,253,546
Composter Services	1,898,678	1,172,933
Other	1,180,499	4,406,392
Total Revenues	<u>\$ 97,100,243</u>	<u>\$ 104,720,254</u>
<u>Operation and Maintenance Costs:</u>		
Wastewater Treatment	\$ 22,429,388	\$ 25,081,824
Administration and General	23,507,828	20,973,394
Wastewater Disposal	12,722,254	7,433,865
Wastewater Collection	5,360,905	1,085,768
Operations and maintenance	2,135,279	1,385,106
Other	0	491,826
Total Operation and Maintenance Costs:	<u>\$ 66,155,654</u>	<u>\$ 56,451,783</u>
Revenues Available to Pay Senior Debt Service	\$ 30,944,589	\$ 48,268,471
<u>Senior Obligation Debt Service</u>		
1994 Installment Payments	\$ 6,413,910	\$ 6,456,983
1999 Installment Payments	1,118,713	1,132,275
Total Senior Obligation Debt Service	<u>\$ 7,532,623</u>	<u>\$ 7,589,258</u>
1. Excludes Op contribution-IERCA		
<b>Senior Obligation Debt Service Coverage</b>	<b>4.11</b>	<b>6.36</b>
2. Excludes Desalter Expenses		
Net Revenues	\$ 23,411,966	\$ 40,679,213
<u>Parity Obligation Debt Service</u>		
2005A Installment Purchase Payments	\$ 1,157,512	\$ 1,156,863
2002 Installment Payments	1,797,840	3,132,516
2008A Installment Payments	1,493,056	0
2008B Installment Payments	554,505	0
Total Parity Obligation Debt Service	<u>\$ 5,002,913</u>	<u>\$ 4,289,379</u>
<b>Parity Obligation Debt Service Coverage</b>	<b>4.68</b>	<b>9.48</b>
Net Revenues	\$ 18,409,053	\$ 36,389,834
<u>Subordinate Obligations</u>		
State Revolving Fund Loan	\$ 972,231	\$ 1,088,839
SAWPA Sari Capacity Purchase	267,188	267,188
Commercial Paper Program	1,357,489	1,711,434
Total Subordinate Obligations	<u>\$ 2,596,908</u>	<u>\$ 3,067,462</u>
<b>Other Debt Service Coverage</b>	<b>7.09</b>	<b>11.86</b>
<b>Remaining Net Revenue</b>	<b><u>\$ 15,812,145</u></b>	<b><u>\$ 33,322,373</u></b>

**AGENCY SYSTEM**  
**Wastewater Revenue Funds' Debt Coverage Ratio**  
**For Fiscal Years Ended June 30, 2008**  
**(With Comparative Totals for the Fiscal Year Ended June 2007)**

The Agency's wastewater funds, per the 1994 & 1999 Revenue Bond Debentures, are required to maintain a minimum specified debt coverage ratio. This ratio must be at least 1.20 times the sum of all obligation service on all parity obligations in the sewer funds. As reflected in the above calculation, the Agency met this requirement with a ratio of 4.78 and 6.36 for the Fiscal Years Ended June 30, 2008 and June 30, 2007, 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 March 2008, the Agency issued the Inland Empire Utilities Agency Variable rate Demand Revenue Refunding Bonds, Series 2008B to refund all of the outstanding 2002A 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 November 2007, the Chino Basin Regional Financing Authority issued the Inland Empire Utilities Agency Revenue Bonds, Series 2008A

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 2007/08 amended budget for operating and maintenance expenses for four months was \$21,969,858
- > As of the Fiscal Year Ended June 30, 2008, the Agency had reserves of \$54,132,878. This balance exceeded the stated minimum requirement.

We have revised FY 2007/08 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, 2008**

2007/2008 Assessed Valuation: \$54,753,494,802 (after deducting \$25,876,816,659 Redevelopment Incremental Valuation)

