Inland Empire Utilities Agency Comprehensive Annual Financial Report

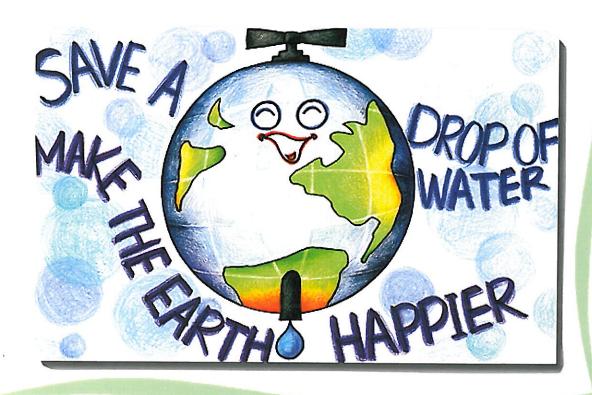
Fiscal Year Ended June 30, 2010







A Municipal Water District Chino, California



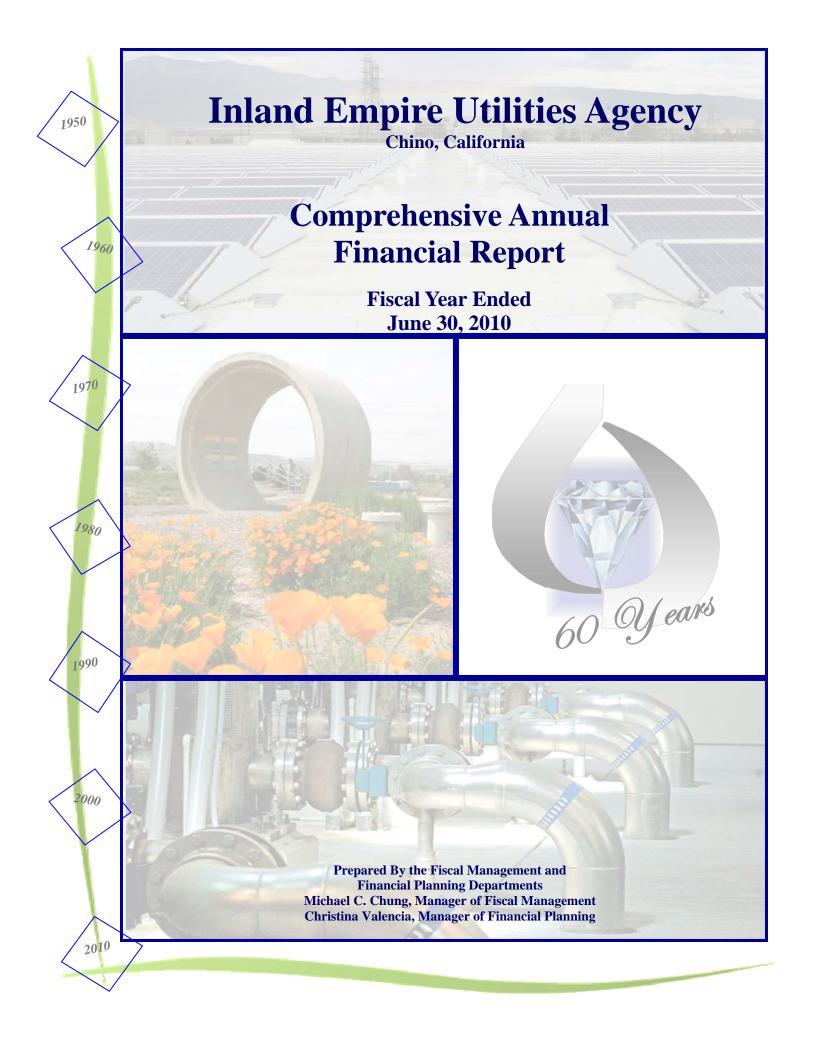
Artist: Grace Moon, 4th Grade

Evergreen Elementary / Kristine Kobzeff

Walnut Valley School District

Walnut Valley Water District

Three Valleys Water District



Agency Vision

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

Agency Mission

The mission of the Agency is:

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

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

Agency Value

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

General Manager's Message



Thomas A. Love General Manager

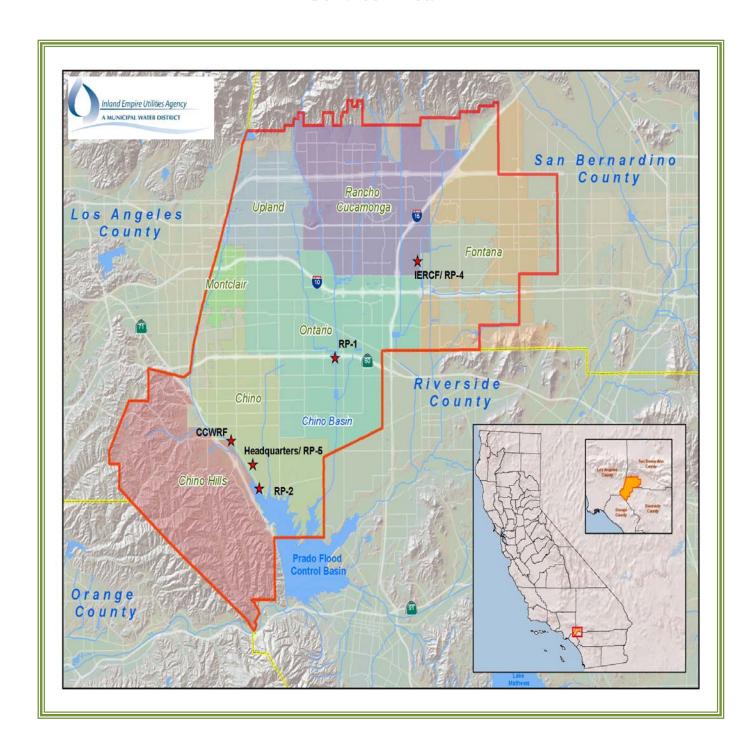
This year the Agency celebrates another milestone – our Diamond Anniversary - 60 years of service to the communities in the contract service area. Throughout the past decades, external environmental factors such as population growth, economic development, changing agricultural needs in the service area, and especially the long term drought on Southern California have caused the Agency's vision, mission and goals to evolve and expand.

The Executive Management Team, with more than 60+ collective year's leadership experience in the water and wastewater arena, takes pride in providing prudence in managing the operations of the Agency. Their message is clear that, together with all of the dedicated employees of Inland Empire Utilities Agency, and our contracting member agencies, we will continue to focus on the most efficient, cost-effective ways to serve the citizens of the Inland Empire Region.

In June 2000 Governor Gray Davis of California named Inland Empire Utilities Agency to the California Advisory Drought Planning Panel. The Panel was then mandated by the CALFED Bay-Delta Framework Water Action Plan approved by Governor Davis and U.S. Secretary of the Interior Bruce Babbitt. Governor Davis called it the "largest and most comprehensive ecosystem restoration and water management program in the world." A decade later, with significant investments in recycled water, conservation, biosolids composting and renewable energy, Inland Empire Utilities Agency continues to be a part of this unprecedented effort between state and federal governments, local agencies, the public and private businesses to build a framework for managing California's most precious natural resource, and is honored to do so. In the ensuing years, energy management and renewable energy development, recycled water distribution system expansion and increased water conservation will continue to be important initiatives.

The Executive Management Team is proud of the Agency employees for their continued commitment to the Agency's consistent track record of success. As we celebrate this anniversary and enter the next decade, the Agency will continue to strive for organizational excellence, operational efficiency and effectiveness. The Team also expresses confidence that the Inland Empire Utilities Agency can continue to be a leader in utility operations and the development of "state-of-the-art" water, wastewater, recycled water and renewable energy projects.

INLAND EMPIRE UTILITIES AGENCY Service Area



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

INLAND EMPIRE UTILITIES AGENCY Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2010

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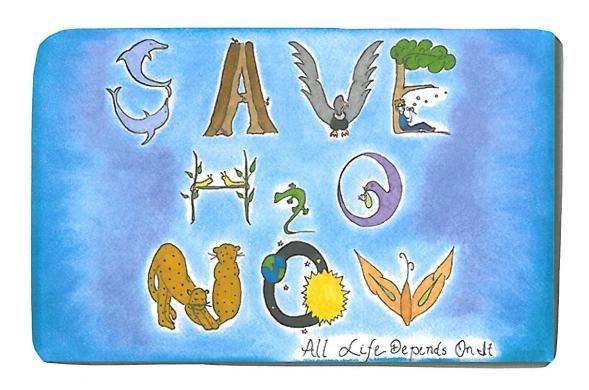
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Artist: Kile Young, 6th Grade

Fairmont School / Robin Gormin

City of Anaheim





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

December 15, 2010

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

State law and local ordinances require the Agency to annually publish a comprehensive report of its financial condition and activities, audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, it is with pleasure that we present The Comprehensive Annual Financial Report of the Inland Empire Utilities Agency (referred to as the Agency) for the fiscal year ended June 30, 2010.

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, 2010, 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, 2010 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.

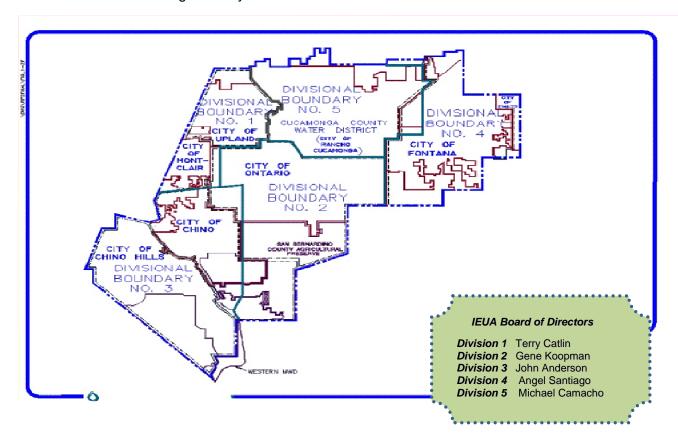
GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Agency's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

Sixty Years of Excellence in Water Resources & Quality Management

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.

<u>Up to the Present</u> (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

Regional Plant No. 1 (RP-1) is located south of the 60 freeway at Archibald in the City of Ontario. This facility was originally commissioned in 1948 and has undergone several expansions to increase the design wastewater treatment, and biosolids treatment, capacity. RP-1 currently processes approximately 33.3 million gallons per day (mgd) of wastewater.



Regional Plant No. 2



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

Carbon Canyon Wastewater Recycling Facility

Carbon Canyon Wastewater Facility (CCWRF) is located near the intersection of Central Avenue and Chino Hills Parkway in the City of Chino, and has been in operation since May 1992. Liquids are treated at CCWRF, while the solids removed from the waste flow are treated at RP-2. CCWRF treats an average flow of approximately 9.9 mgd.



Up to the Present (continued):

Regional Plant No. 4

Regional Plant No. 4 (RP-4) is located in the northeastern section of the service area in the City of Rancho Cucamonga, and has been in operation and producing recycled water since 1997. RP-4 is operated in conjunction with RP-1 to provide recycled water to users. In late FY 2008/09 the plant expansion project was completed bringing the capacity from 7 mgd to 14 mgd, and it processes flow of approximately 6.5 mgd.



Regional Plant No. 5



Regional Plant No. 5 (RP-5) is located in the Southwestern area of the Agency's boundary in the City of Chino. This facility was originally commissioned in 2000. Currently RP-5 processes approximately 10.1 mgd. RP-5 includes several treatment processes that contribute to providing a quality recycle water pursuant to the State of California Title 22 regulations.

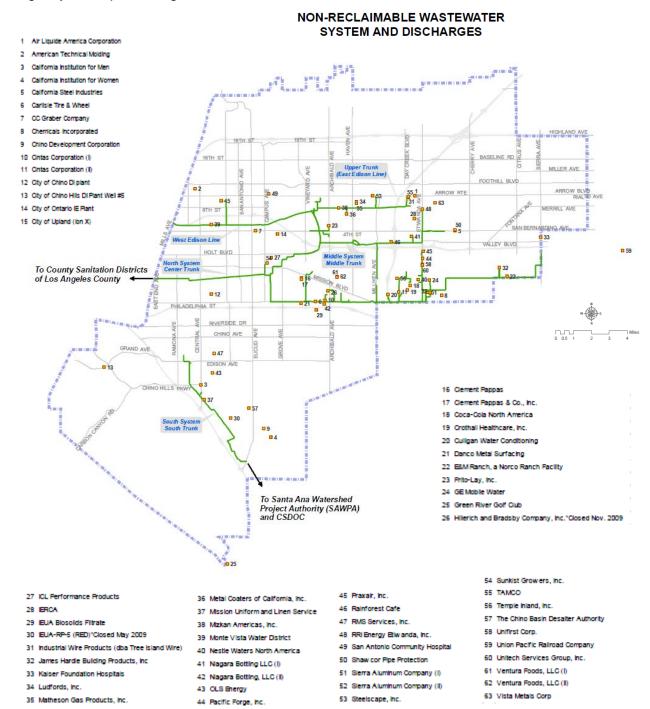
In addition to the treatment plants, the Agency owns and operates a number of trunk lines and interceptor sewers into which the Cities' sewers discharge their wastewater.

The Agency operates the 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 treatment plants located in Los Angeles and Orange counties, and eventual discharge to the Pacific Ocean.

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

Up to the Present (continued):

As of June 30, 2010, approximately 63 industries discharged the brine wastewater generated from their process. Some of the largest industries are California Steel Industries, Frito Lay Inc., Temple Inland Paperboard and Packaging Inc., James Hardie Building Products, Mission Uniform and Linen Services, Crothall Sunkist Growers, Ecolochem/GE Mobil, Clement Pappas, Cintas #1 and Cintas #2, Chino Desalter I, Nestle (Arrowhead) Water, Unifirst, Sierra Aluminum, and Niagara Bottling. These industries are directly connected to the Agency's NRWS. The NRWS also serves approximately 15 industrial customers that truck their wastewater to the Agency's dump discharge stations.



<u>Up to the Present</u> (continued):

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

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

In addition to the treatment processes, in fiscal year 2009/10 the Agency completed construction and installation of the solar field at Regional Plant No. 5.

♦ RP-5 – 3.5 MW Solar Power Field

This Solar Power Field includes solar cells installed at several IEUA facilities, including Regional Plant No. 5 (as pictured here at the RP-5 Project Dedication). Just behind IEUA's headquarters is a 1-MW installation of solar panels mounted on single-axis trackers. They tile up to 20 degrees to follow the sun's path throughout the day, generating up to 30% more energy than fixed-tilt systems.





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

The Solar filed is designed to offset 9% of IEUA's 13MW load and was installed at record speed, being completed in less than nine months.

Up to the Present (continued):



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, Western Municipal Water District and Inland Empire Utilities Agency as an ex-officio member.





In February 2002, the Agency entered into a Joint Powers Agreement with the County Sanitation District No.2 of Los Angeles County (CSDLA) and formed the *Inland Empire Regional Composting Authority* (IERCA).

The Agency has replaced the existing facility with the nation's largest indoor biosolids composting facility, constructed by the IERCA. The new facility started operation in March of 2007, and produces a

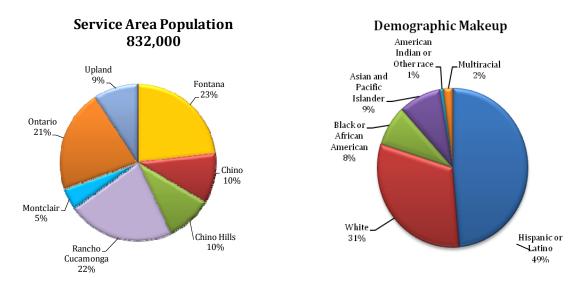
wood based, nutrient rich, compost made from recycled green waste, biosolids and horse stable bedding. The previous composting site was sold to a local developer.

ECONOMIC CONDITION and OUTLOOK

FY 2009/10 was another challenging year for the Agency, due to the on-going national economic recession, the California budget crisis, statewide water shortages, and slow growth in the Agency's service area. The economy in the Inland Empire region continued to be slow and sluggish, in spite of signs of growth in certain sectors. Severe decline in retail activities and property valuations have resulted in dramatic cuts in budget funding for local and county government. The trend is expected to continue over the next few years, while the State is grappling with one major budget deficit after another. While property taxes were 5% lower than prior fiscal year, recycled water sales and other user charges increased offsetting the loss. Operating expenses had an overall 4% reduction, due to increased cost containment efforts.

ECONOMIC CONDITION and OUTLOOK (continued):

- Housing Market The Agency's service area was hard-hit by the collapse of the residential real estate market, though modestly less than the San Bernardino County as a whole. In the seven cities serviced by IEUA, median home prices fell between 30% and 55% over the three-year period from 2006 to 2009, in comparison to the countywide decline of 59% over that period. The housing market in the service area has started to stabilize in January 2010 as compared to the market in January 2009. This is indicated by a growth trend from a decline of 11% to a 9% growth, as compared to the countywide decline of -8.6%. New development activity, however, is likely to remain slow in the near term. Housing sales volume and prices should rise slowly through 2010. If the housing market does not improve, there will most likely be more construction job losses.
- Employment In 2010, the Inland Empire economy is expected to see a slight gain in employment, after dropping 7.5%, or -92,692 in 2009 and a decrease of 3.7% or -47,583 in 2008. Such decline has wiped out the jobs that were gained during the boom in 2004-2007. Due to the area's additional competitive advantage (undeveloped land, modestly priced labor), a modest turnaround in employment is anticipated to occur, to allow its logistics and manufacturing sectors respond to a slow national turnaround.
- Retail market Is projected to come back slowly as money is re-spent locally by customers affiliated with manufacturing and logistics firms. However, growth will be muted by the lack of new funds reaching industries associated with construction.
- Manufacturing The Inland Empire manufacturers have been slow in responding to the national moderate recovery, because home development still awaits a solution to the mortgage crisis, and non-residential development needs high office and industrial vacancy rates to be reduced.
- ◆ Anticipated Growth The Agency's service area population is projected to be 832,000 in FY 2010/11. This area, known as the Inland Empire, was reported in April 2007 as the top growing area in the country. The service area population has been growing roughly about 2.6% per year for the last 10 years. The current economic downturn has reduced the growth rate approximation to only 1% in the ensuing years. Nonetheless, the region's geographic location, rising labor force, outstanding academic resources, and sophisticated logistics infrastructure have allowed the Inland Empire to become one of California's fastest growing regions.



Source: State of California, Department of Finance, E-4 Population Estimate

ECONOMIC CONDITION and OUTLOOK¹ (continued):

The economy in our region is expected to be sluggish the next few years. The service area has seen a drastic decline in housing development, an unemployment rate that exceeds the national average, and continued housing foreclosures. However, most economists would agree that the Inland Empire's housing market has past the bottom in pricing. As long as the foreclosure rate is properly managed, the region should see continuous recovery in the real estate market. In turn, other segments of the economy will recover, though at a slower pace. The biggest fear remains at the State level, when Sacramento legislators continue to struggle in balancing the state budget.

The Agency will continue to defer non-essential capital projects, optimize operational processes, explore and participate in renewable implementation for additional cost savings. The Agency projects a decline in the reserves over the next few years; however, with dedicated and collaborative efforts with staff and member agencies, we will be able to navigate successfully through these difficult times.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

As a result of the depressed economy that impacted the Agency's property tax, user charge, and connection fee revenues, the Agency drastically cut capital expenditures as part of cost containment initiatives. However, the Agency continued to focus on the recycled water expansion projects in order to reach its projected demand of 50,000 acre feet of recycled water

Major Initiatives for FY 2009/2010

Total capital expenditures came to \$46 million, about 68% of the total amended budget. Some of the major projects completed in 2009/10 were as follows:

RP-1 – Order Control, Phase 1B and Solids Bypass;

•

Extension of the Headworks Building at RP-1



This project includes the design and construction of odor control facilities in the most odorous areas of RP-1, including the dewatering building, biosolids loading area, side stream treatment process, gravity thickeners, dissolved air flotation thickeners, manure handling area, circular and rectangular primary clarifiers, influent channels and scum boxes, primary effluent diversion structure and primary effluent intermediate pump station.