<b><u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u></b>	<b><u>% Applicable (1)</u></b>	<b><u>Debt 6/30/08</u></b>
Metropolitan Water District	3.102%	\$10,150,209
Chaffey Community College District	99.528	174,990,096
San Bernardino Community College District	0.249	399,738
Chino Valley Unified School District	100.	144,649,999
Colton Joint Unified School District	2.536	2,480,712
Fontana Unified School District	97.026	199,776,909
Rialto Unified School District	0.091	45,273
Upland Unified School District	99.807	57,810,100
Chaffey Union High School District	99.686	104,824,813
Alta Loma School District	99.805	22,715,491
Central School District	100.	12,077,255
Mountain View School District & School Facilities Improvement District No. 1	100.	16,029,416
Ontario-Montclair School District	100.	32,059,640
Inland Empire Utilities Agency	100.	0 (2)
City of Chino Community Facilities Districts	100.	121,735,000
City of Chino Hills Community Facilities Districts	100.	75,140,000
Etiwanda School District Community Facilities Districts	100.	105,355,000
Upland Unified School District Community Facilities District No. 99-1	100.	4,924,000
City of Fontana Community Facilities Districts	4.930-100.	96,716,094
Mountain View School District Community Facilities District	100.	6,430,000
San Bernardino County Community Facilities Districts No. 2002-1	100.	23,465,000
City of Ontario Community Facilities District	100.	7,155,000
City of Rancho Cucamonga Community Facilities Districts	100.	106,240,000
City of Upland Community Facilities Districts	100.	43,580,000
City of Chino 1915 Act Bonds	100.	2,795,000
City of Chino Hills 1915 Act Bonds	100.	8,065,000
City of Ontario 1915 Act Bonds	100.	22,072,880
City of Rancho Cucamonga 1915 Act Bonds	100.	4,090,000
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b><u>\$1,405,772,625</u></b>
<b><u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u></b>		
San Bernardino County General Fund Obligations	44.790%	\$354,629,304
San Bernardino County Pension Obligations	44.790	308,301,032
San Bernardino County Flood Control General Fund Obligations	44.790	53,712,168
Chaffey Community College District Certificates of Participation	99.528	12,655,648
Chino Valley Unified School District Certificates of Participation	100.	45,805,000
Colton Joint Unified School District Certificates of Participation	2.536	183,987
Fontana Unified School District Certificates of Participation	97.026	52,597,795
Rialto Unified School District Certificates of Participation	0.091	13,914
Upland Unified School District Certificate of Participation	99.807	1,741,632
Cucamonga School District Certificate of Participation	100.	12,550,000
Ontario-Montclair School District Certificate of Participation	100.	5,190,000
Chaffey Union High School District Certificates of Participation	99.686	508,399
City of Chino Hills	100.	22,040,000
City of Fontana Certificates of Participation	93.739	55,948,122
City of Montclair General Fund Obligations	100.	30,155,000
City of Ontario General Fund Obligations	100.	65,904,577
Other City General Fund Obligations	4.912&100.	2,111,025
Monte Vista County Water Authority	100.	275,000
West Valley Vector Control District Certificates of	100.	<u>3,945,000</u>
<b>TOTAL OVERLAPPING GENERAL FUND</b>		<b><u>\$1,028,267,603</u></b>
<b>COMBINED TOTAL DEBT</b>		<b><u>\$2,434,040,228</u></b> (3)

**INLAND EMPIRE UTILITIES AGENCY**  
**Computation of Direct and Overlapping Bonded Debt, (continued)**  
**As of June 30, 2008**

Ratios to 2007-08 Assessed Valuation:

Direct Debt .....	0.00%
Total Direct and Overlapping Tax and Assessment Debt.....	1.74%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt.....	4.45%
<u>State School Building Aid Repayable As Of 6/30/08:</u> .....	\$0

*Source: California Municipal Statistics, Inc.*

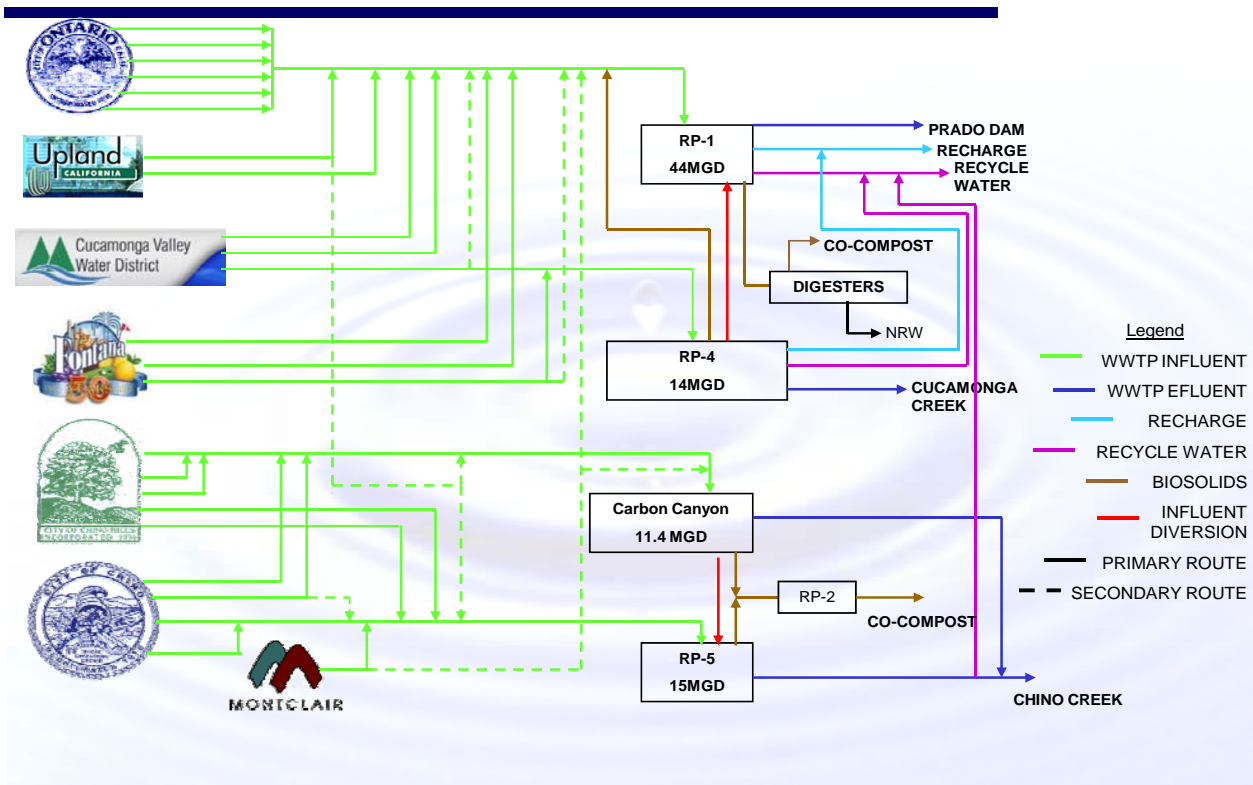
**Footnotes:**

- (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, 2008**

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**



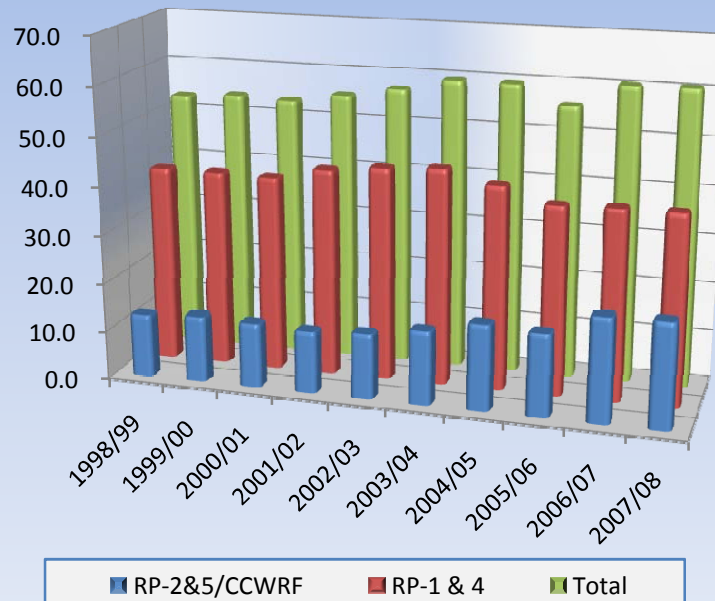
The following table presents the current design capacities and flows of the Agency's wastewater treatment as of June 30, 2008:

Facility	Design Capacity (MGD)	Average Flow (MGD)	Average Flow as % of Design Capacity
RP-1	44.0	37.1	84.4%
RP-2/RP-5	15.0	11.1	74.2
RP-4	14.0	2.0	13.9
CCWRF	11.4	10.4	91.4
<b>Total</b>	<b>84.4</b>	<b>60.6</b>	<b>71.8%</b>