March 2010 Moody's Investor Service, Inc - AGENCY SERVES URBANIZED AREA IN SAN BERNARDINO COUNTY HARD-HIT BY REAL ESTATE MARKET DECLINE section of IEUA credit rating of Senior and Subordinate lien John Husing Quarterly Economic Report, April 2010

¹Sources:

Major Initiatives for FY 2009/2010 (continued):

RP-1 – Order Control, Phase 1B and Solids Bypass (continued);

Construction & Operation of the Odor Control Bio Filter



The implementation of the odor control will reduce the public exposure to odors generated from RP-1 and help to promote public acceptance of wastewater treatment and ultimately recycled water production.

Recharge Enhancement Project;

The Groundwater Water Recharge infrastructure consists of a network of pipelines that direct storm water run-off, imported water from the State of California Water Project and IEUA recycled water to 16 recharge sites most of which consist of multiple recharge basins. These recharge basins are located throughout the IEUA service area (approximately 245 square miles) and are designed to hold the water so that it can percolate into the ground and replenish the alluvial aquifers and groundwater supply.



Day Creek Rubber Dam



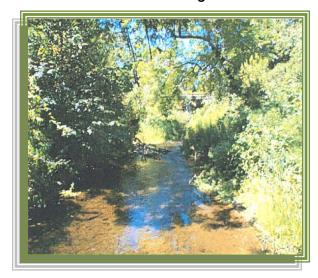


College Heights Basin

Major Initiatives for FY 2009/2010 (continued):

Recharge Enhancement Project, (continued);

Magnolia Channel & Riparian Stream Restoration



The project will implement best management practices for the collection of storm water, reestablish the drainage of approximately 2,000 linear feet of natural urban stream at the remaining undeveloped portion of the existing Magnolia Channel, use retention ponds to reduce the flow and encourage infiltration, and build approximately 5 acres of managed riparian habitat and vegetated banks to improve water quality.

The project is expected to: reduce pollutants, pathogens, erosion and flooding that affect Chino Creek (and downstream to the Santa Ana River and to the coast) due to runoff from the surrounding and developing urban, dairy and agricultural areas within the City of Chino; and provide native habitat within the northern Prado Wetlands for sensitive and endangered species of

significant concern in California. This project is a part of the overall Chino Creek Master Plan which is an ongoing project with over 50 stakeholders and is funded by SWRCB to improve the Prado Basin

♦ RP-5 – System Facility Upgrade & Improvements:

A preliminary evaluation of the existing laboratory facilities was performed by Lisa Ohlund of RCM Consulting Engineers. This review concluded that the existing laboratory facilities present several challenges for laboratory staff to be as efficient as possible and handle current and future workloads. The Austin Company developed four alternatives for layout of the new laboratory. Of the four alternatives, Alternative No. 4 at RP-5 was ranked the highest. The new main laboratory will provide the necessary layout to perform additional sample analyses for the groundwater recharge, increased pretreatment and source control samples, and drinking water samples. Because of the increased samples that can be analyzed on behalf of the Chino Basin Desalter Authority and Chino Basin Watermaster, staff is looking at possible reimbursable costs from said agencies.

Recycled Water Projects:

Victoria & San Sevaine Wells & Lysimeters City of Rancho Cucamonga

Three wells and two Lysimeter clusters are needed to recharge recycled water in Victoria and San Sevaine Basins. These facilities are required by the Phase 2 Groundwater Recharge Permit prior to the delivery of recycled water to these basins.



Major Initiatives for FY 2009/2010 (continued):

Recycled Water Projects (continued):



Installation of 36" Pipeline on Victoria St.

Increasing demand on limited potable water supplies has encouraged various businesses, entities, public agencies, parks and schools to conserve and search for different sources of water. The lack of additional fresh-water supplies have made water re-use necessary and have identified Recycled Water as a best alternative for the use of potable water.

Kaiser Hospital receives Recycled Water from IEUA.

The original hospital facility was constructed in 2004 and is currently using Recycled Water for landscape irrigation purposes and was previously using potable water for cooling towers.

The new retrofit has converted four (4) cooling towers' water from potable to Recycled Water. Expected Recycled Water demand at the cooling towers will be approximately 37 AF per year (12 million gallons per year). With this new connection, their connected demand for the FY 2009/10 has increased to a total of 32.097 AFY.



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

IEUA and its member agencies are committed to the recycled water program, and have been working diligently to implement new customer connections. The following connections are a sampling of the FY 2009/10 accomplishments, and have a connected demand of 142 AFY.

- > The *City of Chino* connected Saddle Creek Corporation.
- > The *City of Chino Hills* connected the Commons Shopping Center.
- Cucamonga Valley Water District connected Earth Basics.
- Monte Vista Water District connected Montclair Medical Center, Montclair Homeowners Association, Montclair City Hall and Our Lady of Lourdes Church.
- The *City of Ontario* connected BP West Coast Products, QB Properties, Empire Towers and Lord Baltimore.
- ▶ IEUA is working with the *City of Ontario, Ontario Montclair School District, Chaffey Joint Union High School District and the San Bernardino County Superintendent of Schools* to connect seven school sites (Arroyo Elementary, Ray Wiltsey Middle School, Mariposa Elementary, Dorothy Gibson High School, Valley View High School, Etiwanda High School, and the Alternative Education Center) with a connected demand of over 130 AFY.

Major Initiatives for FY 2009/2010 (continued):

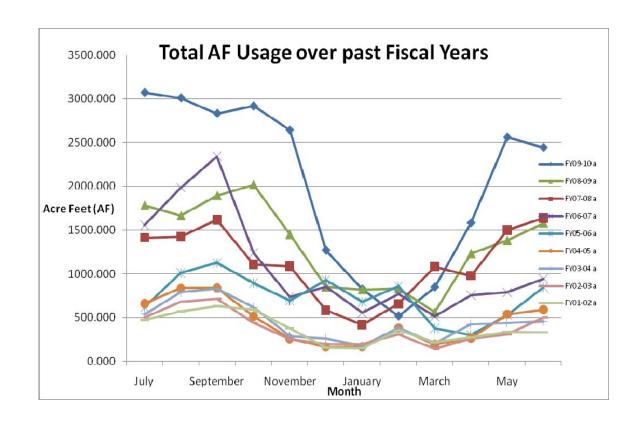
Recycled Water Projects (continued):

As of June 30, 2010 the Agency has completed a significant portion of the Recycled Water Three Year Business Plan and increased recycled water connections by 83 during fiscal year 2009/10.

- Miles of Member Agency Recycled Water laterals 24 miles
- ➤ Total Member Agency Connected Meters to-date 543
- ➤ Total Member Agency Recycled Water Demand to-date 32,434 af

Annual Recycled Water Connected Capacity Summary (AFY)

Туре		Exis	ting	Projected			
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Direct Use	10,000	13,100	19,864	25,264	28,120	29,620	31,120
GW Recharge	3,000	4,500	7,170	7,170	16,880	17,880	18,880
Total	13,000	17,600	27,034	32,434	45,000	47,500	50,000



Major Initiatives for FY 2009/2010 (continued):

NRW System Upgrades:



East Edison Line Rehabilitation

The East Edison NRW Pipeline rehabilitation project encompasses the following -

- 21" pressure line
- 5 miles long
- > 50 pressure lids
- 5 Airvacs





And, the station will have -

- Extended hours of operation
- Automated metering and sampling
- Automated billing

SARI Automated Brine Waste Disposal Station

In order to better accommodate the Agency's Sari Line customers, while also recognizing efficiency and cost savings for the Agency, the SARI Brine Waste Disposal Station is being upgraded. Upon completion, the station will be -

- Fully automated
- Unmanned
- CCTV monitored

Major Initiatives for FY 2009/2010 (continued):

NRW System Upgrades (continued):

NRWS Pipeline Cleaning / Rehabilitation

As a result of the 2005 condition assessment conducted by PBS&J, the Agency established this project to clean the northern Non-Reclaimable Wastewater System.

This project includes cleaning, profiling, point repairs, disposal of solids removed from the pipeline, and reassessment of inaccessible areas by Closed Circuit Television (CCTV).





The Agency expected that approximately 10 miles of pipeline would be cleaned by IEUA staff annually. Expectations were exceeded, and resulted in:

- 20 miles of North system cleaned
- 120 cubic yards of solids removed

Major Accomplishments for FY 2009/2010

The highlights of major activities and accomplishments are as follows:

Funding Developments:

◆ ARRA Funding – EPA/SWRCB: In February 2009 President Obama signed the American Recovery and Reinvestment Act of 2009 (ARRA) which allocated \$6 billion for water and wastewater infrastructure improvements. California State Water Resources Control Board (SWRCB) will receive \$280 million dollars from the Environmental Protection Agency (EPA) through the Clean Water State Revolving Fund (CWSRF) Program.

IEUA has executed funding agreements in the amount of \$47,893,744 with the SWRCB through the CWSRF Program for recycled water distribution facilities and environmental projects. As of June 30, 2010, the Agency has received 31% of these commitments, for a total of \$14,904,893.

Major Accomplishments for FY 2009/2010 (continued):

Funding Developments (continued):

◆ ARRA Funding – USBR: The United States Department of Interior, Bureau of Reclamation (USBR) was allocated \$126 million for the Title XVI projects in the stimulus bill

IEUA has executed funding agreements in the amount of \$14,000,000 with the USBR through its Title XVI Recycled Water Business Plan Authorization. As of June 30, 2010, the Agency has received 35% of these commitments, for a total of \$4,953,962.

The table below reflects the amount of funds by type and awarding agency, the amount of revenue received and the percentage completed for each project that has received ARRA funding.

Inland Empire Utilities Agency ARRA FUNDING SUMMARY As of June 30, 2010

Funding Agency	Project Name	Aw	ard Amount	Aw	ard Balance	Percent Claimed		Amount nvoiced*	Percent Implementation Complete
		AR	RA GRANTS:						
SWRCB	ARRA RESTART Chino Creek Integrated Plan and Cleanup Project	S	1,471,491	w	1,252,947	15%	\$	218,544	25%
	ARRA RESTART Greater Prado Project	\$	298,244	\$	233,159	22%	S	65,085	35%
	ARRA RESTART Magnolia Channel Project	\$	773,045	\$	265,073	66%	S	507,972	44%
	Regional Recycled Water Program- Northeast Area	\$	5,850,000	\$	1,509,698	74%	\$	4,340,302	88%
USBR	Regional Recycled Water Program- Northwest Area	\$	7,850,000	\$	7,236,340	8%	\$	613,660	100% design completed and projects advertised for bid
TOTAL A	RRA GRANTS:	\$	16,242,780	\$	10,497,218		\$	5,745,562	
	ARRA LOANS:								
SWRCB	Recycled Water-Phase 4 (110)	S	3,493,463	\$	726,155	79%	S	2,767,308	100%
SWRCB	Recycled Water-Phase 4 (120)	\$	5,789,720	\$	2,921,576	50%	\$	2,868,144	83%
SWRCB	Recycled Water-Phase 4 (130)	\$	5,658,238	\$	3,397,757	40%	\$	2,260,481	84%
SWRCB	Recycled Water-Phase 4 (140)	\$	1,688,745	S	1,589,076	6%	\$	99,669	89%
SWRCB	Recycled Water-Phase 5 (110)	\$	1,285,987	\$	433,432	66%	\$	852,555	100%
SWRCB	RP-1 Dewatering Facility	\$	27,434,811	\$	21,641,942	21%	S	5,792,869	72%
TOTAL A	RRA LOANS:	\$	45,350,964	\$	30,709,938		\$	14,641,026	

*Includes FY 2009/10 Accrued Grant/Loan Revenue

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

Major Accomplishments for FY 2009/2010 (continued):

Funding Developments (continued):

The following pictures are from the U.S. Bureau of Reclamation (USBR) and the State Water Resources Control Board (SWRCB) project site visits which were conducted on April 21, 2010.



Davis Bacon Compliance

USBR representative conducting site interviews with construction employees to assure that the Davis Bacon requirements are being fulfilled.

From L to R: Robert Pontureri with SWRCB; Scott Johnson IEUA; Jamie Banales, Dennis Wolf and Amy Losito all with the USBR, and Weka Inc. construction employee.



SWRCB reviewing reinforcement steel bars material for the building footings, to ensure compliance with the Buy American requirements.



Robert Pontureri with SWRCB



1299 Zone Pipeline

Site condition review at the Jack and Bore operations on Foothill Boulevard.

From L to R: Jamie Banales and Dennis Wolf with SWRCB, and WEKA Inc. contractor employees.

Major Accomplishments for FY 2009/2010 (continued):

Funding Developments (continued):

1299 Reservoir Project

USBR reviewing site conditions.

From L to R: Jamie Banales, Amy Losito, and Robert Pontureri.



Completed Victoria Monitoring Station, part of the Wells and Lysimeter Project.



California Conservation Corps employees working on the *Greater Prado Clean-up* and *Restoration* project.



Installation of 36" recycled water pipeline at 1299 East Pipeline Project





Pump installation at the 1299 E. Reservoir & 1630 East Pump Station Project

FUTURE YEARS

The ongoing national economic recession, the California budget crisis, statewide water shortages, and energy related regulations continue to be the three critical issues facing the Agency.

In January 2010, Governor Arnold Schwarzenegger estimated a two year budget deficit of approximately \$41.6 billion for fiscal years 2010 and 2011, (nearly \$20 billion estimated for FY 2010/11). The ongoing State budget crisis creates great uncertainty at the local government level which may be subject to revenue shifts and deferral of state reimbursement payments. One such revenue is property tax. Although the suspension of Prop 1A in 2008 by the State Legislature established a precedent in the borrowing and repayment of property tax revenue by the State, a change in statue is always a possibility.

Another key assumption is a slow economic growth in our service area for the next few years. The economic recession is evident in our service area by the drastic decline in housing development, an unemployment rate of 14% that exceeded the national average, and high number of home foreclosures. Five Southern California counties led the state in foreclosure activity in 2009, with an increase of 154% more than the level reported in 2007, (RealtyTrac® U.S. Foreclosure Market Report). Two of the five counties, San Bernardino and Riverside, are located in the Inland Empire. Future growth and construction activities are expected to recover slowly. As a result, connection fees will likely be low in the upcoming years, without additional property taxes. Additionally, due to the slowdown in economic development, over \$200 million of non-essential capital projects originally included in the FY2008-2017 Ten Year Capital Improvement Plan (TYCIP) have been deferred to date. The Agency will continue to monitor the capital program and pursue vigorously grants and state low interest loans to fund essential projects, such as the recycled water expansion projects.

Water supply issues continue to be in the front page because of drought conditions. The department of Water Resources (DWR) is adjusting its final 2010 State Water Project allocation to 50 percent of requested amounts because of late spring storms. "Unusual late season storms that augmented Northern Sierra snowpack have allowed us to increase our delivery estimate to 50 percent," said DWR Director Mark Cowin. "But our state will continue to suffer chronic water shortages until we improve our conveyance system. Increase storage and resolve the complex environmental problems of the Delta." Even with a return to normal precipitation and reservoir levels, and an above normal Sierra snowpack, State Water project (SWP) deliveries will remain limited due to current restrictions on Delta pumping to protect native fish species. The 50 percent allocation, although a dramatic increase from the 5 percent originally estimated for this year, will still leave many communities, farms and businesses with limited alternative supplies. It is anticipated that sharp increases in imported water rates charged by Metropolitan Water District will continue. The strategy is to work collaboratively with contracting agencies and other local governments to promote water conservation and increased use of recycled water.

Regulatory and permitting issues continue to present a major challenge for the Agency in the near future.

Vision

The IEUA's vision statement unequivocally states the Agency's intent to be a major contributor to an improved life for the residents it serves within the Inland Empire. Water is one of our most valuable resources. The Agency is in a position to ensure that the quality of this resource is protected and is available in sufficient quantities to meet area needs.

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

<u>Vision</u> (continued):

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

The Agency has identified and committed to broad policy goals designed to move the Agency forward in executing its mission and attaining its vision. Those goals can be categorized into the following major areas:

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

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

- Continue to strengthen and actively support the implementation of local and regional water supply planning, projects and programs by maintaining and developing and/or improving the reliability and availability of local water supplies to meet the reliable water supply challenge.
- Ontinue the effort to build and/or expand the recycled water delivery system to promote long term water conservation efforts, promote usage of recycled water, and reduce dependency on imported water.
- Continue to increase efforts in optimizing and maximizing power generation using renewable energy sources such as fuel cells, wind power, and solar power at Agency facilities, contributing to a green environment.
- Collaborate with the Chino Basin Watermaster on the implementation of the Optimum Basin Management Plan. Implement phase 3 of the Chino Basin Desalter OBMP and the hydraulic control program.
- Devise, implement and manage operating strategies which minimize costs and optimize productivity.

FINANCIAL INFORMATION

Internal Controls

The management of the Agency is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Agency are protected from loss, theft or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Controls

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

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, per type of instrument, to a percentage between 10% and 50% of the surplus funds investment portfolio at the time of investment decision. The computation of this limitation does not include the funds in demand deposit accounts, money market accounts, passbook savings accounts, escrow agreements for construction retention payments, or the funds invested in U.S. Government Securities, Agencies, Instrumentalities, or Local Agency Investment Fund (LAIF), deposits.

OTHER INFORMATION

Independent Audit

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

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Inland Empire Utilities Agency for its comprehensive annual financial report for the fiscal year ended June 30, 2009. This was the eleventh 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,

Thomas A. Love General Manager

Michael C. Chung

Manager, Fiscal Management

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, 2009

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

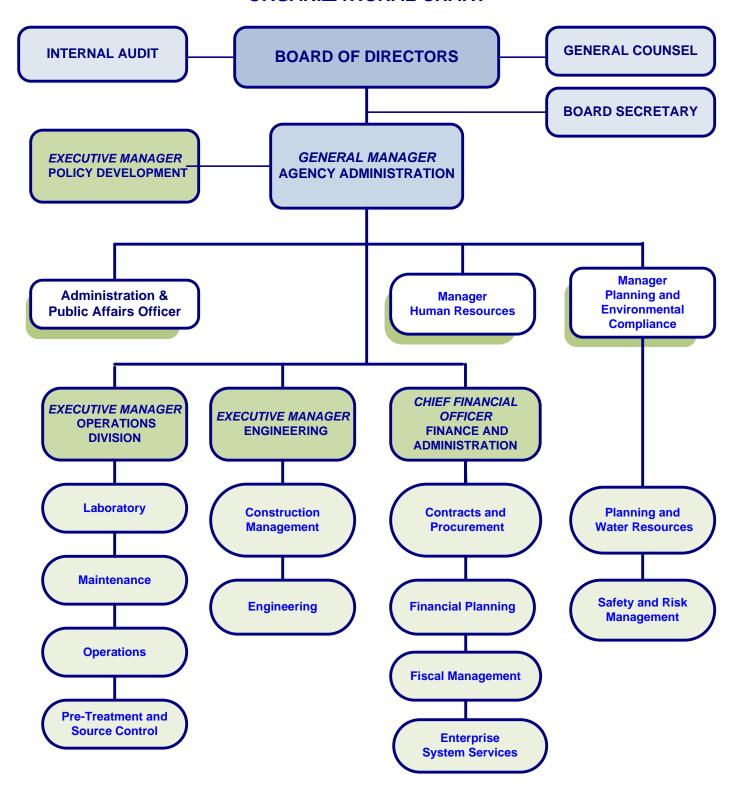


President

Executive Director

INLAND EMPIRE UTILITIES AGENCY

FY 2009/2010 ORGANIZATIONAL CHART



INLAND EMPIRE UTILITIES AGENCY

Principal Officials June 30, 2010

BOARD OF DIRECTORS

Terry Catlin President

Angel Santiago Vice President

Michael E. Camacho Secretary/Treasurer

John L. Anderson Director

Gene Koopman Director

EXECUTIVE STAFF

Thomas A. Love General Manager

Open Chief Financial Officer

Patrick O. Sheilds Executive Manager - Operations Division

Open Executive Manager - Engineering

Martha Davis Executive Manager - Policy Development

MANAGEMENT STAFF

Chris Berch Manager - Planning & Environmental Compliance

Tina Y. Cheng Budget Officer

Michael C. Chung Manager - Fiscal Management

Gabe J. De Saddi Manager - Construction Management

Parivash Dezham Manager - Pre-Treatment and Source Control

Sondra J. Elrod Administration & Public Affairs Officer

Jack E. Frazier Manager - Safety

Jonathan Glazier Manager - Enterprise System Services

Warren Green Manager - Safety and Risk Management

Nelletje Groenveld Manager - Laboratories

Jason Gu Grants Officer

Gina L. Hillary Manager - Human Resources

Cameron B. Langner Manager - Contracts and Procurement

Randy C. Lee Manager - Operations

Craig J. Parker Manager - Engineering

Christina Valencia Manager - Financial Planning

Teresa Velarde Manager - Internal Audit

April Woodruff Board Secretary

Ernest Yeboah Manager - Maintenance

STRIVE TO ACHIEVE RECOGNITION (STAR) PROGRAM

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



Loyalty, professionalism and ethical behavior.

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

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

For the purposes of the STAR Program, the Agency is divided into three areas: 1) Finance/Administration Division, 2) Engineering/Planning Division, and 3) Operations Division. Each of these three areas has three representatives who serve on the Selection Committee (a total of nine committee members). The STAR program was started as a quarterly program. In Fiscal Year 1999/2000 the program was modified to a semi-annual award, to enjoy greater program participation. Accordingly, the prize award was also increased to afford more employee appeal. Following are the semi-annual STAR Award recipients for the FY 2009/10:

<u>First Half FY 2009/10</u>

Finance/Administration

Harlan Delzer - Contracts/Programs Administrator



<u>Second Half FY 2009/10</u>

Finance/Administration

Jose Garcia –Staff Accountant

Engineering/Planning

Dottie Flippen -Administrative Assistant

Engineering/Planning

Alan Lau – Associate Engineer

Operations

Operations

Kenneth Tam – Associate Engineer

 $Tyrone\ Scalera-Plant\ Maintenance\ Technician\ II$



Employee of the Year

For the FY 2009/10, **Kenneth Tam,** Assistant Engineer, was chosen by the Selection Committee as the Employee of the Year.

IEUA STAR AWARD RECIPIENT Employee of the Year 2009 / 2010













Kenneth (Ken) started with the Agency as an intern February of 2007 until early 2008. As an intern he demonstrated great potential and excellent work ethic, as a result was re-hired as an Assistant Engineer three short months after his internship ended. Ken spends most of his time writing permits for industries that discharge into the Agency's regional sewers and Non-Reclaimable Wastewater Systems (NRWS); however, he is also well versed in Air Quality matters Ken exhibits all the traits of a STAR employee: he shows leadership, has outstanding performance, is a team player, displays creativity and is constantly seeking improvement. His leadership is displayed daily in his active approach when dealing with customers and troubleshooting their problems. He meets with them one-on-one to fully understand their process and develop the best solution. Ken also consistently produces quality work, triple checking his content, data and overall appearance of his work. He works hard every day and stays as long as needed to get the job done. He can be counted on to step up when the department is shorthanded and is often called on for his expertise. In addition to his outstanding professional performance, Ken is very well respected and liked by his peers and is constantly seeking professional and personal growth. Ken is finishing his last quarter of school in pursuit of attaining a Masters in Civil Engineering.



Artist: Julie Chang, 12th Grade

Beverly Hills High School / Sarah Utley

Beverly Hills Unified School District

City of Beverly Hills





Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200 Irvine, California 92612 949-474-2020 ph 949-263-5520 fx www.mhm-pc.com

Board of Directors Inland Empire Utilities Agency Chino, California

Independent Auditors' Report

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Inland Empire Utilities Agency ("Agency") as of and for the year ended June 30, 2010, 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, 2009 and, in our report dated November 30, 2009, 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, 2010, 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 December 3, 2010, 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 Mc Cann P.C.

Irvine, California December 3, 2010



MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2010. Readers are encouraged to read this section in conjunction with the transmittal letter and the accompanying basic financial statements.

Agency's Fund Financial Statement

Within the financial reports, funds are classified as part of either a Major fund group 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) non-reclaimable wastewater system services, operations and maintenance.

Total revenues, including grants and subsidies, of \$110,555,394 for FY 2009/10 reported an increase of \$1,666,441 compared to \$108,888,953 recorded for FY 2008/09. The net increase was primarily due to: 1) \$1,446,504 increase in recycled water sales; 2) \$1,999,654 increase in wastewater capital connection fees; 3) \$712,934 in service charges; 4) \$2,566,556 in contract reimbursements; and 5) \$1,598,590 increase from the reversal of prior year contingent liability for unrealized electrical stand-by charges from Southern California Edison (SCE). These increases were partially offset by a decrease of \$1,080,823 in interest income, \$1,969,613 in property taxes and \$3,536,944 in grants and subsidies.

Total expenses of \$104,459,561 for FY 2009/10 were \$5,771,112 lower than the \$110,230,673 reported in FY 2008/09. The overall decrease of 1,816,943 in operating expenses was primarily the result of successful cost containment efforts by Agency staff. Depreciation and amortization expenses reported an increase of \$3,988,712 for a total of \$26,173,254. Historically low interest rates resulted in a reduction of \$3,607,159 in interest expense, primarily from the variable long-term debt, which averaged a monthly interest rate of .30% in FY 2009/10. A lower number of special project closures resulted in a decrease of \$2,542,379 in the Water Resources Fund. Capital expenditures totaled \$47,187,318, significantly lower than amended budget of \$67,319,766 due to the deferral of nonessential projects in light of the sluggish economic conditions.

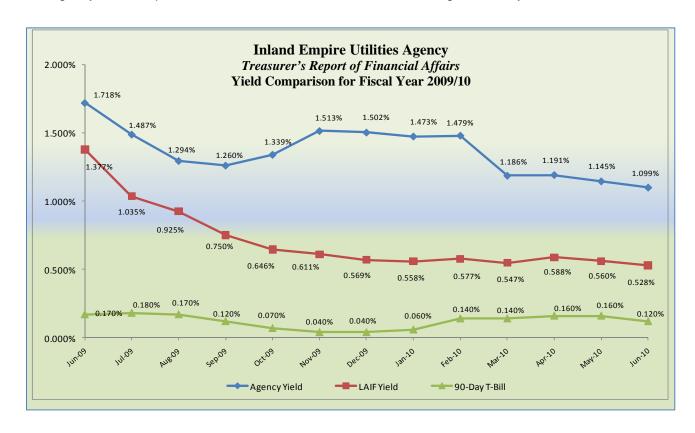
FINANCIAL HIGHLIGHTS

Cash and Investment Management

The Agency has a comprehensive cash and investment program subject to California State Code and bond covenants. These regulations are incorporated into the Agency's Investment Policy and Master Resolution, which identify the authorized investment types and any restrictions. Consistent with the State of California Government Code, the Agency bi-annually adopts an investment policy that is intended to remain sufficiently liquid to meet all operating requirements reasonably anticipated, safeguard the principal investment and minimize credit and market risks, while maintaining a competitive yield on the overall portfolio. The Agency's cash management system is also designed to forecast revenues and expenditures in order to identify and invest idle funds to the fullest extent possible. During the fiscal year ended June 30, 2010, 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.

Investment Portfolio Performance

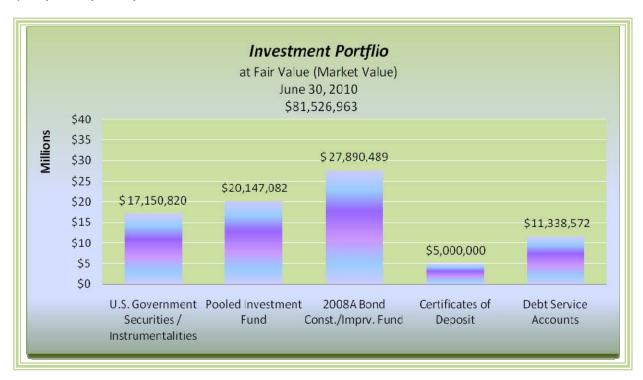
The continued economic recession is evident in the drastically low interest yields. The average yield of the Agency's overall portfolio declined from 1.718% to 1.099% during the fiscal year.



Total interest income for FY 2009/10 of \$1,715,274 dropped nearly 39% compared to \$2,796,097 in FY 2008/09.

Cash and Investment Management (continued):

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, which are in the order of priority: liquidity, safety, and yield.



The Agency's portfolio fund balance for the fiscal years ended June 30, 2010 and 2009 were \$81,526,963 and \$107,355,800 respectively.

Chino Basin Desalter Operations

Operating Chino I under an Operation and Maintenance Agreement, the Agency deployed the appropriate personnel to manage the production, treatment and distribution of the water produced by the desalination facilities on behalf of the Chino Basin Desalter Authority (CDA).

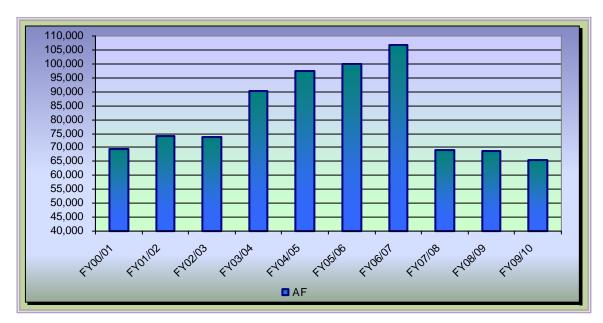
All operations and maintenance expenses including labor incurred by the Agency are being tracked in the Administrative Service Fund. These expenses are billed to the CDA monthly. In FY 2009/10, the total amount billed and reimbursed for labor and burden was \$1,020,028 in non-operating revenue.

Imported Water Deliveries

Imported water deliveries for FY 2009/10 were 65,630 acre feet (AF) against a budgeted total of 65,000 AF, of which 5,001 AF related to the groundwater replenishment. The FY 2009/10 AF surcharge levied by the Agency to member agencies averaged at \$11 per AF, (\$10/AF July – December 2009 and \$12/AF January – June 2010).

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

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

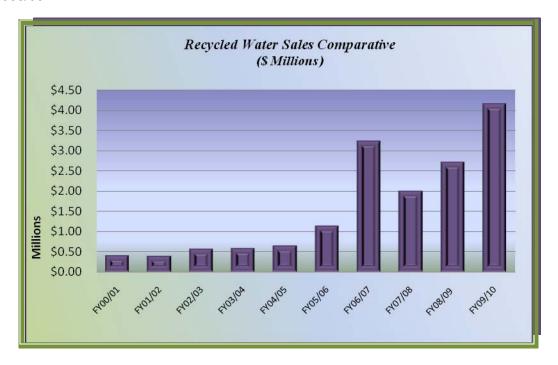


The total operating revenue was \$2,436,933 compared to \$2,257,068 last fiscal year. The increase was primarily due to: 1) higher readiness to serve (RTS) charges of \$1,355,492 compared to \$922,235 for last fiscal year; 2) an increase in the administrative surcharge from \$10/AF to \$12/AF, and 3) an increase in the monthly meter rate from \$.596 cents to \$.765 cents per unit.

The total increase in operating expenses from \$1,963,583 in FY 208/09 to \$2,314,071 in FY 2009/10 was primarily due to higher RTS fees from Metropolitan Water District of Southern California (MWD). The significant decrease in non-operating expenses of \$4,362,233 and \$1,425,138 in capital grant contributions in FY 2009/10 was mainly due to the completion of several multi-year Operations & Maintenance and Reimbursable projects in the prior fiscal year, including the MWD Dry Year Yield Groundwater Storage Program Study Phase I & II and Multi-family installation of Ultra Low Flush Toilet projects. Total net asset balance at June 30, 2010, decreased by \$251,330, to \$2,402,738 in FY 2009/10.

Recycled Water Sales

The Recycled Water Fund recorded total revenue of \$4,162,140 in FY 2009/10 compared to \$2,715,636 in FY 2008/09.

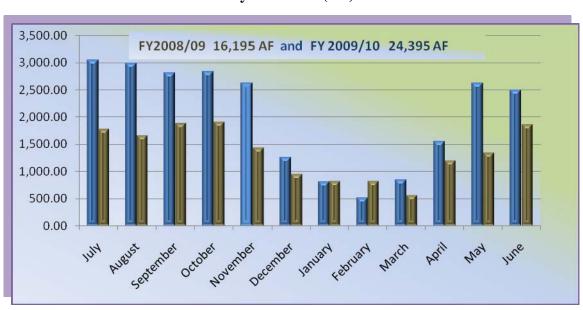


The increase in revenues was due to a combination of significantly higher recycled water sales and an increase in the Recycled Water rates. Recycled water rates increased 13.6%, from \$66 to \$75 per AF (acre foot), while recharged recycled water rates increased 22.4%, from \$66 to \$85 per AF effective September 1, 2009. Included in total operating revenues was the MWD rebate of \$154/AF for recycled water sales above 3,500 AF and up to 17,000 AF.

Total receipts from MWD for the FY 2009/10 were \$2,125,492 compared to \$1,518,548 in FY 2008/09. Grants receipts totaled \$8,419,060 in support of the Regional Recycled Water Expansion program. Total operating expenses increased by \$512,059, or 9.8%, to \$5,755,853, including \$2,435,603 of depreciation expense.

Recycled Water Sales (continued):

Total direct recycled and recharged water deliveries registered 24,395 AF, an increase of nearly 51% compared to 16,195 AF for last fiscal year.



Recycled Water Monthly Usage Comparative By Acre Feet (AF)

Total net assets at June 30, 2010 were \$61,028,686, an increase of \$8,085,514 due to additional grant funding.

Wastewater Treatment Activities

The Regional Wastewater Fund reported combined total operating revenue of \$33,226,273 in FY 2009/10, registering a slight increase of \$132,901 compared to last fiscal year. The increase was primarily due to an increase in EDU volumetric revenue of about 5.5% from \$29,683,255 to \$32,450,124, despite a drop of 1.6% in the total number of EDUs billed. Effective July 1, 2009, the Organics Management Fund was closed and the ending fund balance of \$2,221,751 was consolidated into the Regional Wastewater Program. The Agency's 50% of the capital and operating costs for supporting the Inland Empire Regional Composting Authority (IERCA) previously recorded in the Organics Management Fund will be recorded in the Regional Wastewater Capital Improvement and Regional Wastewater Operations and Maintenance Funds.

The Regional Wastewater Fund billed and collected a total of \$32,450,124 in volumetric user charges for the treatment of domestic wastewater, an increase of 9% compared to the prior fiscal year despite a drop of 1.6% in total number of EDUs billed, from 3,072,446 in FY 2008/09 to 3,025,680 in FY 2009/10. An increase in the EDU rate from \$9.62 to \$10.75 per EDU effective July 1, 2009, offset the drop in the billable units (see Service Charge Revenue Rates by Contracting Agency p.122). Each EDU equals approximately 98,550 gallons per year for a single residential household, or, 270 gallons per day.

Wastewater Treatment Activities, (continued):

Total other income for the Regional Wastewater Program in FY 2009/10 was \$42,552,602 compared to \$41,695,354 for last fiscal year:

Revenues by Category – Regional Wastewater Program For the Fiscal Year Ended June 30, 2010 (With Comparative Totals for the Fiscal Year Ended June 30, 2009)

D 0.1	2009/10		2008/09		Increase/ <decrease> from 2008/09</decrease>	
Revenue Category	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF CHANGE
Service Charges	\$33,226,273	44.0%	\$33,359,174	44.0%	(\$ 132,901)	0.0 %
Property Tax Revenue	29,087,922	39.0%	33,367,731	44.0%	(4,279,809)	(13.0)%
Wastewater Connection Fees	7,753,057	10.0%	5,753,403	8.0%	1,999,654	35.0 %
Other Non-operating Revenues	4,714,109	6.0%	673,010	1.0%	4,041,099	600.0 %
Interest Income	997,514	1.0%	1,901,210	3.0%	(903,696)	(48.0)%
Total Revenues	\$75,778,875	100.0%	\$75,054,528	100.0%	\$ 724,347	1.0 %

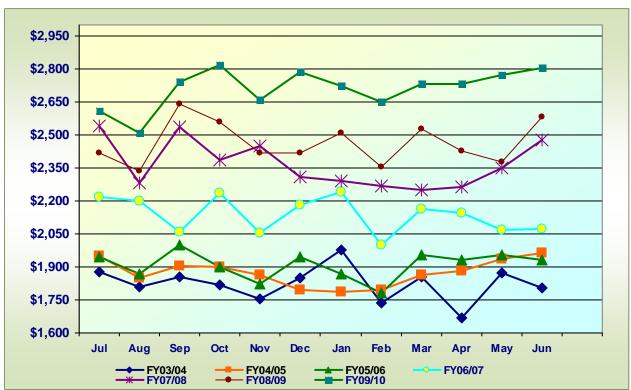
Property tax revenue allocated to the Regional Wastewater Program decreased from \$33,367,731 to \$29,087,922, a 13% decrease.

The total number of new EDU connections reported by contracting agencies in FY 2009/10 was 1,629 compared to 1,231 for FY 2008/09, and exceeded the budgeted number of 1,000 units. The higher number of new EDU connections, coupled with a rate increase of 2% or \$4,766 per unit, resulted in an increase of \$1,999,654, from \$5,753,403 to \$7,753,057 in FY 2009/10.

Interest income continued to decline due to historically low market rates. The significant increase in non-operating revenue was due to the reimbursement of \$2,566,556 of contract labor due from IERCA and the reversal of \$1,598,590 in payables to Southern California Edison (SCE) for unrealized electrical power stand-by charges.

Wastewater Treatment Activities, (continued):

Comparative EDU Revenues (In thousands)



Total wastewater collection, treatment and disposal costs registered a decrease of \$2,516,570 from \$34,342,087 in FY 2008/09 to \$31,825,517 in FY 2009/10. While total power costs (electricity and solar) showed a substantial savings of \$1,287,098, operating fees related to SARI costs increased substantially, particularly strength charges. Total SARI costs were \$2,493,289 in FY 2009/10 compared to \$1,429,864 in FY 2008/09. Labor costs increased by 15.9% from \$24,697,549 to \$28,619,021, primarily due to a 3% cost of living adjustment (COLA) called for in the bargaining labor agreements, and higher employment benefits costs. Total treated wastewater volume was 21.5 billion gallons.