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

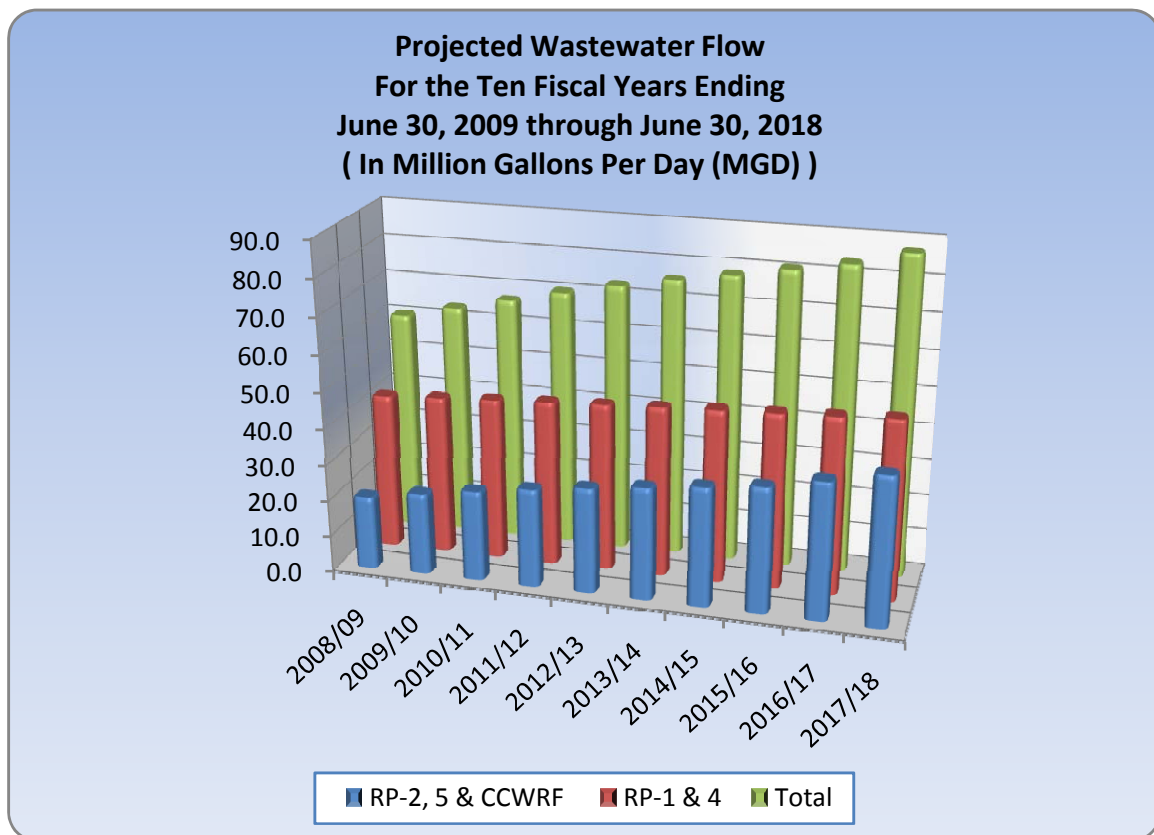
Fiscal Year	RP-1 & 4 (MGD)	RP-2&5/CCWRF (MGD)	Total (MGD)
1998/99	40.4	12.9	53.3
1999/00	40.4	13.6	54.0
2000/01	40.2	13.3	53.5
2001/02	42.5	12.8	55.3
2002/03	43.7	13.5	57.2
2003/04	44.4	15.2	59.6
2004/05	41.9	17.7	59.6
2005/06	38.8	17.0	55.8
2006/07	39.1	21.4	60.5
2007/08	39.1	21.5	60.6

**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, 2009 through June 30, 2018\***  
**( In Million Gallons Per Day (MGD) )**

<b>Fiscal Year</b>	<b>RP-1 &amp; 4 (MGD)</b>	<b>RP-2, 5 &amp; CCWRF (MGD)</b>	<b>Total (MGD)</b>
2008/09	43.7	20.1	63.8
2009/10	44.6	22.6	67.1
2010/11	45.4	25.0	70.4
2011/12	46.1	27.2	73.3
2012/13	46.9	29.2	76.0
2013/14	47.6	31.0	78.6
2014/15	48.3	32.9	81.1
2015/16	48.9	34.6	83.5
2016/17	49.8	37.7	87.5
2017/18	50.6	40.9	91.6



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

**INLAND EMPIRE UTILITIES AGENCY**  
**Operating Indicators**  
**FY 2007/08 Staffing Allocations**  
**As of June 30, 2008**