Non-reclaimable Wastewater Treatment

Total service charges in FY 2009/10 increased \$665,970 to \$8,881,646 compared to FY 2008/09, primarily due to an increase in pass-through rates effective July 1, 2009, as well as the sale of four capacity units totaling \$600,000. The increase in pass-through rates also resulted in higher operating expenses of 7.07%, for a total of \$7,036,565 in FY 2009/10. At June 30, 2010, total net assets were \$51,210,135, an increase of \$1,709,414 over the prior fiscal year.

A total of 62 users were connected to the Non-reclaimable Wastewater System during the FY 2009/10, with a total flow of 1,260 million gallons.

Organics Management

Effective July 1, 2009, the Organics Management Fund was closed and consolidated with the Regional Wastewater Fund. The Organics Management Fund recorded the Agency's 50% share of the capital and operating costs for supporting the IERCA. These activities will now be recorded in the Regional Wastewater Funds. The ending balances at June 30, 2009, of the Organics Management Fund were total assets of \$59,933,074, total liabilities of \$12,095,901, and net assets of \$47,837,173 which were added to the Regional Wastewater Capital Improvement and Regional Wastewater Operations and Maintenance Funds.

Recharge Water Fund

The Recharge Water Fund records the activities related to the operation and maintenance of the eighteen groundwater recharge basins and pertinent facilities. Through the joint efforts of the Chino Basin Watermaster (CBWM), the Chino Basin Water Conservation District (CBWCD), and the San Bernardino County Flood Control District (SBCFCD), the Agency performs all of the operation and financial functions related to the program. Costs include general basin maintenance and restoration, groundwater administration, compliance reporting, environmental documentation and contracted services that are fully funded by CBWM and the Agency.

Total O&M expenses recorded were \$1,727,991 for FY 2009/10, compared to \$1,641,032 in FY 2008/09, for a slight increase of \$86,959.

The completion of the Recharge Basin Improvement Phase II project generated grant receipts of \$456,353 from the Department of Water Resources. The balance of \$375,000 capital grants and subsidies were the last payment from CBWM for their share of the costs. Other reimbursements from CBWM included fixed project costs in the amount of \$611,069 to support their share of the total debt service costs, and \$652,487 for reimbursement of O&M costs.

The increase in the total net assets balance was \$34,642,003 at June 30, 2010, was primarily due to grants and subsidies and the lower interest expense on the variable long-term debt.

Revenues

Combined revenues and contributions for the fiscal year totaled \$110,555,394, an increase of \$1,666,441, compared to the prior fiscal year. The following table presents a comparison of revenues by category for fiscal years 2009/10 and 2008/09.

Combined Revenues by Category - All Funds For the Fiscal Year Ended June 30, 2010 (With Comparative Totals for the Fiscal Year Ended June 30, 2009)

Revenue &	2009/10		2008/09		Increase/ <decrease> from 2008/09</decrease>	
Contributions Category	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF CHANGE
Service Charges	\$ 44,544,852	40.0%	\$ 43,831,918	40.0%	\$ 712,934	2.0 %
Recycled Water Sales	4,162,140	4.0%	2,715,636	2.0%	1,446,504	53.0 %
Interest Income	1,715,274	2.0%	2,796,097	3.0%	(1,080,823)	(39.0)%
Property Tax Revenue	34,355,385	31.0%	36,324,998	33.0%	(1,969,613)	(5.0)%
Wastewater Connection Fees	7,753,057	7.0%	5,753,403	5.0%	1,999,654	35.0 %
Other Non-operating Revenues	7,637,808	7.0%	3,543,079	4.0%	4,094,729	116.0 %
Capital Grants	10,386,878	9.0%	13,923,822	13.0%	(3,536,944)	(25.0)%
Total Revenues & Contributions	\$110,555,394	100.0%	\$108,888,953	100.0%	\$1,666,441	2.0%

Wastewater Connection Fees

Due to economic development, total EDU connections increased from 1,231 to 1,629.

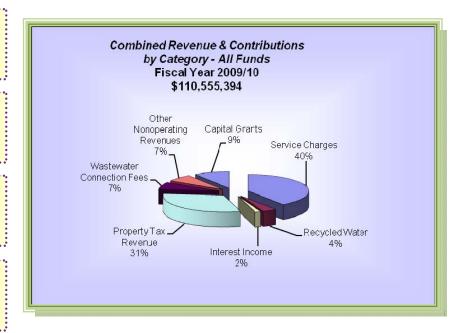
Service Charges

Increase due to rate increases in the Regional Wastewater and NRW Programs.

Interest Income

Decrease due to historically low interest rates driven by a sluggish economy.

Other Non-Operating Revenues Increase due to the reclassification from operating revenues of contract labor reimbursements from IERCA and CDA.

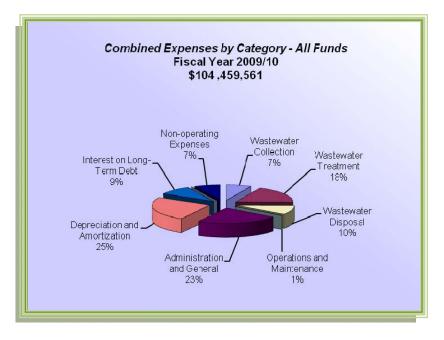


Expenses

Combined expenses for the fiscal year totaled \$104,459,561, a decrease of \$5,771,112, over the prior fiscal year. The following table presents a comparison of expenses by category for fiscal years 2009/10 and 2008/09.

Combined Expenses by Category - All Funds For the Fiscal Year Ended June 30, 2010 (With Comparative Totals for the Fiscal Year Ended June 30, 2009)

Farmer Outer and	2009/10		2008/09		Increase/ <decrease> from 2008/09</decrease>	
Expense Category	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF CHANGE
Wastewater Collection	\$ 7,337,951	7.0%	\$ 5,939,058	5.0%	\$ 1,398,893	24.0 %
Wastewater Treatment	19,016,466	18.0%	20,049,102	18.0%	(1,032,636)	(5.0)%
Wastewater Disposal	10,029,605	10.0%	12,885,191	12.0%	(2,855,586)	(22.0)%
Operations and Maintenance	99,695	1.0%	99,782	1.0%	(87)	0.0 %
Administration and General	24,227,291	23.0%	27,543,530	25.0%	(3,316,239)	(12.0)%
Depreciation and Amortization	26,173,254	25.0%	22,184,542	20.0%	3,988,712	18.0 %
Interest on Long-Term Debt	9,891,049	9.0%	13,498,208	12.0%	(3,607,159)	(27.0)%
Non-operating Expenses	7,684,250	7.0%	8,031,260	7.0%	(347,010)	(4.0)%
Total Expenses	\$104,459,561	100.0%	\$110,230,673	100.0%	(\$5,771,112)	(5.2)%



Wastewater Collection/ Treatment/Disposal

Decrease due to successful cost containment efforts.

Operations and Maintenance

FY 2008/09 includes a \$3 million contribution to the IERCA for the Agency's 50% share of 0&M costs. The decrease in the FY 2009/10 balance was due to the suspension operations of the RP-5 renewable energy facility.

Interest Expense

The significant interest decrease is due to historically low interest rates on variable long term debt.

Changes in Financial Conditions of the Agency

Combined Net Assets-All Funds For the Fiscal Year Ended June 30, 2010 (With Comparative Totals for the Fiscal Year Ended June 30, 2009)

	FY 2009/10	FY 2008//09	Increase/ <decrease> from FY 2008/09</decrease>	
Assets	.	•		
Current assets	\$110,327,503	\$ 114,005,175	(\$3,677,672)	(3.2)%
Restricted assets	57,408,785	58,904,907	(1,496,122)	(2.5)%
Capital assets	655,440,272	639,496,519	15,943,753	2.5 %
Other assets	82,873,361	75,045,033	7,828,328 10.4	
Total Assets	906,049,921	887,451,634	18,598,287	2.1 %
Liabilities				
Current liabilities	37,725,335	44,685,303	(6,959,968)	(15.6)%
Non-current liabilities	347,125,084	327,662,660	19,462,424	5.9 %
Total liabilities	384,850,419	372,347,963	12,502,456	3.4 %
Net Assets Invested in capital assets,				
net of related debt	380,995,989	370,515,310	10,480,679	2.8 %
Restricted	78,267,867	81,418,285	(3,150,418)	(3.9)%
Unrestricted	61,935,647	63,170,076	(1,234,429)	(2.0)%
TOTAL NET ASSETS	\$521,199,503	\$515,103,670	\$6,095,833	1.2 %

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

- ♦ The decrease in Current Assets of \$3,677,672 consists of an overall decrease in cash and investment totaling \$3,469,007, a \$2,647,978 decrease in accounts receivable. The combined decrease of \$6,116,985 is offset by a \$2,280,863 increase of other receivable, as a result of recognizing the current portion of the contract receivable due from Lewis Group for the purchase of the Agency's co-composting land.
- ♦ The \$15.9 million increase in Capital Assets is primarily due to increase in work in progress in the recycled water program, as part of the Agency's Recycled Water Business Plan to expand the Regional Recycled Water Distribution System.
- The increase in Other Assets of \$7,828,328 is primarily due to the \$6,000,000 inter-fund loan from Non-reclaimable Wastewater Fund to Recycled Water Fund.

(Refer to Note 14 of the Notes to the Basic Financial Statements for detailed information).

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, 2010

(With Comparative Totals for the Fiscal Year Ended June 30, 2009)

	FY 2009/10		FY 2008/09		Increase/ <decrease> from FY 2008/09</decrease>	
Item Category	Amount	% of Total	Amount	% of Total	Amount	% of Change
Total Revenue	\$100,168,516	19.0%	\$ 94,965,131	18.0%	\$5,203,385	5.5%
Total Expenses	104,459,561	20.0%	110,230,673	21.0%	(5,771,112)	(5.0%)
Excess (deficiency) before						
contrib.	(4,291,045)	(1.0%)	(15,265,542)	(3.0%)	10,974,497	72.0%
Capital Grants	10,386,878	2.0%	13,923,822	3.0%	(3,536,944)	(25.0%)
Change in Net Assets	6,095,833	1.0%	(1,341,720)	0.0%	7,437,553	554.0%
Beginning Net Assets	515,103,670	99.0%	516,445,390	100.0%	(1,341,720)	(0.0%)
Ending Net Assets	\$521,199,503	100.0%	\$515,103,670	100.0%	\$6,095,833	1.2%

(FY 2008/09 Ending Net Assets have been adjusted for rounding)

Capital Assets

Net of accumulated depreciation and amortization, the Agency had total capital assets of \$655,440,272 in FY 2009/10, compared to \$639,496,519 in FY 2008/09. The increase was primarily due to the completion of various capital projects and the on-going construction in progress as follows:

RP-5 Systems Facility Upgrade & Improvement	s - (\$21,666,313)
RP-1 Facilities Improvement -	(\$11,429,780)
RP-1 Odor Control – Phase I -	(\$ 8,595,604)
RP-1 Dewatering Facility Expansion -	(\$ 7,838,050)
1630 E. Pipeline Segment A -	(\$ 7,174,263)
Recharge Enhancement Project -	(\$ 6,624,373)
1299 E. Pipeline -	(\$ 5,299,510)
NRW System Upgrades -	(\$ 5,093,288)
RP-1 South RW Pump Station -	(\$ 4,783,880)

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

<u>Capital Assets</u>, (continued)

Capital Asset Summary - All Funds For the Fiscal Year Ended June 30, 2010

(With Comparative Totals for the Fiscal Year Ended June 30, 2009)

			Increase/ <decrease></decrease>	% of	
Asset Category	2009/10	2008/09	from FY 2008/09	Change	
Land	\$ 14,141,374	\$ 13,899,708	\$ 241,666	2 %	
Land Improvements	12,868,495	13,298,341	(429,846)	(3%)	
Structures and Improvements	566,940,311	498,507,887	68,432,424	14 %	
Equipment	116,413,817	52,483,253	63,930,564	122 %	
Water Rights	48,104,982	47,016,127	1,088,855	2 %	
Computer Software	6,227,201	6,160,190	67,011	1 %	
Jobs in Progress	121,811,820	213,519,848	(91,708,028)	(43%)	
Sub-total	886,508,000	844,885,354	41,622,646	5 %	
LESS: Accumulated Depreciation					
& Amortization	(231,067,728)	(205,388,835)	(25,678,893)	13 %	
Net Capital Assets	\$ 655,440,272	\$ 639,496,519	\$ 15,943,753	2 %	

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

Debt Management

At June 30, 2010, the Agency had four bond debt issues outstanding; \$57,042,493 for the 1994 Revenue Bonds, \$20,830,664 for the 2005A Revenue Bonds, \$129,698,766 for the 2008A Revenue Bonds, and \$52,253,471 for the 2008B Variable Rate Revenue Bonds. (*Refer to Note 12 of the Notes to the Basic Financial Statements for detailed information*).

Notes and loans payable at June 30, 2010, included a note from the Santa Ana Watershed Project Authority pertaining to the purchases of pipeline capacity, with an outstanding balance of \$1,659,178, and State Revolving Financing loans in the amount of \$56,246,235 from the State Water Resources Control Board and the City of Fontana loan in the amount of \$8,899,580 for the cost of the San Bernardino Regional Lift Station and Force Main.

In March 2010, the Agency's credit rating for long-term debt was reaffirmed by two major credit rating agencies:

Moody's: Aa2

Standard and Poor's: AA-

Contacting the Agency's Financial Management

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



INLAND EMPIRE UTILITIES AGENCY BASIC FINANCIAL STATEMENTS OVERVIEW

Financial Statements

The following Basic Financial Statements, along with the supplementary Notes to the Basic Financial Statements, convey a summary of the Agency's financial position as of June 30, 2010, and the results of operations and the cash flows of its proprietary fund types for the fiscal year then ended.

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

- 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.



Wetlands at the Chino Creek Park in Chino, CA

INLAND EMPIRE UTILITIES AGENCY Statement of Net Assets June 30, 2010

(With Comparative Totals for June 30, 2009)

	Enterprise Funds		
	Regional	Recharge	
ASSETS	Wastewater	Water	
Current assets			
Cash and investments (note 3)	\$32,756,725	\$ 1,475,983	
Accounts receivable	9,665,639	4,209,341	
Interest receivable	218,942	0	
Taxes receivable	3,997,684	0	
Other receivables	2,734,904	0	
Inventory	0	0	
Prepaid items	3,845	1,356	
r repaid nome			
Total current assets	49,377,739	5,686,680	
Noncurrent assets			
Restricted assets (note 3)			
Deposits held by governmental agencies	15,048,421	0	
Assets held for 401(a) plan (note 4)	0	0	
Assets held with trustee/fiscal agent	13,551,172	841,647	
•			
Total restricted assets	28,599,593	841,647	
Capital assets (note 7)			
Land	14,120,545	0	
Jobs in progress	65,128,233	6,624,373	
Capital assets, net of	00,120,200	0,024,070	
accumulated depreciation	342,742,117	42,909,656	
Intangible assets, net of	072,172,111	42,000,000	
accumulated amortization	6,169,512	65,304	
accumulated amortization	0,100,012	00,004	
Total capital assets	428,160,407	49,599,333	
Other assets			
Long-term investments (note 11)	48,684,474	0	
• • • • • • • • • • • • • • • • • • • •	5,217,497		
Long-term receivables (note 10)	6,700,000	0	
Advances to other funds (note 14)			
Deterred costs	3,454,608	70,987	
Total other assets	64,056,579	70,987	
Total noncurrent assets	520 816 570	50,511,967	
Total Horiculterit assets	520,816,579	30,311,301	
Total aggets	E70 404 249	EC 100 C17	
Total assets	570,194,318	56,198,647	

Recycled		Totals		
Water	Non-Major	2010	2009	
	<u> </u>			
\$ 875,948	\$26,128,398	\$61,237,054	\$64,706,061	
14,981,621	9,997,967	38,854,568	41,502,546	
36,809	333,286	589,037	407,266	
239,926	373,022	4,610,632	4,317,003	
0	213,306	2,948,210	667,347	
0	1,758,776	1,758,776	1,650,230	
3,500	320,525	329,226	754,722	
16,137,804	39,125,280	110,327,503	114,005,175	
0	0	15,048,421	7,295,364	
0	1,033,707	1,033,707	1,376,084	
26,842,076	91,762	41,326,657	50,233,459	
26,842,076	1,125,469	57,408,785	58,904,907	
0	20,829	14,141,374	13,899,708	
38,712,451	11,346,763	121,811,820	213,519,848	
80,303,117	18,053,899	484,008,789	376,044,889	
37,659	29,205,814	35,478,289	36,032,074	
119,053,227	58,627,305	655,440,272	639,496,519	
0	0	48,684,474	47,184,474	
1,497,082	109,062	6,823,641	7,725,242	
0	15,000,000	21,700,000	15,700,000	
2,052,354	87,297	5,665,246	4,435,317	
3,549,436	15,196,359	82,873,361	75,045,033	
149,444,739	74,949,133	795,722,418	773,446,459	
165,582,543	114,074,413	906,049,921	887,451,634 (continued)	

INLAND EMPIRE UTILITIES AGENCY Statement of Net Assets (Continued from previous page) June 30, 2010

(With Comparative Totals for June 30, 2009)

	Enterprise Fund Types		
	Regional	Recharge	
LIABILITIES	Wastewater	Water	
Current liabilities			
Accounts payable	4,398,041	96,969	
Accrued liabilities	398,841	0	
Compensated absences (note 1)	0	0	
Retentions payable	142,008	17,316	
Notes payable, due within one year (note 12)	538,457	0	
Long-term debt, due within one year (note 12)	5,399,635	520,365	
Interest payable	2,322,879	28,376	
Retention deposits and escrows	1,525,630	0	
Total current liabilities	14,725,491	663,026	
Noncurrent liabilities			
Compensated absences (note 1)	0	0	
Long-term debt, due in more than one year (note 12)	198,917,555	17,193,618	
Notes payable, due in more than one year (note 12)	15,933,675	0	
Liability for 401(a) plan (note 4)	0	0	
Advances from other funds (note 14)	0	3,700,000	
Other noncurrent liabilities	0	0	
Net OPEB liability (note 1d.)	0	0	
Total noncurrent liabilities	214,851,230	20,893,618	
Total liabilities	229,576,721	21,556,644	
NET ASSETS			
Invested in capital assets, net of related debt	218,268,457	31,885,350	
Restricted for:			
Capital construction	16,484,835	0	
Debt service	16,462,963	841,647	
Bond operating contingency requirement	15,203,447	0	
Total restricted	48,151,245	841,647	
Unrestricted	74,197,895	1,915,006	
Total net assets	\$340,617,597	\$34,642,003	

Recycled		Totals		
Water	Non-Major	2010	2009	
4,698,324	7,894,516	17,087,850	23,106,418	
261,935	3,941,086	4,601,862	4,825,380	
0	2,056,418	2,056,418	1,761,673	
0	101,803	261,127	1,475,747	
1,898,435	111,757	2,548,649	1,967,641	
0	0	5,920,000	6,775,000	
741,099	59,479	3,151,833	2,901,098	
571,966	0	2,097,596	1,872,346	
8,171,759	14,165,059	37,725,335	44,685,303	
0	1,788,025	1,788,025	2,074,008	
30,388,421	7,405,800	253,905,394	259,800,302	
47,309,412	1,013,257	64,256,344	43,737,551	
0	1,033,707	1,033,707	1,376,084	
18,000,000	0	21,700,000	15,700,000	
684,265	0	684,265	2,200,854	
0	3,757,349	3,757,349	2,773,861	
96,382,098	14,998,138	347,125,084	327,662,660	
104,553,857	29,163,197	384,850,419	372,347,963	
65,642,830	50,150,930	365,947,567	370,515,310	
26,185,870	54,439	42,725,144	41,133,691	
84,241	37,323	17,426,174	22,549,554	
0	2,913,102	18,116,549	17,735,040	
00.070.444	0.004.004	70 007 007	04 440 005	
26,270,111	3,004,864	78,267,867	81,418,285	
(30,884,254)	31,755,422	76,984,069	63,170,076	
\$61,028,687	\$84,911,216	\$521,199,503	\$515,103,670	

INLAND EMPIRE UTILITIES AGENCY Statement of Revenues, Expenses, and Changes in Fund Net Assets For the Fiscal Year Ended June 30, 2010 (With Comparative Totals for June 30, 2009)

	Enterprise Fund Types		
	Regional	Recharge	
	Wastewater	Water	
OPERATING REVENUES			
Service charges	\$ 33,226,273	\$0	
Recycled water sales	0	0	
,			
Total operating revenues	33,226,273	0	
OPERATING EXPENSES			
Wastewater collection	2,779,446	0	
Wastewater treatment	19,016,466	0	
Wastewater disposal	10,029,605	0	
Operations and maintenance	0	0	
Administration and general	13,784,823	732,409	
Depreciation and amortization	19,246,418	995,582	
Total operating expenses	64,856,758	1,727,991	
Operating income (loss)	(31,630,485)	(1,727,991)	
NONOPERATING REVENUES (EXPENSES)			
Interest income	997,514	0	
Property tax revenue	29,087,922	0	
Wastewater capital connection fees	7,753,057	0	
Other nonoperating revenues	4,714,109	1,267,670	
Interest on long-term debt	(7,464,617)	(77,819)	
Other nonoperating expenses	(5,729,971)	(111,427)	
Total nonoperating revenues (expenses)	29,358,014	1,078,424	
Income (loss) before contributions and transfers	(2,272,471)	(649,567)	
TRANSFERS AND CAPITAL CONTRIBUTIONS			
Transfers in (note 15)	3,800,509	1,111,705	
Transfers out (note 15)	(6,569,274)	0	
Capital grants	847,983	831,351	
Change in net assets	(4,193,253)	1,293,489	
Total net assets - beginning	344,810,850	33,348,514	
Total net assets - ending	\$340,617,597	\$34,642,003	

Recycled		Totals		
Water	Non-Major	2010	2009	
\$0	\$ 11,318,579	\$ 44,544,852	\$ 43,831,918	
4,162,140	0	4,162,140	2,715,636	
4 400 440	44.040.570	40 700 000	10 517 551	
4,162,140	11,318,579	48,706,992	46,547,554	
0	4,558,505	7,337,951	5,939,058	
0	0	19,016,466	20,049,102	
0	0	10,029,605	12,885,191	
0	99,695	99,695	99,782	
		·	•	
3,320,250	6,389,809	24,227,291	27,543,530	
2,435,603	3,495,651	26,173,254	22,184,542	
5,755,853	14,543,660	86,884,262	88,701,205	
	1 1,0 10,000	00,001,202	00,701,200	
(1,593,713)	(3,225,081)	(38,177,270)	(42,153,651)	
266,268	451,492	1,715,274	2,796,097	
2,444,395	2,823,068	34,355,385	36,324,998	
0	0	7,753,057	5,753,403	
15,080	1,640,949	7,637,808	3,543,079	
(1,937,272)	(411,341)	(9,891,049)	(13,498,208)	
(1,210,242)	(632,610)	(7,684,250)	(8,031,260)	
(421,771)	3,871,558	33,886,225	26,888,109	
(0.045.404)	040 477	(4.004.045)	(45.005.540)	
(2,015,484)	646,477	(4,291,045)	(15,265,542)	
3,548,068	2,301,867	10,762,149	11,014,174	
(1,866,129)	(2,326,746)	(10,762,149)	(11,014,174)	
8,419,060	288,484	10,386,878	13,923,822	
8,085,515	910,082	6,095,833	(1,341,720)	
E2 042 472	94 001 124	E1E 102 670	E16 11E 201	
52,943,172	84,001,134	515,103,670	516,445,391	
\$61,028,687	\$84,911,216	\$521,199,503	\$515,103,670	

INLAND EMPIRE UTILITIES AGENCY Statement of Cash Flows

For the Fiscal Year ended June 30, 2010

(With Comparative Totals for June 30, 2009)

	Enterprise Funds	
	Regional	Recharge
	Wastewater	Water
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$32,212,093	\$578,830
Cash received from interfund services provided	0	0
Cash payments to suppliers for goods and services Cash payments to employees for services	(27,338,370) (6,315,735)	(681,744) (274,827)
Cash payments for interfund services used	(20,781,769)	(105,807)
530 pay	(20,101,100)	(100,001)
Net cash provided by (used for) operating activities	(22,223,781)	(483,548)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in	3,800,510	1,111,705
Transfers out	(6,569,275)	0
Other receivables	0	1,267,670
Contract reimbursement from others	4,714,109	0
Tax revenues	29,102,305	0
Issuance of long-term receivable	0	0
Collection of long-term receivable	2,373,399	0
Cash paid to others	(5,427,904)	(7,924)
Advances from other funds	0	0
Advances to other funds	0_	0
Net cash provided by (used for) noncapital financing activities	27 002 144	2 271 451
activities	27,993,144	2,371,451
CASH FLOWS FROM CAPITAL AND RELATED		
FINANCING ACTIVITIES Proceeds from applied debt	0	0
Proceeds from capital debt	•	_
Acquisition and construction of capital assets Proceeds from sale of assets	(15,846,474)	(543,302)
Proceeds from State Revolving Funds	0	0
Calls on deposits held by members		0
Capital grants received	7,753,057 847,984	_
	•	831,353
Principal paid on capital debt Interest paid on capital debt	(14,240,594) (8,791,741)	(498,820)
	, , , ,	(156,400)
Other nonoperating expenses	(302,067) 0	0
Contractor deposits collected		_
Refund of contractor deposits	(1,138,189)	(194,702)
Net cash provided by (used for) capital and related	,_,_,,	,_ ·
financing activities	(31,718,024)	(561,871)

Recycled		Totals	
Water	Non-Major	2010	2009
\$921,413	\$15,360,413	\$49,072,749	\$36,845,769
0	24,053,243	24,053,243	25,634,983
(721,057)	(11,074,999)	(39,816,170)	(33,591,232)
(640,844)	(22,878,624)	(30,110,030)	(33,406,470)
(957,443)	(1,779,420)	(23,624,439)	(27,353,643)
(1,397,931)	3,680,613	(20,424,647)	(31,870,593)
3,548,068	2,301,867	10,762,150	11,014,174
(1,866,129)	(2,317,063)	(10,752,467)	(11,014,174)
0	0	1,267,670	(52,669)
15,080	1,509,563	6,238,752	3,326,066
2,204,469	2,754,982	34,061,756	36,256,669
(1,497,082)	0	(1,497,082)	0
, , ,	25,284	2,398,683	35,307
(1,234,902)	(633,650)	(7,304,380)	(2,830,557)
6,000,000	0	6,000,000	3,700,000
0	(6,009,683)	(6,009,683)	(3,700,000)
7,169,504	(2,368,700)	35,165,399	36,734,816
7,109,304	(2,300,700)	33,103,333	30,734,010
0	0	0	3,741,732
(20,874,064)	(3,946,000)	(41,209,840)	(58,370,938)
0	(46,050)	(46,050)	93,190
9,061,713	0	9,061,713	21,026,934
0	0	7,753,057	5,753,403
8,419,060	288,486	10,386,883	13,923,822
20,220,248	(192,653)	5,288,181	(15,290,581)
(1,592,936)	(412,994)	(10,954,071)	(13,417,313)
0	6,024	(296,043)	(406,009)
538,403		538,403	346,899
0	(194,882)	(1,527,773)	(188,307)
45 770 40 1	(4.400.000)	(04.005.546)	(40.707.400)
15,772,424	(4,498,069)	(21,005,540)	(42,787,168)
			(Continued)

INLAND EMPIRE UTILITIES AGENCY Statement of Cash Flows (Continued from previous page) For the Fiscal Year ended June 30, 2010

(With Comparative Totals for June 30, 2009)

	Enterprise Funds	
	Regional	Recharge
	Wastewater	Water
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	\$1,058,660	\$659
Sale of investments	φ1,000,000	0
Calc of investments		
Net cash provided by (used for) investing activities	1,058,660	659
Net increase (decrease) in cash and cash equivalents	(24,890,001)	1,326,691
Cash and cash equivalents - beginning	86,246,319	990,939
Cash and cash equivalents - ending	\$61,356,318	\$2,317,630
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income (loss)	(\$31,630,485)	(\$1,727,992)
Operating income (loss)	(\$31,030,403)	(\$1,727,992)
Adjustments to reconcile operating income to net cash		
provided by (used for) operating activities		
Depreciation and amortization	19,246,418	995,582
Changes in assets and liabilities		
(Increase) decrease in		
Accounts receivable	1,591,985	580,186
Other receivables	0	0
Short-term receivable	(2,606,165)	0
Taxes receivable	0	0
Inventory	0	0
Prepaid items	16,024	(1,356)
Deferred costs	0	0
Increase (decrease) in		
Accounts payable	(7,324,896)	(329,968)
Accrued liabilities	69,212	0
Other liabilities	(1,585,874)	0
Compensated absences	0	0
Notice to the first form of the	(000 000 == :)	(0.400 = 15)
Net cash provided by (used for) operating activities	(\$22,223,781)	(\$483,548)

ecycled		Totals	
Vater	Non-Major	2010	2009
\$229,719	\$244,466	\$1,533,504	\$3,098,781
0	108,534	108,534	135,879
229,719	353,000	1,642,038	3,234,660
21,773,716	(2,833,156)	(4,622,750)	(34,688,285)
5,944,308	29,053,316	122,234,882	156,923,167
27,718,024	\$26,220,160	\$117,612,132	\$122,234,882
\$1,593,713)	(\$3,225,081)	(\$38,177,271)	(\$42,153,651)
2,435,603	3,495,651	26,173,254	22,184,542
(3,240,727)	3,716,533	2,647,977	(9,638,391)
0	328,866	328,866	55,624
0	(3,565)	(2,609,730)	(40,613)
0	0	0	(68,329)
0	(108,546)	(108,546)	(70,636)
100,000	310,828	425,496	(241,150)
0	0	0	(1,223,820)
589,333	(1,291,306)	(8,356,837)	834,937
242,288	(535,017)	(223,517)	(2,845,603)
69,285	983,488	(533,101)	1,223,556
0_	8,762	8,762	112,941
	\$3,680,613	/	
\$1,397,931)		(\$20,424,647)	(\$31,870,593)

INLAND EMPIRE UTILITIES AGENCY Statement of Cash Flows - (Continued from previous page) For the Fiscal Year Ended June 30, 2010

(With Comparative Totals for June 30, 2009)

	Enterprise Funds	
	Regional	Recharge
	Wastewater	Water
RECONCILIATION OF CASH & CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:		
Cash and short-term investments	\$32,756,725	\$1,475,983
Restricted assets	28,599,593	841,647
Cash & cash equivalents at end of year	\$61,356,318	\$2,317,630
	2010	2009
Noncash capital, financing and investing activities:		
Regional Wastewater - Capital Capacity Reimbursement Account	7,753,057	
Regional Wastewater - Loss on Sale of Assets	1,625,356	
Administrative services - OPEB Liability	983,488	1,416,404

Recycled		Totals		
Water	Non-Major	2010	2009	
\$875,948	\$26,128,398	\$61,237,054	\$64,706,059	
26,842,076	91,762	56,375,078	57,528,823	
\$27,718,024	\$26,220,160	\$117,612,132	\$122,234,882	



Artist: Joshua Kim, 12th Grade
West High School / Mary Lange
Torrance Unified School District
West Basin Municipal Water District



NOTES TO THE BASIC FINANCIAL STATEMENTS

INLAND EMPIRE UTILITIES AGENCY

Index of Notes to the Basic Financial Statements

June 30, 2010

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NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Organization and Summary of Significant Accounting Policies:

a. <u>Description of the Reporting Entity</u>

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

Subject to the limitation imposed by the Constitution of California, and pursuant to its charter, all powers of the Agency are vested in a five-member Board of Directors. Each Director serves a four-year term and is elected by and represents the voters of a specific geographic area within the Agency's boundaries, identified as a Division. As of June 30, 2010, the Agency's staff is led by the Board-appointed Chief Executive Officer/General Manager, Chief Financial Officer, Executive Manager of Operations, the Executive Manager of Engineering, and the Executive Manager of Policy Development. The Agency's staff consisted of 308 authorized positions, of which 290 were filled as of June 30, 2010. 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.

b. Fund Financial Statements

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

For financial reporting purposes, the Agency has the following major funds: Regional Wastewater, 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. (Refer to "Individual Funds" section.)

b. Fund Financial Statements (continued):

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

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

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

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

Enterprise Funds

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

Regional Wastewater 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 regional facilities. These costs are associated with the domestic wastewater delivered to the regional sewage system, which serves the residential, commercial, and industrial entities within the Agency's 242 square-mile service area. The tertiary process includes chlorination, and dechlorination, to remove excess chlorine residuals thus protecting the habitats in the receiving waters, as required by the Agency's National Pollution Discharge Elimination System (NPDES) permits.

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

Recharge Water Fund

The Recharge Water Fund records the revenues and operating expenses associated with the management of the groundwater recharge basins and pertinent facilities. 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 was part of a comprehensive water supply enhancement program jointly sponsored by the Agency and other local agencies in the region to increase artificial groundwater recharge within the Chino Basin using storm water, recycled water and imported water. Through the development of increased recharge capacity, greater quantities of high quality water can be captured and stored during wet years and be made available during drought years and times of imported water supply shortages.

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 response to the potential shortage and reduction of imported water supplies, the Agency adopted the Recycled Water Business Plan (RWBP) in December 2007. A key goal of the RWBP is to increase the demand for recycled water to 50,000 acre foot per year (AFY) with the expansion of the Regional Recycled Water Distribution System. Recycled water provides a cost effective and more dependable local water supply and a key to drought proofing the Agency's service area.

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.

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

Recognition of Revenues and Expenses

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

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

Operating and Non-operating Revenues and Expenses

Operating revenues relate to the direct revenues generated as a result of services performed or sale of commodities. Examples include sewage treatment and disposal service charges, sales of recycled water, and surcharges on the deliveries of domestic water. Non-operating revenues do not directly relate to the Agency's core operations, such as: 1) property tax revenue; 2) interest income; and, 3) sewer capital connection fees.

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

Budgetary Policy and Control

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

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

d. Assets, Liabilities and Net Assets or Equity

Cash and Investments

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

For the purpose of the Combining Statement of Cash Flows at June 30, 2010, and in accordance with the Governmental Accounting Standards Board Statement Number 9, the Agency's cash and cash equivalents are considered to be petty cash, demand deposits and savings accounts that are readily available on demand. All short-term cash surpluses are maintained in a cash and investment pool, and allocated to each fund based on month-end cash and investment balances. For financial presentation purposes, cash is shown within cash, short-term investments and restricted assets. Additionally, guidelines provided by GASB Statement No. 40 regarding risk disclosures on deposits and investments have been followed.

Interest Income Allocation Method

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

Receivables and Payables

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the applicable enterprise funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property taxes are annually attached as an enforceable lien on property as of January 1. Taxes are levied annually on July 1; and, are payable in two installments on December 10 and April 10. Any unpaid amounts at the end of the fiscal year are recorded as accounts receivable. The County 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 fiscal year end. The Agency does not collect property taxes in advance; therefore no deferred revenue is shown on the financial statements.

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

All receivables are shown net of an allowance for uncollectibles.

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

Inventories and Prepaids

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.

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

Restricted Assets

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

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

Capital Assets

Property, plant and equipment are capitalized at cost. The cost of a capital investment includes purchase, rehabilitation or construction costs, 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	<u>></u> \$ 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	<u>></u> \$15,000	<u>></u> 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.

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

Capital Assets (continued):

During the year ended June 30, 2010, 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. Total interest of \$2,123,466 was capitalized on jobs in process related to the 2008A Revenue Bonds proceeds, and is comprised of \$1,813,529 recorded in the Regional Capital Improvement Fund, \$230,782 in the Recycled Water Fund, \$60,928 in the Regional Operations and Maintenance Fund, and \$18,227 in the Non-Reclaimable Wastewater Fund.

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

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

Estimated useful lives are: Furniture, machinery and equipment 5 - 10 years

Improvements15 yearsInterceptors, buildings and plants5 - 50 yearsIntangible Plant40 yearsComputer Software10 years

Compensated Absences

In accordance with GASB Code Section C60, the Agency records a liability for vacation, sick and compensatory leave earned but not used. Each employee earns vacation pay based on the length of employment. Upon termination, employees receive payment for accrued vacation pay.

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

At June 30, 2010, the accumulated vacation leave payable was \$1,900,474, which included additions of \$297,896 and deletions of \$275,717. This was a net increase of \$22,179 over the previous fiscal year. The sick and compensatory leave balance was \$1,943,970, which included additions of \$610,281 and deletions of \$623,698, a net decrease of \$13,418 over the previous fiscal year. Total compensated absences have been recorded in the Administrative Service Fund as a combined total of \$3,844,443 payable in future years.

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

Other Post - Employment Benefits

In accordance with the Agency's Memorandum of Understanding (MOU), the Agency provides post-employment benefits to all retired employees through the 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 retires 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.
- 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 No. 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, 2010, the Agency paid \$294,033 for 61 retired employees.

In accordance with GASB Statement No. 45 – Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pension (OPEB), public entities are required to accrue OPEB costs throughout the employee's working lifetime and record the actuarially calculated cost as a liability. The Agency contracted an independent pension consultant and actuaries to perform an actuarial valuation of the OPEB as of July 1, 2008. The report used the "Entry Age Normal" actuarial cost method and an attribution period that runs from the date of hire until the expected retirement date. Normal costs can be defined to be the present value of future benefits that are "earned" by employees for service rendered during the current year. The report used the normal cost approach with which the Agency's unfunded actuarial accrued liability is being amortized as a level dollar amortization over a closed 28-year period.

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

<u>Other Post - Employment Benefits</u> (continued):

As of June 30, 2010, no decision has been made to fund the actuarially calculated OPEB liability.

The following table presents the summary of the Actuarial Accrued Liability (AAL), Plan Assets and Annual Required Contribution for the past four Fiscal Years.

	FY09/10	FY08/09	FY07/08	FY06/07
Actuarial Accrued Liability	\$13,977,691	\$15,245,030	\$ 8,513,594	\$ 7,971,198
Actuarial Value of Assets	0	0	0	0
Unfunded Actuarial Accrued Liability (AAL)	\$13,977,691	\$15,245,030	\$ 8,513,594	\$ 7,971,198
Amortization Period	27 years	28 years	29 years	30 years
Discount Rate	4.5%	3.5%	5.0%	5.0%
Annual Level Dollar Amortization of Unfunded AAL	\$ 629,829	\$ 544,605	\$ 562,285	\$ 518,538
Normal Cost	895,409	1,093,430	373,890	354,398
Annual Required Contribution (ARC)	\$ 1,525,238	\$ 1,638,035	\$ 936,175	\$ 872,936
Interest on net OPEB Obligation	112,918	61,086	\$33,372	0
Adjustment to ARC	(360,635)	(58,301)	(87,098)	(19,630)
IEUA Contributions	(294,033)	(224,416)	(192,441)	(185,857)
Increase or Decrease in Net OPEB	\$ 983,488	\$ 1,416,404	\$ 690,008	\$ 667,449
Percentage Contributed	19.3%	13.7%	20.6%	21.3%
Net OPEB Obligation – Beginning of Year	\$ 2,773,861	\$ 1,357,457	\$ 667,449	\$ 0
Net OPEB Obligation – End of Year	\$ 3,757,349	\$ 2,773,861	\$ 1,357,457	\$ 667,449
Annual Covered Payroll	\$24,926,380	\$25,374,198	\$24,365,441	\$21,314,206
Unfunded Actuarial Accrued Liab. as a ratio of payroll	15.1%	10.9%	5.6%	3.1%

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

<u>Other Post - Employment Benefits</u> (continued):

Actuarial Methods and Assumptions:

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

The valuation process uses a mathematical model to project the number of retirees and dependents in each future year based on the retirees at the beginning of the year who are expected to survive until the end of the year, and the active employees expected to retire during the year. The expected benefits payable in future year are calculated based on the number of projected retirees and dependents and the anticipated future per capita costs Actuarial assumptions used for the April 1, 2009 valuation were:

Discount Rate – a 4.5% discount was used to calculate the present value of future benefit payments. Normal costs increase by 6.0% per year.