**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	39.2
Total Staffing in FTE *	306.0

*Source:* IEUA FY 2007/08 Adopted Budget, IEUA Position Control Report

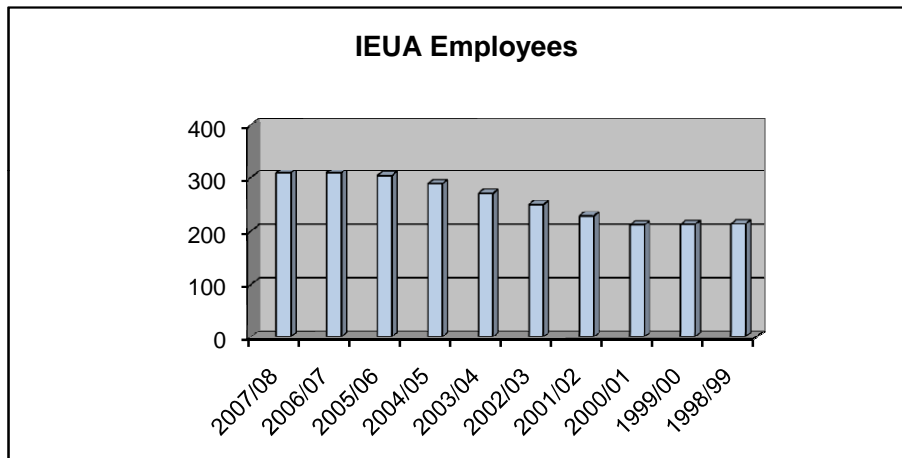
The above allocations are based on the FY 2007/08 labor distribution for all departments and staffing positions.

Budgeted employee = 308, FTE = 306.0

*\*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>
2007/08	308
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



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.

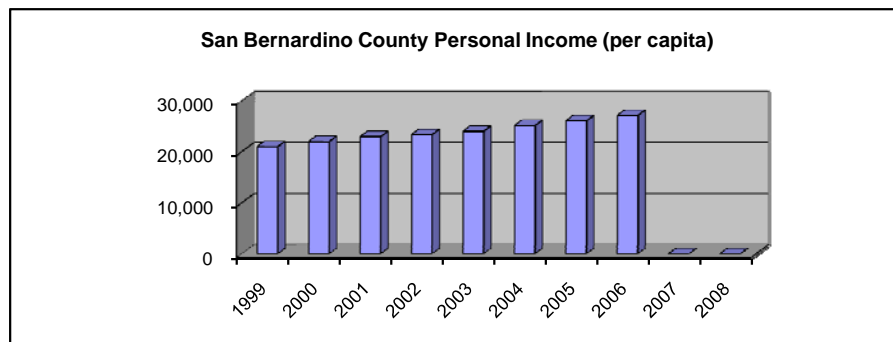
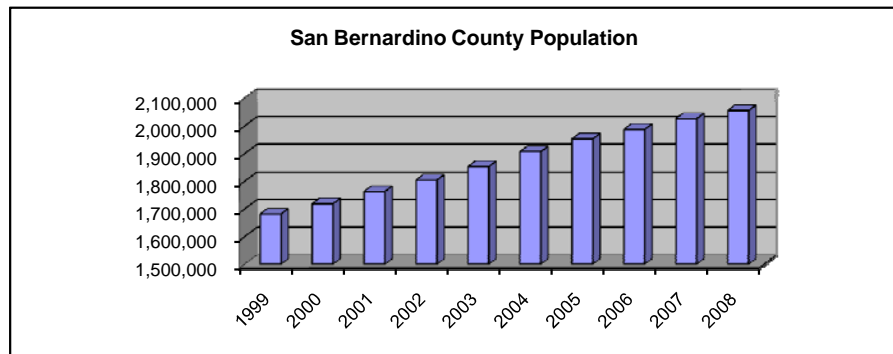
**Pipeline System**

	<u>Miles</u>	<u>Percentage</u>
<b>Regional Domestic Sewer</b>	91.85	39.66%
<b>NRW Lines</b>	72.74	31.41%
<b>SARI Lines</b>	4.91	2.12%
<b>Desalter Lines</b>	3.96	1.71%
<b>Recycled Water Lines</b>	58.14	25.10%
<b>TOTAL</b>	<u>231.60</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)
1999	1,681,601	35,314,519	21,001
2000	1,718,840	37,772,136	21,975
2001	1,762,968	40,431,224	22,934
2002	1,804,283	42,140,603	23,356
2003	1,853,248	44,452,948	23,987
2004	1,907,138	47,921,959	25,128
2005	1,953,229	50,916,445	26,068
2006	1,987,505	53,928,618	27,134
2007 (2)	2,026,325	N/A	N/A
2008 (2)	2,055,766	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	7,690
Kaiser Medical Center	Fontana	5,682
Fontana Unified School District	Fontana	4,584
United Parcel Service	Ontario	3,500
Chino Unified School District	Chino	3,200
California Institution for Men	Chino	2,327
San Antonio Community Hospital	Upland	2,000
Montclair School District	Montclair	2,000
Chaffey Joint Union High School District	Montclair	1,930
Pro & Sons Inc.	Ontario	1,575

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

Note: No data available prior to most recent information.