Normal cost increase by 6.0% per year.

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

<u>Year</u>	<u>Rate</u>
2011	7.9%
2012	7.6%
2013	7.3%
2014	7.0%
2015	6.7%
2016	6.4%
2017	6.1%
2018	5.8%
2019	5.5%
2020 and after	5.2%

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

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

Long-Term Obligations

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

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

Fund Equity

The fund financial statements report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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 data have been made in order to enhance their comparability with current year figures.

Accounting Pronouncements

In November 2006, the GASB Board issued GASB Statement No. 49 Accounting and Financial Reporting for pollution Remediation Obligations, effective for fiscal periods beginning after December 15, 2007. The Agency does not currently have any instances of pollution remediation but will continue to monitor for possible future impacts.

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II. STEWARDSHIP

(2) Stewardship, Compliance & Accountability:

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

The budget is the primary performance tool used to measure accountability of public agencies, ensuring the public trust for taxpayer dollars. The budget communicates to all stakeholders (i.e., elected officials, regional agencies, regulatory agencies and citizens) how their investment will be used by providing detailed information on specific resource allocations and expenditures. Progress is monitored on a monthly basis, and revisions are made as necessary to meet changing needs or accommodate unplanned requests. This budget document is useful as a benchmark to evaluate the Agency's accomplishments and/or challenges, as well as to assess compliance with fiscal accountability.

Budget Basis

The budget for the Agency is prepared on a full accrual basis, the same as the Agency's financial statements. Revenues are recognized when earned, and expenses are recognized as they are incurred. The only exceptions are non-cash items, such as; depreciation, amortization and deferred financing expenses which are recognized in the budget document as part of the annual capital expenditures or long term debt cost of issuance at the time of acquisition or debt issuance.

The Agency is operated and reports its activities as an Enterprise Fund, which is used to account for operations that are financed and operated in a manner similar to private business enterprise. Enterprise funds account for operations that provide services on a continuous basis, and are substantially financed by revenue derived from user charges. It is the intention of the Agency to recover the full-cost of providing goods and/or services through the collection of user charges and fees.

The Agency's annual budget is prepared on a July 1 through June 30 fiscal year basis. Preparation begins in October with the issuance of the Chief Executive Office/General Manager's message, which communicates to all Department Managers and Supervisors the guidelines and the Agency's key objectives for the preparation of the Five Year Business Plan (operation budget) and the Ten Year Capital Improvement Plan (capital budget).

Strategic Planning

To determine the short-term and long-term strategic directions of the Agency and to align them with the Agency's vision and goals and objectives, the Executive Managers meet to review the Agency's Vision, Master Plan, Long Range Plan of Finance (LRPF) and Ten Year Capital Improvement Plan (TYCIP). The Executive Managers review the various forecasts prepared by the Human Resources, Finance, Planning, Engineering, and Operations departments to identify fund commitments based on bargaining agreements, inflation, infrastructure needs, utilities, and operations and maintenance. Service fees and fund balances are reviewed to identify Agency income and growth. Based upon this information, department managers are provided with guidelines for the preparation of their respective budgets.

(2) Stewardship, Compliance & Accountability (continued):

Budgetary Information (continued):

Department Responsibilities

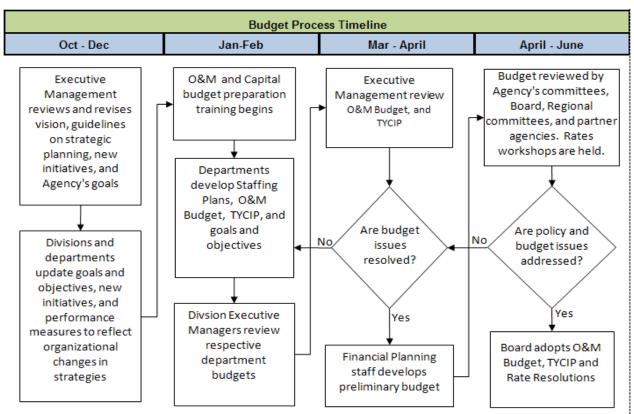
Each department is tasked to develop qualitative, quantitative, and justifiable departmental goals and objectives, key performance measurements, staffing plans, capital budget requests, and operation and maintenance (O&M) budget requests that are pertinent to the department's goal performances and consistent with the Agency's policy goals and objectives.

Executive Management Responsibilities

Executive Management meets with staff to review and evaluate both operation and capital budget requests over several sessions to minimize service rate impact and ensure greater operating efficiencies are achieved and to maintain sufficient operating reserves for the Agency's various programs. Budget workshops are held to inform the Board, Regional Committees and the contracting agencies of key budget assumptions, proposed rate structures, capital programs, and respective policy issues.

Subsequently, the Board's Finance, Legal, and Administrative Committee review the proposed budget and the service rates as recommended by Executive Management. In May, the Regional Wastewater Program budget and the respective service rates are presented to the Regional Committees, which are comprised of representatives from the Agency's contracting agencies. Upon the Regional Committees' review and recommendation, the Agency's Board of Directors approves and adopts the final budget document, rate resolutions and the TYCIP before June 30th.

With the support from the Board of Directors, Executive Management, Department Managers and staff, the budget preparation process adheres to a timeline and plays an important role in the Agency's strategic financial planning.



(2) Stewardship, Compliance & Accountability (continued):

Budgetary Information (continued):

Executive Management Responsibilities (continued):

The Agency's Board approves each year's budget submitted by the Chief Financial Officer prior to the beginning of the new fiscal year.

The Agency is not required to present budget comparisons. Therefore budgetary data is not presented in the accompanying basic financial statements.

Budgetary Control

The Agency maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the Board. The Agency's Fiscal Control Ordinance establishes the Agency's basic principles of financial control and provides the Chief Executive Officer/General Manager and the Chief Financial Officer the authorization and fiscal flexibility to realign operation and maintenance budgets as needed.

The Chief Executive Officer/General Manager and the Chief Financial Officer are authorized to approve the transfer of appropriations for a single account category within a single fund's budget. In the event, the overall adopted Operation and Maintenance Budget or Capital Budget appropriation needs to be amended, a presentation to the Finance, Legal and Administrative Committee is required. The Board takes the Committee's recommendation into account as they consider the merits of the amendment requested. A Board majority is required to change the budgeted appropriation.

Any increase in appropriation in any fund budget and employment cost appropriation, for whatever purpose, requires the approval of the Board. Information on budget transfers are presented to the Board as part of quarterly variance reporting. All appropriations lapse at year-end.

Encumbrances

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

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

Deficit Fund Balance

At June 30, 2010 there were expenditures over appropriations in certain funds at the department level. However, this did not result in a negative fund balance of the individual funds because of expenditure savings from other departments in the fund and/or adequate revenues or other funding sources in the fund to offset expenditures.

III. DETAILED NOTES ON ALL FUNDS

(3) Cash and Investments

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

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

Cash and investments as of June 30, 2010 are classified in the accompanying financial statement as follows:

Statement of net assets:

Total cash and investments	\$ 117.612.132
Cash and investments held by fiscal agent	<u>56,375,078</u>
Cash and investments	\$ 61,237,054

Cash and investments as of June 30, 2010 consist of the following:

Cash on hand	\$ 2,250
Deposits with financial institutions	21,034,498
Deposits held by other governmental agencies	15,048,421
Investments	 81,526,963
Total cash and investments	\$ 117,612,132

GASB Statement No. 31

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

Investments and Interest Receivable – Restricted

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

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

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

	Authorized Investment Type	Maximum <u>Maturity</u>	Maximum Percentage <u>of Portfolio</u>	Maximum Investment in One Issuer
U.S	. Treasury Obligations	5 years	None	None
U.S	. Agency Securities	5 years	None	None
Stat	te Treasury Obligations	5 years	10%	None
Loc	al Agency Obligations	5 years	None	None
Cor	nmercial Paper	270 days	20%	None
	e, Certificates, PSC of Deposit	5 years	20%	None
Rep	ourchase Agreements	90 days	40%	None
Med	dium-Term Notes	5 years	10%	None
Mor	ney Market Funds	N/A	20%	10%
Loc	al Agency Investment Fund	N/A	None	None
Loc	al Agency Investment Pools	N/A	\$20M/Acct	None
Ban	nk Deposits	N/A	None	None

Investments Authorized by Debt Agreements

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

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

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

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

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

Investment Pool Oversight

Local Agency Investment Fund (LAIF)

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

California Asset Management Program (CAMP)

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

Deposits

At June 30, 2010, the carrying amount of the Agency's deposits was \$21,034,498 and the bank balance was \$21,116,499. The \$82,001 difference represents outstanding checks and other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure an Entity's deposits by pledging government securities with a value of 110% of an Entity's deposits. California law also allows financial institutions to secure Entity deposits by pledging first mortgage notes having a value of \$100,000 by the FDIC. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank of San Francisco, California, as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "Agency of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local government agency.

Credit Risk

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

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

Presented below is the minimum rating required by the Agency's investment policy, and the actual rating as of fiscal year ended June 30, 2010 for each investment type:

					Rating a	as of J	une 3	30, 2010	
		Minimum Legal	Nequ To	uired					
Investment Type		Rating	Rat		AAA	<u>A-1</u>	<u> +</u>	<u>Unrat</u>	<u>ted</u>
U.S. Agency Securities	\$ 17,150,820	AAA	\$	0	\$17,150,820	\$	0	\$	0
Certificates of Deposit	5,000,000	N/A		0	0		0	5,000	0,000
State Investment Pool	20,147,082	N/A		0	0		0	20,147	7,082
Held by Bond Trustee:									
Money Market Accounts	6,566,754	N/A		0	0		0	6,566	6,754
Money Market Funds	4,771,818	AAA		0	4,771,818		0		0
CAMP Investment Pool	27,890,489	AAA		0	27,890,489		0		0
Total	\$ 81,526,963		\$	0	\$49,813,127	\$	0	\$31,71	3,836

Concentration of Credit Risk

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

<u>Issuer</u>	Investment Type	Reported Amount
Freddie Mac	Bonds and Discount Notes	\$ 9,083,630
Fannie Mae	Bonds and Discount Notes	6,059,070
CDARS	Certificate of Deposit	5,000,000
Federal Home Loan	Bonds and Discount Notes	2,008,120

Custodial Credit Risk

The custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, the Agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Agency will not be able to recover the value of investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal 110% of the total amount deposited by public agencies. California law also allows financial institutions to secure Agency deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2010, the Agency's deposits (bank balance) were insured by the Federal Depository Insurance Corporation up to \$250,000 and the remaining balances were collateralized under California law. None of the Agency's deposits or investments was exposed to custodial credit risk.

Interest Rate Risk

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

As of June 30, 2010, the Agency had the following investments and original maturities:

Remaining Maturity (in Months)								
Investment Type				to 60 More Than onths 60 Months		Fair <u>Value</u>		
U.S. Agency Securities	\$	0	\$	0	\$	0	\$17,150,820	\$ 17,150,820
Certificates of Deposit	5,00	0,000		0		0	0	5,000,000
State Investment Pool	20,14	7,082		0		0	0	20,147,082
Held by Bond Trustee:								
Money Market Accounts	6,56	6,754		0		0	0	6,566,754
Money Market Funds	4,77	1,818		0		0	0	4,771,818
CAMP Investment Pool	27,89	0,489		0		0	0	27,890,489
Total	\$64,37	6,143	\$	0	\$	0	\$17,150,820	\$ 81,526,963

(4) Deferred Compensation Plan

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

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

In fiscal year 1997/98, the Board of Directors adopted a resolution to establish another Deferred Compensation Plan that is a qualified plan under the IRC Section 401(a). Each participant is expected to contribute up to 10% of their employee's earnings up to a maximum of \$49,000 for 2009. 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 \$1,033,707 and \$1,376,084 at fiscal years ended June 30, 2010 and 2009, respectively.

(5) Defined Benefit Pension Plan

Plan Description

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

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

Funding Policy

Agency employees are required to contribute 8% 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.

(5) Defined Benefit Pension Plan (continued):

Funding Policy, (continued):

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 2.5% of their average salary during the period of 12 consecutive months in which they earned their highest salary.

Annual Pension Costs

Under GASB Statement No. 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2009 to June 30, 2010 has been determined by an actuarial valuation of the plan as of June 30, 2007.

In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2010, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2009 to June 30, 2010. The Agency's annual pension cost for the fiscal year ended June 30, 2010 was \$4,747,436.

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

Valuation Date June 30, 2007

Actuarial Cost Method Entry Age Actuarial Cost Method Amortization Method Level Percentage of Payroll

Average Remaining

Period 23 Years as of the Valuation Date

Asset Valuation Method 15 Year Smoothed Market

Actuarial Assumptions
Investment Rate of

Return 7.75% (net of administration expenses)
Projected Salary Increases 3.25% 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%

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, 2037.

(5) Pension Plan (continued):

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

The Schedule of Funding Progress below shows the recent history of the Entry Age Normal Accrued Liability, Actuarial Value of Assets, the Unfunded Liability (their relationship), Funded Ratio Status (i.e the ratio of the Actuarial Value of Assets to Entry Age Normal Accrued Liability), the estimated Annual Covered Payroll and the Unfunded Actuarial Accrued Liability (UAAL) as a percentage of the Annual Covered Payroll. This schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Valuation Date	Entry Age Normal Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (Excess Assets) (a-b)	Funded Ratio Status (b/a)	Annual Covered Payroll (c)	UAAL as a % of Payroll _[(a) - (b)]/c
6/30/2007	71,918,900	63,177,134	8,741,766	87.80%	21,314,206	41.0%
6/30/2008	83,250,326	70,725,415	12,524,911	85.00%	24,428,539	51.3%
6/30/2009	101,921,750	79,689,675	22,232,075	78.2%	24,511,910	90.7%

Three-year Trend information for the IEUA CalPERS

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2008	4,060,603	100%	0
6/30/2009	5,083,038	100%	0
6/30/2010	4,747,436	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.

- General and auto liability, public officials and employees' error and omissions: The Agency retains the risk of loss for general liability, automobile liability, and, errors and omissions claims of up to \$250,000 per person per occurrence.
- The Agency also retains the risk of loss for property damage, and boiler machinery claims of up to \$25,000.

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

(6) Risk Management (continued):

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

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

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

- Employee dishonesty coverage up to \$50,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage's, and computer fraud; with a deductible of \$1,000 per occurrence.
- Property damage has a \$50,000,000 per occurrence coverage limit, subject to a \$25,000 deductible per occurrence. All other claims categories provide coverage up to \$10,000,000 on an annual aggregate basis.
- ➤ Boiler and machinery coverage for the replacement cost up to a shared limit of \$500,000, subject to various deductibles depending on the type of equipment.

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

Settled claims from the risks discussed herein have not exceeded commercial insurance coverage in any of the last three fiscal years ending June 30, 2010, 2009, and 2008. 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 payouts), and other economic and social factors. The liability for claims and judgments is reported in the accrued liabilities.

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

	Worker's Co	mpensation	General Liability		
	2009/10	2008/09	2009/10	2008/09	
Unpaid Claims, beginning of fiscal year	\$295,088	\$166,831	\$ 0	\$ 0	
Incurred claims (including IBNRs)	126,169	307,951	4,846	40,937	
Claim payments	(251,808)	(179,694)	(4,846)	(40,937)	
Unpaid claims, end of fiscal year	\$169,449	\$295,088	\$ 0	\$ 0	

(7) Changes in Capital Assets

The following is a summary of property, plant and equipment, net jobs in progress and intangible assets at June 30, 2010:

Capital Assets

Capital assets-	Balance at 6/30/09	Additions	Transfers & Retirements	Balance at 6/30/10	Accumulated Depreciation at 6/30/10	Net Book Value at 6/30/10
Capital assets-not being depreciated:						
Land	\$ 13,899,708	\$ 241,666	\$ 0	\$ 14,141,374	\$ 0	\$ 14,141,374
Jobs in progress	213,519,848	43,502,684	(135,210,712)	121,811,820	0	121,811,820
Total capital assets, not being depreciated	\$ 227,419,556	\$ 43,744,350	\$(135,210,712)	\$135,953,194	\$ 0	\$ 135,953,194
Capital assets- being depreciated:						
Interceptors, trunk lines and inter-ties	\$ 13,531,582	\$ 14,277,000	\$ 0	\$ 27,808,582	\$ (3,833,784)	\$ 23,974,798
Office facilities	11,504,999	0	0	11,504,999	(1,479,678)	10,025,321
Collection, outfall, and transmission lines	106,665,954	9,346,559	0	116,012,513	(34,293,623)	81,718,890
Reservoirs, settling basins, ponds, and chlorination stations	75,165,190	21,582,142	0	96,747,332	(14,049,612)	82,697,720
Recycled water distribution systems	77,328,262	4,067,084	0	81,395,346	(5,956,822)	75,438,524
Treatment plants, pump stations and office buildings	214,311,900	20,476,500	(1,316,861)	233,471,539	(108,177,736)	125,293,803
Equipment	52,483,253	64,018,809	(88,245)	116,413,817	(38,611,771)	77,802,046
Land improvement	13,298,341	286,570	(716,416)	12,868,495	(5,810,808)	7,057,687
Total capital assets, being depreciated	\$564,289,481	\$134,054,664	\$ (2,121,522)	\$696,222,623	\$(212,213,834)	\$ 484,008,789

Note: The transfers and retirements of \$135,210,530 consists of capitalization of two Intangible Assets totaling \$1,155,866 and \$134,054,664 of capital project transfers to the Enterprise Funds fixed assets.

Less accumulated depreciation for:

Interceptors, trunk lines and inter-ties	\$(3,363,982)	\$ (469,802)	\$ 0	\$(3,833,784)
Office facilities	(1,198,978)	(280,699)	0	(1,479,677)
Collection, outfall, and transmission lines	(30,537,668)	(3,755,955)	0	(34,293,623)
Reservoirs, settling basins, ponds, and chlorination stations	(12,027,232)	(2,022,380)	0	(14,049,612)
Recycled water distribution systems	(4,248,692)	(1,708,131)	0	(5,956,823)
Treatment plants, pump stations and office buildings	(101,284,710)	(7,183,395)	290,369	(108,177,736)
Equipment	(30,332,926)	(8,363,439)	84,594	(38,611,771)
Land improvement	(5,250,404)	(679,807)	119,403	(5,810,808)
Total accumulated depreciation	(188,244,592)	(24,463,608)	494,366	(212,213,834)
Total capital assets, being depreciated, net	\$376,044,889	\$109,591,056	\$ (1,627,156)	\$484,008,789
Total capital assets-Enterprise Funds, net	\$603,464,445	\$153,335,406	\$ (136,837,686)	\$619,961,983

(7) Changes in Capital Assets (continued):

Intangible Assets

Intangible assets-	Balance at 6/30/09	Additions	Transfers & Retirements	Balance at 6/30/10	Accumulated Amortization at 6/30/10	Net Book Value at 6/30/10
Intangible assets-being amortized:						
Computer Software	\$ 6,160,190	\$ 67,011	\$ 0	\$ 6,227,201	\$ (1,732,436)	\$ 4,494,765
Metropolitan Water District connections	198,891	0	0	198,891	(157,125)	41,766
Corps of Engineers-Cucamonga Creek	43,489	0	0	43,489	(22,099)	21,390
San Bernardino County Flood Control- Chino Road Barrier	48,078	0	0	48,078	(10,417)	37,661
County Sanitation Districts of Los Angeles County's facilities and capacity rights	32,414,130	1,088,855	0	33,502,985	(11,554,395)	21,948,590
Santa Ana Watershed Project Authority capacity rights	12,467,002	0	0	12,467,002	(4,906,826)	7,560,176
Organization and master planning	1,844,537	0	0	1,844,537	(470,596)	1,373,941
Total intangible assets being amortized	\$ 53,176,317	\$ 1,155,866	\$ 0	\$ 54,332,183	\$(18,853,894)	\$35,478,289
Less accumulated amortization for: Computer Software	\$ (1,065,528)	\$ (666,908)	\$ 0	\$ (1,732,436)		
Metropolitan Water District connections	(153,147)	(3,978)	0	(157,125)		
Corps of Engineers-Cucamonga Creek berm	(21,229)	(870)	0	(22,099)		
San Bernardino County Flood Control- Chino Road Barrier	(8,814)	(1,603)	0	(10,417)		
County Sanitation Districts of Los Angeles County's facilities and capacity rights	(10,850,780)	(703,615)	0	(11,554,395)		
Santa Ana Watershed Project Authority capacity rights	(4,609,242)	(297,584)	0	(4,906,826)		
Organization and master planning	(435,503)	(35,093)	0	(470,596)		
Total accumulated amortization	(17,144,243)	(1,709,651)	0	(18,853,894)		
Total intangible assets-Enterprise Funds, net	\$ 36,032,074	\$ (553,785)	\$ 0	\$35,478,289		
Total capital assets- Enterprise Funds, net	\$ 639,496,519	\$155,452,995	\$(139,509,242)	\$655,440,272		

The ending balance of accumulated depreciation and amortization for all capital assets has been adjusted to the Statement of Net Assets for 2010 (rounding difference). For the fiscal year ended June 30, 2010, depreciation and amortization expense was \$26,173,259.

(7) Changes in Capital Assets (continued):

Jobs in Progress

At the Fiscal Year ended June 30, 2010, the Agency had several jobs in progress designed to expand the Recycled Water Distribution System as part of the 3 Year Business Plan adopted in December 2007. Other significant projects are also underway to expand, improve and refurbish existing treatment facilities in the Agency's Regional Program, including the disposition of wastewater by-products and provide for ancillary facilities that support operating activities.

Other Projects (less than \$1,000,000 each)	\$ 20,213,358
RP-5 System Facility Upgrade & Improvements	21,666,313
RP-1 Facilities Improvements	11,429,780
RP-1 Odor Control - Phase I	8,595,604
RP-1 Dewatering Facility Expansions	7,838,050
1630 E. Pipeline - Segment A	7,174,263
Recharge Enhancement Project	6,624,373
1299 E. Pipeline	5,299,510
NRW System Upgrades	5,093,288
RP-1 South Recycled Water Pump Station	4,783,880
RP-2 Dewater Cake Storage System	3,109,131
RP-1 Aeration Basin Modifications	2,458,352
1630 W. Recycled Water Pipeline Segment	1,835,662
900 W. Reservoir & Pipeline	1,575,807
RP-1 Digester No. 3 Roof Repair	1,395,625
ERP/CMMS Procurement	1,367,413
CCWRF Tertiary Filter & Chlorine Contact Tank Expansions	1,367,053
RP-2-SARI Dump Site Relocation	1,247,423
Collection System Emergency Upgrades	1,172,739
RP-1 Asset Replacements	1,161,942
RP-2 & RP-5 IPS Overflow	1,042,342
RP-5 Recycled Water Pump Station Expansions	1,413,404
1 Capacity Purchase from L.A. County Sanitation District for Edison Line	1,405,721
Church Street Lateral	1,305,010
Victoria & San Sevaine - Wells & Lysimeters	 1,235,777
Total jobs in progress	\$ 121,811,820

(8) Construction Commitments

The Agency is committed to several material construction contracts. Total outstanding obligation was \$16,974,380 at June 30, 2010. Some of the more significant contracts are as follows:

There are several projects on-going throughout the Agency's regional plants, with two major projects on-going at RP-1, one major project on-going at RP-5, and one major project going at HQA, several recycled water and smaller projects at each facility, with a remaining combined obligation of \$16,974,380.

(8) Construction Commitments (continued):

The major projects include:

- ♦ EN10001 RP-5 Recycled Water Pump Station Expansion. The project involves phased expansion to increase the flow to 15-20 mgd by mid 2010. The pump expansion includes upgrades (and some replacement) of the mechanical, electrical and structural systems, and installation of a new dechlorination facility adjacent to the Headquarter Buildings. This project has an outstanding obligation of \$8,500.
- ▶ EN06020 Magnolia Channel Wetland Restoration project The project will re-establish the drainage of approximately 2,000 linear feet of natural urban stream at the remaining undeveloped portion of the existing Magnolia Channel, use retention ponds to reduce the flow and encourage infiltration, and build approximately 5 acres of managed riparian habitat and vegetated banks to improve water quality. The project is expected to: reduce pollutants, pathogens, erosion and flooding that affect Chino Creek (and downstream to the Santa Ana River and to the coast) due to runoff from the surrounding and developing urban, dairy and agricultural areas within the City of Chino; and provide native habitat within the northern Prado Wetlands for sensitive and endangered species of significant concern in California.. This project has an outstanding obligation of \$619,588.
- **EN07006** RP-1 Assessment Management Phase II/Dechlorination Station project includes the upgrade to the dechlorination pump station at RP-4 to dechlorinate the effluent before it is discharged into Cucamonga Creek, as well as the excess flow from RP-1 Tertiary (TP1) not being used by the pump station, and excess flow going into Prado Lake. Currently the basin has a dechlorination capacity of 11.2 mgd with completion of the RP-4 expansion; flows will increase between 27 to 29 mgd exceeding the capacity of the current dechlorination station. This project has an outstanding obligation of \$149,280.
- ▶ EN06015 RP-1 Dewatering Facility Expansion project This project will expand the dewatering facilities at RP-1 by replacing the existing filter belt presses with a more efficient and cost effective dewatering system. A storage system for the dewatered cake will also be added to provide a minimum of 48 hours of dewater cake storage. This will allow more flexibility in scheduling of trucks to haul the solids to the composting facility. The project will also replace the belt conveyance system with a dual system to insure reliability and redundancy. This would eliminate potential bottlenecks at this system when handling current and ultimate treatment capacities. This project will only utilize the existing footprint of the building to house the new system upgrade, but a temporary facility will be constructed within the area to maintain dewatering operations during construction, and has an outstanding obligation of \$15,269,668.
- **EN09019** − IS Service Room Modifications and Air Conditioning − The Information Systems (IS) server room in Headquarters Building A houses all of the Agency's critical servers for the SAP system and e-mail. The current heat load produced by all server and ancillary equipment exceeds the existing air conditioning cooling capacity risking failure of all the servers. The existing air conditioning (A/C) system for the server room uses both building A/C and independent server room A/C. The intent is to maintain an independent air conditioning system sized sufficiently to cool the server room. As a potential added benefit, this may allow the Agency to shut off the building air conditioning system during non-working hours providing some energy savings. The project has an outstanding obligation of \$109,320.

(8) Construction Commitments (continued):

♦ WR08031 – 1630 E. Pipeline Segment A – The 1630 E Segment A project consists of the construction of a 36-inch diameter recycled water pipeline that will convey recycled water from the 1299 Reservoir site, located at CVWD's 1C Reservoir site to San Sevaine Basin Number 5 (a SBCFCD detention basin), located north of the intersection of the 210 and 15 Freeways, in the city of Rancho Cucamonga. The primary use of recycled water from the 1630 E Pipeline will be groundwater recharge at the Victoria and San Sevaine Basins, at an estimated recycled water demand of 4,361 AFY. The project has an outstanding obligation of \$818,025.

(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, 2010, 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

Lewis Operating Corporation

In January 2002, the Agency sold the Co-Composting site to Lewis Operating Corporation. In addition to the purchase price, Lewis agreed to pay \$4,678,500, payable in two equal installments, toward the Agency's relocation costs. In March 2008, the Agency Board of Directors approved a revision to the original due dates, with the first installment due on June 30, 2011 and the second installment due on June 30, 2012. As of June 30, 2010 the long-term receivable balance is \$2,339,250, and is recorded in the Regional Wastewater Capital Improvement Fund.

Niagara Bottling, L.L.C.

The Agency entered into an agreement with Niagara Bottling, L.L.C. in March 2004 for the construction of a Non-reclaimable Wastewater (NRW) lateral pipeline, with a not-to-exceed cost of \$250,000. The agreement requires Niagara to reimburse 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, 2010, the receivable amount is \$109,062 and is recorded in the Non-reclaimable Wastewater Capital Improvement Fund.

City of Ontario

The Agency's original contract with the City of Ontario for the reimbursement of the RP-1 to RP-5 By-Pass Project was amended on June 4, 2004. As of March 31, 2008 the project was complete; and, as of June 30, 2010, the receivable amount is \$2,878,247 and is recorded in the Regional Wastewater Capital Improvement Fund.

(10) Long-Term Receivables (continued):

Monte Vista Water District

On February 2, 2008, the Agency entered into an agreement with Monte Vista Water District for the construction of the regional recycled water distribution system that resides within the Monte Vista Water District (MVWD) service area. The Monte Vista Water District agreed to reimburse IEUA \$1,068,418 for the construction costs, payable annually beginning June, 2009, plus 2.2% interest for 20 years. As of June 30, 2010, the receivable amount is \$936,241, and is recorded in the Recycled Water Fund.

Bellevue Memorial Park

In June 2008, the Agency entered into an agreement with Bellevue Memorial Park for the construction of retrofit improvements for the use of recycled water. The agreement requires Bellevue to reimburse IEUA \$850,000 for construction costs, payable monthly beginning September 2009, plus 4.85% interest annually for 5 years. As of June 30, 2010, the receivable amount is \$560,841, and is recorded in the Recycled Water Fund.

(11) Joint Ventures - Long-Term Agreements

The Agency participates in the following joint ventures with other districts and agencies for various water projects and operating facilities in Southern California. Since the Agency does not have any equity interests in these joint ventures, and GASB Statement No. 14 provides the guidance on the accounting of joint ventures, these projects are not subject to the equity method of accounting.

Santa Ana Watershed Project Authority

The Santa Ana Watershed Project Authority (SAWPA) was formed under a joint exercise of power agreement for the purpose of undertaking projects for water quality control and protection in the Santa Ana River Watershed. SAWPA is composed of the five (5) water agencies within the watershed area: Eastern Municipal Water District, Orange County Water District, San Bernardino Valley Municipal Water District, Western Municipal Water District, and the Inland Empire Utilities Agency. Each participating agency appoints two commissioners to SAWPA to form an oversight committee of ten. Equal contributions are made by each member agency for administration and contributions based on capacity use rights for project agreements under which capital construction is accomplished. Special projects or studies are funded by equal contributions from each Agency based on the general or specific nature of the project or study. The Agency's share of ownership has not been determined. Financial data is available at the Agency's main office.

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

mmanzed as follows.		
	2010	2009
Total assets	\$184,425,624	\$188,191,509
Total liabilities	\$120,608,410	\$126,029,600
Total net assets	\$ 63,817,214	\$ 62,161,909
Total revenues	\$ 21,211,683	\$ 19,746,733
Total expenses	(19,556,378)	(16,728,769)
Net change in net assets	\$ 1,655,305	\$ 3,017,964

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

Santa Ana Watershed Project Authority (continued):

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

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

Over the course of time, IEUA has purchased capacity from SAWPA in the Santa Ana Regional Interceptor (SARI) System. As of June 30, 2005, IEUA has 4.0 mgd SARI pipeline and 2.25 treatment capacity. This consisted of the following:

- A) On June 10, 1981, the Agency entered into Project Agreement #7. The Agency purchased through its Non-reclaimable 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 Non-reclaimable 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%.

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

<u>Santa Ana Watershed Project Authority</u> (continued):

- E) In July 7, 1999, the Agency Board of Directors approved the purchase of 1.0 mgd of SARI pipeline capacity from SAWPA. The purchase price was \$3,750,000, and is recorded in the Non-reclaimable Wastewater Fund. The agreement called for a 5% down payment of \$187,500, and the balance of \$3,562,500 to be financed by SAWPA for a 20 year-period at a 6% interest rate. This note was paid in full as approved by the Board on May 21, 2003 for a principal balance of \$2,961,171 plus accrued interest of \$167,935.
- F) On April 21, 2004, the Agency Board of Directors of approved the sale of 2.10 mgd of pipeline capacity and 2.05 mgd of treatment and disposal capacity to the Chino Basin Desalter Authority. 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 Wastewater Fund.

Chino Basin Desalter

The Chino Basin Desalter Authority (CDA) was formed in September, 2001 as a Joint Powers Authority (JPA) to acquire all assets and liabilities from SAWPA's Project #14. The purchase was consummated in February, 2002. The JPA is comprised of the cities of Chino, Chino Hills, Ontario, Norco, the Jurupa Community Services District, the Santa Ana River Water Company, and Inland Empire Utilities Agency (IEUA). IEUA serves as a non-voting member and handles all finance and accounting functions for the JPA.

As of June 30, 2010, Desalter I and Desalter 2 delivered a total of 25,685.3 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 and operate a fully enclosed biosolids composting facility. The JPA Agreement calls for a 50/50 share of all costs related to the activities of the JPA.

Prior to the JPA Agreement, the two partners entered into a separate agreement in December, 2001 to acquire real property for Proposed Joint Use. As a result of this agreement, a piece of property adjacent to IEUA's Regional Plant No. 4 was acquired in December, 2001. The cost of the property was \$15,116,229. Subsequent to the property acquisition, preliminary and final designs were launched to modify the property. The facility started operation in FY 2006/07. As of June 30, 2010, the IEUA's share of the total costs is \$48,684,474 recorded in the Regional Wastewater Capital Improvement Fund. Financial data is available at the Agency's main office.

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

Santa Ana River Watermaster

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

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

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

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

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

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

	2009	2008
Total assets - cash	\$ 3,592	\$ 17,722
Fund balance	3,592	17,722
Total revenues	\$ 11,200	\$ 14,000
Total expenses	(25,330)	(145)
Net increase/(decrease) in equity	\$ (14,130)	\$ 13,855

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, 2010:

	Beginning			Ending	Amounts Due Within	Amounts Due After
_	Balance	Additions	Reductions	Balance	One Year	One Year
Bonds Payable:						_
1994 Revenue Bonds	\$ 61,025,000	\$0	\$2,890,000	\$58,135,000	\$3,095,000	\$55,040,000
1999 Revenue Bonds	1,090,000	0	1,090,000	0	0	0
2005A Variable Rate						
Revenue Bonds	22,970,000	0	1,320,000	21,650,000	1,290,000	20,360,000
2008A Revenue Bonds	125,000,000	0	0	125,000,000	0	125,000,000
2008B Variable Rate						
(2002A Refinancing)	53,805,000	0	1,475,000	52,330,000	1,535,000	50,795,000
Sub-total	263,890,000	0	6,775,000	257,115,000	5,920,000	251,195,000
Sub-total	203,090,000	U	0,775,000	237,113,000	3,920,000	251,195,000
Deferred Bond Cost	2,685,303	0	(25,091)	2,710,394	0	2,710,394
	,,,,,,,,,,		(0,000)	,,		
Total	\$266,575,303	\$0	\$6,749,909	\$259,825,394	\$5,920,000	\$253,905,394

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 fixed rate bonds with an interest rate of 5.75% and annual installments ranging from \$2,300,000 and \$3,100,000, due on August 1. The balance outstanding at June 30, 2010 is comprised of the principal of \$58,135,000, less net unamortized deferred bond costs and discount of (\$1,092,507), for a net balance of \$57,042,493.

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

<u>Long-term Debt</u> (continued):

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 non-reclaimable waste capacity.
- The 1999 Bond matured on November 1, 2009 with the final principal payment of \$1,090,000 and interest of \$27,500 at 5.00% 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 2005A 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 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, 2010 is comprised of the principal of \$21,650,000, less net unamortized deferred bond costs and discount of (\$819,336), for a net balance of \$20,830,664.

2008A Revenue Bonds

On February 5, 2008, 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 \$10,435,000 with an interest rate of 5.00%.

<u>Long-term Debt</u> (continued):

2008A Revenue Bonds (continued):

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, 2010 is comprised of the principal of \$125,000,000, plus a deferred premium of \$4,698,766, for a net \$129,698,766.

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 2008, 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. The balance outstanding at June 30, 2010 is comprised of the principal of \$52,330,000, less net unamortized deferred bond costs and discount of (\$76,529), for a net \$52,253,471.

Aggregate Long Term Debt

As of June 30, 2010, the aggregate debt service requirements on bonded indebtedness to maturity are summarized as follows:

Year Ending	Principal	Interest	
June 30	Payments	Payments	Total
2011	\$ 5,920,000	\$ 12,587,769	\$ 18,507,769
2012	6,175,000	12,279,480	18,454,480
2013	6,535,000	11,962,570	18,497,570
2014	6,880,000	11,614,750	18,494,750
2015	7,235,000	11,247,778	18,482,778
2016-2020	41,890,000	50,181,316	92,071,316
2021-2025	41,205,000	38,838,793	80,043,793
2026-2030	38,495,000	30,346,975	68,841,975
2031-2035	51,545,000	19,524,258	71,069,258
2036-2039	51,235,000	5,283,375	56,518,375
Subtotal	257,115,000	203,867,064	460,982,064
Less: Deferred amount on refunding	(1,786,862)		(1,786,862)
Plus: Net Premium / (Discounts)	4,497,256		4,497,256
Total debt service payable	\$259,825,394	\$203,867,064	\$ 463,692,458

<u>Long-term Debt</u> (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 due July through November of the following fiscal year. The Agency has complied with all covenants related to the outstanding debt issues as of June 30, 2010. (*Refer to the bond disclosures in the statistical section*).

Notes Payable

Summary of notes payable activity for the Fiscal Year ended June 30, 2010 was as follows:

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

	Beginning			Ending	Amounts Due Within	Amounts Due After
	Balance	Additions	Reductions	Balance	One Year	One Year
Notes Payable:						
SARI Pipeline Cap. 1.5 mgd	\$ 1,817,326	\$ 0	\$ 158,148	\$ 1,659,178	\$ 167,636	\$ 1,491,542
City of Fontana	0	9,577,747	678,167	8,899,580	482,578	8,417,002
State Revolving Fund Loan	43,887,866	17,938,137	5,579,768	56,246,235	1,898,435	54,347,800
Total notes payable	\$45,705,192	\$27,515,884	\$6,416,083	\$66,804,993	\$2,548,649	\$64,256,344

The financial statement includes imputed interest at 6% in "Notes payable due in more than one year", in the amount of \$99,551.

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 thirteenth installment is due on July 15, 2010. This is a combined note payable from the Non-reclaimable Wastewater and Regional Wastewater Funds.