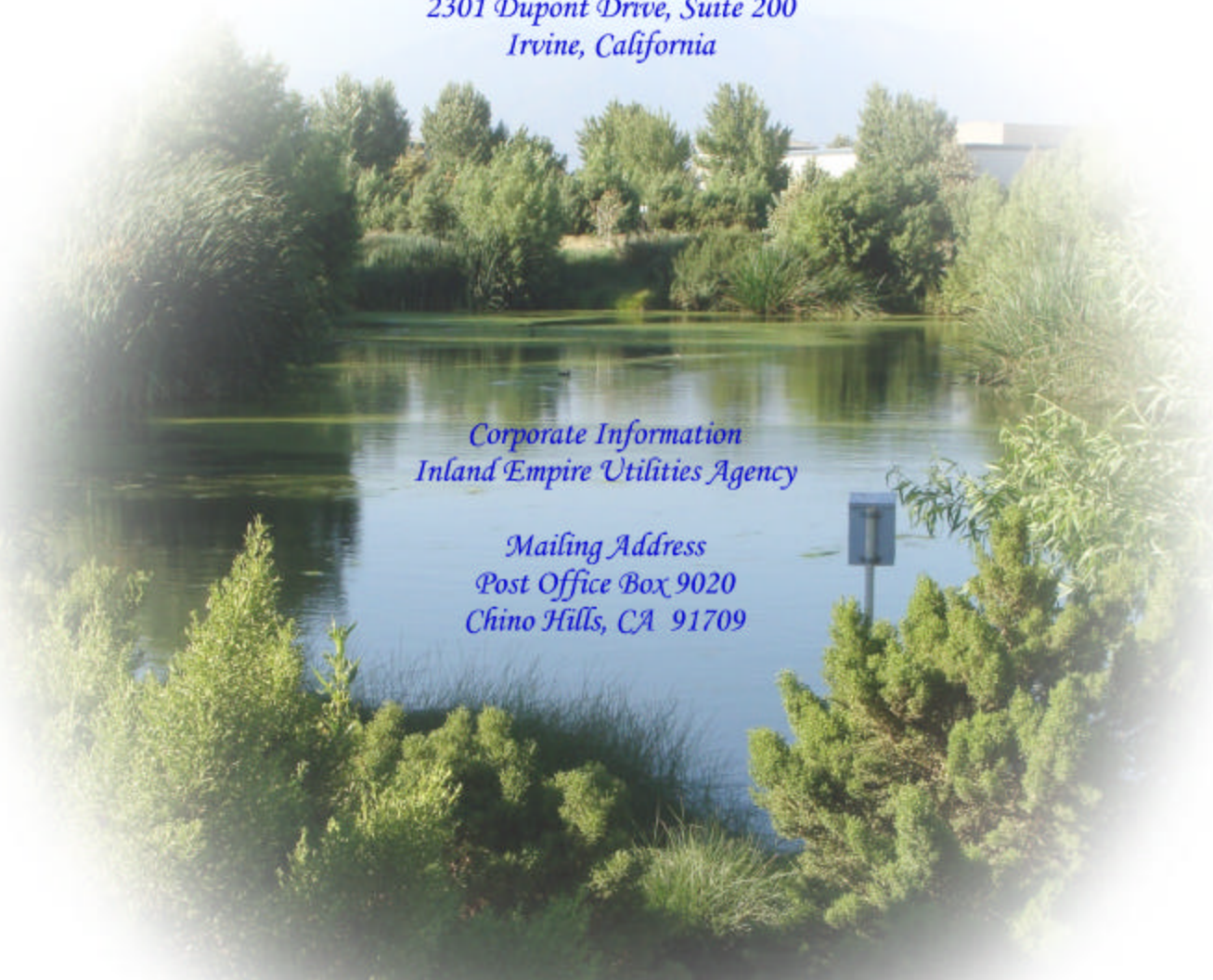


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*Special Thanks to the IEUA Employees Who Contributed*  
*Photographs, Articles, and their Expertise for this*  
*Comprehensive Annual Financial Report*