Notes Payable (continued):

Santa Ana Watershed Project Authority (continued):

As of June 30, 2010, the future payments for the remaining note payable obligation by year is as follows:

Year Ending June 30	Principal Payments	Imputed Interest	Total Payment
2011	\$ 167,636	\$ 99,551	\$ 267,187
2012	177,694	89,493	267,187
2013	188,357	78,831	267,188
2014	199,659	67,529	267,188
2015	211,638	55,550	267,188
2016/2018	714,194	87,368	801,562
Total SAWPA note	\$1,659,178	\$478,322	\$2,137,500

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 RP-1 Pump Station and West Edison SAC RW Pipeline A & B projects (Phase II) are also in part funded by the State Revolving Fund (SRF). As of June 30, 2010, the three projects were complete and have received \$14,942,323 of SRF funding.
- The RP-4 Pump Station, Pipeline and Reservoir projects (Phase III) are also in part funded by the State Revolving Fund (SRF). As of June 30, 2010, the three projects were complete and have received \$10.862,198 of SRF funding.
- The Recycled Water projects included in Phase IV are also in part funded by the State Revolving Fund (SRF). As of June 30, 2010, the four projects were approximately 75% complete and received \$12,069,747 of SRF funding.
- The Recycled Water Project (Construction of 2 Monitoring Wells) in Phase V is also in part funded by the State Revolving Fund (SRF). As of June 30, 2010, the project is approximately 80% complete and has received \$994,914 of SRF funding.
- The RP-1 Dewatering Facility Expansion project is also in part funded by the State Revolving Fund (SRF). As of June 30, 2010, this project is approximately 25% complete and has received \$7,038,388 of SRF funding.

Notes Payable (continued):

State Water Resources Control Board (continued):

As of June 30, 2010, the future payments for the remaining loan obligations by year are as follows:

Year Ending	Principal	Interest	Total
June 30	Payment	Payment	Payment
2011	\$ 1,898,435	\$ 700,450	\$ 2,598,885
2012	2,861,657	720,514	3,582,171
2013	2,895,582	686,705	3,582,287
2014	2,930,486	651,248	3,581,734
2015	2,966,157	615,475	3,581,632
2016/2020	15,393,963	2,512,655	17,906,618
2021/2025	16,328,722	1,492,971	17,821,693
2026/2030	9,992,331	519,161	10,511,492
2031/2035	978,902	2,641	981,543
Total SRF loans	\$56,246,235	\$7,901,820	\$64,148,055

City of Fontana

On October 18, 2005, the Agency entered into a reimbursement agreement with the City of Fontana for the design and construction of the San Bernardino Avenue lift station and force main, to convey the wastewater to the Agency's RP-4 wastewater treatment facility. The City of Fontana received \$9,577,747 from the State Water Resources Control Board, less \$1,596,323 in deferred interest charges, for a net loan amount of \$7,981,424 for the cost of construction. The project was completed by June 30, 2010 and title and ownership of the regional lift station and force main were transferred to IEUA from the City of Fontana.

As of June 30, 2010, the future payments for the remaining note payable obligation by year is as follows:

Year Ending June 30	Principal Payments	Imputed Interest	Total Payment
2011	¢ 400 570	¢70.004	¢ 562.402
2011	\$ 482,578	\$79,824	\$ 562,402
2012	482,578	79,824	562,402
2013	482,578	79,824	562,402
2014	482,578	79,824	562,402
2015	482,578	79,824	562,402
2016/2020	2,412,890	399,120	2,812,010
2021/2025	2,412,890	399,120	2,812,010
2026/2029	1,660,910	245,192	1,906,102
Total City of		<u> </u>	
Fontana note	\$8,899,580	\$1,442,552	\$10,342,132

(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, the second installment was paid in September 2003, and the third installment was paid in August 2008. The next installment is due August 2011.
- The initial arbitrage rebate on the 1999 Revenue Bonds was made in November, 2004, with the second installment due in November 2009.
- The initial arbitrage rebate on the 2005A Variable Rate Revenue Bonds will be due in May 2010; and,
- the 2008A and 2008B Bonds initial arbitrage rebate will be due in June 2013.

The Agency's arbitrage rebate liability is calculated by Willdan Financial Services, formerly MuniFinancial Inc. There is no arbitrage liability at June 30, 2010.

(14) Advance to/from Other Funds

The composition of advances to/from other funds balances as of June 30, 2010, is as follows:

	Advances To O		
Funds	Recharge Water Fund	Recycled Water Fund	Total
Advances From Other Funds: Regional Capital Improvement Fund Non-Major Funds: Non-reclaimable Wastewater	\$3,700,000	\$ 3,000,000	\$ 6,700,000
Capital Improvement Fund	0	15,000,000	15,000,000
Total advances	\$3,700,000	\$18,000,000	\$21,700,000

Regional Wastewater Capital Improvement Fund & Recharge Water Fund

The advance to the Recharge Water Fund from the Regional Wastewater Capital Improvement Fund was needed to support capital expenditures funded through a Department of Water Resources (DWR) state grant. As of June 30, 2010, the reimbursement billings to DWR were still outstanding due to the temporary suspension of grant payments as a result of the State budget crisis. The Agency has been notified that payments will resume in FY 2010/11.

(14) Advance to/from Other Funds (continued):

Regional Wastewater Capital Improvement Fund & Recycled Water Fund

At June 30, 2010, the Regional Wastewater Capital Improvement Fund reports an advance from the Recycled Water Fund, and the Recycled Water Fund reports an advance to the Regional Wastewater Capital Improvement Fund, in the amount of \$3,000,000. This advance will support capital construction expenditures related to the Regional Recycled Water Distribution System as part of the Agency's Recycled Water Business Plan adopted in December 2007. Repayment is scheduled over several fiscal years from increased recycled water sales.

Non-reclaimable Wastewater Capital Improvement Fund & Recycled Water Fund

At June 30, 2010, the Non-reclaimable Wastewater Capital Improvement Fund reports an advance from the Recycled Water Fund, and the Recycled Water Fund reports an advance to the Non-reclaimable Wastewater Capital Improvement Fund, in the amount of \$9,000,000. This advance will support capital construction expenditures related to the Regional Recycled Water Distribution System as part of the Agency's Recycled Water Business Plan adopted in December 2007. Repayment is scheduled over several fiscal years from increased recycled water deliveries.

(15) Interfund Transfers

The 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 Wastewater Capital Improvement Fund (RC) and Regional Wastewater Operations and Maintenance Fund (RO).

The Recharge and Recycled Water Funds received administrative and capital support from the Regional Wastewater Capital Improvement Fund in the amount of \$1,038,705 and \$3,248,068 respectively.

Non-Major Enterprise Funds received transfers in the amount of \$2,301,867 including \$2,282,501 from the Regional Wastewater Funds. These transfers included \$284,804 in capital support to the Administrative Service Fund (GG) from various funds. The remaining amount of \$2,017,063 consisted of property tax transfers for debt service from the Obligation Payment Fund (OP) to the GG Fund.

The following table reflects the Interfund transfer balances in and out by fund as of June 30, 2010.

		i ransfers in:				_
	Regio Waste		Recharge Water	Recycled Water	Non-Major Enterprise Funds	Total
Transfers out:	_					
Regional Wastewater Funds	\$	0	\$1,038,705	\$3,248,068	\$2,282,501	\$ 6,569,274
Recycled Water Fund	1,783	3,446	73,000		9,683	1,866,129
Non-Major Enterprise Fund	2,017	7,063		300,000	9,683	2,326,746
Total Transfers	\$ 3,800	0,509	\$1,111,705	\$3,548,068	\$2,301,867	\$10,762,149

(16) Operating Leases

The Agency has one operating lease at June 30, 2010:

One postage meter lease extending to June 30, 2011.

Total operating lease costs were \$1,684.76 for the year ended June 30, 2010. The future minimum lease payments for equipment leases are as follows:

Year Ended June 30		<u>Amount</u>
2011		\$1,684.76
	Total	\$1,684.76

(17) Subsequent Events

On July 15, 2010, the Chino Basin Regional Financing Authority issued the Refunding Revenue Bonds, Series 2010A in the total amount of \$45,570,000. The Bonds were issued to (i) refund the outstanding Chino Basin Regional Financing Authority Revenue Bonds, Series 1994 Bonds maturing after August 1, 2010, and (ii) to pay the costs of issuing the Bonds.

The 2010A Bonds have taxable serial bonds of \$3,510,000 maturing on August 1, 2011 at interest rate of 1.35%. The tax exempt serial bonds have maturing dates from 2012 to 2021, with interest rate ranging at 2.00% to 5.00%.

On May 4, 2010, Dexia officially notified the Agency of its intention not to renew the letter of credit (LOC) covering the 2002B Variable Rate Demand Bonds past the scheduled expiration date of April 15, 2011. The Agency has successfully negotiated an LOC with Lloyds Bank of London for the remaining outstanding principal amount of \$52.23 million.

The Agency anticipates the completion of the new LOC agreement before the end of the calendar year 2010.



INLAND EMPIRE UTILITIES AGENCY SUPPLEMENTARY INFORMATION – ALL FUNDS

SUPPLEMENTARY SCHEDULES -

Non-Major Enterprise Fund Statements.

INDIVIDUAL FUNDS -

Individual Schedules of all funds are provided as supplementary information.



Chino Creek Park & Wetlands

RP-5 Solar Field





INLAND EMPIRE UTILITIES AGENCY Combining Statement of Net Assets

June 30, 2010

	Non-Major E	Enterprise Funds
		Non-reclaimable
ASSETS	Water	Wastewater
Current assets		
Cash and investments	\$1,737,680	\$5,997,015
Accounts receivable	6,875,555	2,178,232
Interest receivable	3,185	282,421
Taxes receivable	0	0
Other receivables	28,177	139,597
Inventory	0	0
Prepaid items	0	192,386
Total current assets	8,644,597	8,789,651
Noncurrent assets		
Restricted assets		
Assets held for 401(a) plan	0	0
Assets held with trustee/fiscal agent	0	91,762
Total restricted assets	0	91,762
Capital assets		
Land	0	0
Jobs in progress	126,825	8,240,748
Capital assets, net of		
accumulated depreciation	22,658	5,398,832
Intangible assets, net of		
accumulated amortization	48,934	24,906,062
Total capital assets	198,417	38,545,642
Other assets		
Long-term receivables	0	109,062
Advances to other funds	0	15,000,000
Deferred costs	0	86,539
Total other assets	0	15,195,601
Total noncurrent assets	198,417	53,833,005
Total assets	8,843,014	62,622,656

Administrative	Totals			
Services	2010	2009		
\$18,393,703	\$26,128,398	\$26,986,792		
944,180	9,997,967	13,714,501		
47,680	333,286	126,260		
373,022	373,022	304,936		
45,532	213,306	538,608		
1,758,776	1,758,776	1,650,230		
128,139	320,525	631,353		
21,691,032	39,125,280	43,952,680		
1,033,707	1,033,707	1,376,084		
0	91,762	2,066,525		
1,033,707	1,125,469	3,442,609		
20,829	20,829	20,829		
2,979,190	11,346,763	9,599,916		
12,632,409	18,053,899	18,874,871		
4 250 949	20 205 814	20 642 427		
4,250,818	29,205,814	29,612,437		
19,883,246	58,627,305	58,108,053		
0	109,062	134,346		
0	15,000,000	9,000,000		
758	87,297	91,253		
758	15,196,359	9,225,599		
20,917,711	74,949,133	70,776,261		
42,608,743	114,074,413	114,728,941		
		(continued)		

INLAND EMPIRE UTILITIES AGENCY Combining Statement of Net Assets (Continued from previous page) June 30, 2010 (With Comparative Totals for June 30, 2009)

	Non-Major Ente	erprise Funds
		Non-reclaimable
LIABILITIES	Water	Wastewater
Current liabilities		
Accounts payable	5,998,113	1,090,782
Accrued liabilities	442,163	1,636,459
Compensated absences	0	0
Retentions payable	0	94,987
Notes payable, due within one year	0	111,757
Interest payable	0	59,479
, ,		
Total current liabilities	6,440,276	2,993,464
Noncurrent liabilities		
Compensated absences	0	0
Long-term debt, due in more than one year (note 12)	0	7,405,800
Notes payable, due in more than one year	0	1,013,257
Liability for 401(a) plan	0	0
Net OPEB liability (note 1 d.)	0	0
Total noncurrent liabilities	0	8,419,057
Total liabilities	6,440,276	11,412,521
NET ASSETS		
Invested in capital assets, net of related debt	198,417	30,069,267
Restricted for:		
Capital construction	0	54,439
Debt service	0	37,323
Bond operating contingency requirement	0	1,943,880
Total restricted	0_	2,035,642
Unrestricted	2,204,321	19,105,226
Total net assets	\$2,402,738	\$51,210,135

Administrative	Totals		
Services	2010	2009	
805,621	7,894,516	9,185,821	
1,862,464	3,941,086	4,476,104	
2,056,418	2,056,418	1,761,673	
6,816	101,803	296,685	
0	111,757	105,432	
0	59,479	60,104	
4,731,319	14,165,059	15,885,819	
1,788,025	1,788,025	2,074,008	
1,766,023	7,405,800	7,493,021	
0	1,013,257		
_		1,125,014 1,376,084	
1,033,707	1,033,707		
3,757,349	3,757,349	2,773,861	
6,579,081	14,998,138	14,841,988	
11,310,400	29,163,197	30,727,807	
10 882 246	50 150 030	51 217 444	
19,883,246	50,150,930	51,317,444	
0	54,439	1,932,857	
0	37,323	77,236	
969,222	2,913,102	3,067,843	
969,222	3,004,864	5,077,936	
10,445,875	31,755,422	27,605,754	
\$31,298,343	\$84,911,216	\$84,001,134	

INLAND EMPIRE UTILITIES AGENCY

Combining Statement of Revenues, Expenses, and

Changes in Fund Net Assets

For the Fiscal Year Ended June 30, 2010

	Non-Major Enterprise Funds		
		Non-reclaimable	
	Water	Wastewater	
OPERATING REVENUES			
Service charges	\$2,436,933	\$8,881,646	
Total operating revenues	2,436,933	8,881,646	
OPERATING EXPENSES			
Wastewater collection	0	4,558,505	
Operations and maintenance	99,695	0	
Administration and general	2,209,009	1,273,134	
Depreciation and amortization	5,367	1,204,926	
Total operating expenses	2,314,071	7,036,565	
Operating income (loss)	122,862	1,845,081	
NONOPERATING REVENUES (EXPENSES)			
Interest income	31,503	201,704	
Property tax revenue	0	161	
Other nonoperating revenues	71,471	210,613	
Interest on long-term debt	0	(411,341)	
Other nonoperating expenses	(400,568)	(127,121)	
Total nonoperating revenues (expenses)	(297,594)	(125,984)	
Income (loss) before contributions and transfers	(174,732)	1,719,097	
TRANSFERS AND CAPITAL CONTRIBUTION	IS		
Transfers in	0	0	
Transfers out	(300,000)	(9,683)	
Capital grants	223,402	0	
Change in net assets	(251,330)	1,709,414	
Total net assets - beginning	2,654,068	49,500,721	
Total net assets - ending	\$2,402,738	\$51,210,135	

Administrative	Totals	
Services	2010	2009
\$0	\$11,318,579	\$10,472,744
0	11,318,579	10,472,744
	11,516,579	10,472,744
_		
0	4,558,505	4,531,264
0	99,695	99,782
2,907,666	6,389,809	7,905,602
2,285,358	3,495,651	3,695,289
5,193,024	14,543,660	16,231,937
(5,193,024)	(3,225,081)	(5,759,193)
218,285	451,492	782,192
2,822,907	2,823,068	2,957,267
1,358,865	1,640,949	1,826,570
0	(411,341)	(439,286)
(104,921)	(632,610)	(5,016,950)
4.005.400	2 074 550	100 702
4,295,136	3,871,558	109,793
(897,888)	646,477	(5,649,400)
2,301,867	2,301,867	2,624,952
(2,017,063)	(2,326,746)	(2,584,391)
65,082	288,484	1,717,678
(548,002)	910,082	(3,891,161)
31,846,345	84,001,134	87,892,295
\$31,298,343	\$84,911,216	\$84,001,134

INLAND EMPIRE UTILITIES AGENCY Statement of Cash Flows For the Fiscal Year ended June 30, 2010

	Non-Major Enterprise Fun		
		Non-reclaimable	
	Water	Wastewater	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$4,151,101	\$8,665,013	
Cash received from interfund services provided	0	0	
Cash payments to suppliers for goods and services	(3,080,755)	(3,500,547)	
Cash payments to employees for services	(178,079)	(718,960)	
Cash payments for interfund services used	(510,390)	(1,269,030)	
Net cash provided by (used for) operating activities	381,877	3,176,476	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	0	0	
Transfers out	(300,000)	0	
Contract reimbursment from others	71,471	210,613	
Tax revenues	0	161	
Issuance of long term receivables	0	25,284	
Cash paid to others	(400,568)	(133,144)	
Advances to other funds	0	(6,009,683)	
Net cash provided by (used for) noncapital financing activities	(629,097)	(5,906,769)	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(32,720)	(3,635,986)	
Proceeds from sale of assets	0	0	
Capital grants	223,402	0	
Principal paid on capital debt	0	(192,653)	
Interest paid on capital debt	0	(408,011)	
Bond administration fees	0	6,024	
Refund of contractor deposits	0	(188,224)	
Net cash provided by (used for) capital and related	100.000	(4 440 050)	
financing activities	190,682	(4,418,850)	

Administrative	Tota	ls
Services	2010	2009
\$2,544,299	\$15,360,413	\$12,106,864
24,053,243	24,053,243	25,634,983
(4,493,697)	(11,074,999)	(10,525,363)
(21,981,585)	(22,878,624)	(27,621,841)
0	(1,779,420)	(4,785,783)
122,260	3,680,613	(5,191,140)
2,301,867	2,301,867	2,624,952
(2,017,063)	(2,317,063)	(2,584,391)
1,227,479	1,509,563	1,597,501
2,754,821	2,754,982	2,998,732
0	25,284	35,307
(99,938)	(633,650)	(227,888)
0	(6,009,683)	0
	_	
4,167,166	(2,368,700)	4,444,213
(277 204)	(2.046.000)	(6 7 92 022)
(277,294)	(3,946,000)	(6,783,033)
(46,050)	(46,050)	93,190
65,084	288,486	1,717,678
0 (4.000)	(192,653)	(108,866)
(4,983)	(412,994)	(468,129)
0	6,024	5,632
(6,658)	(194,882)	(8,757)
(269,901)	(4,498,069)	(5,552,285)
		(Continued)
		,

INLAND EMPIRE UTILITIES AGENCY Statement of Cash Flows (Continued from previous page) For the Fiscal Year ended June 30, 2010

	Non-Major Enterprise Fund			
		Non-reclaimable		
	Water	Wastewater		
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments Sale of investments	\$38,646 0	(\$21,898) 0		
Net cash provided by (used for) investing activities	38,646	(21,898)		
Net increase (decrease) in cash and cash equivalents	(17,892)	(7,171,041)		
Cash and cash equivalents - beginning	1,755,573	13,259,818		
Cash and cash equivalents - ending	\$1,737,681	\$6,088,777		
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES				
Operating income (loss)	\$122,862	\$1,845,081		
Adjustments to reconcile operating income to	, , , , ,	, ,,		
net cash provided by (used for) operating activities				
Depreciation and amortization	5,367	1,204,926		
Changes in assets and liabilities				
(Increase) decrease in				
Accounts receivable	1,732,041	(545,499)		
Other receivables	0	328,866		
Short term receivables	(17,873)	0		
Inventory	0	0		
Prepaid items	0	368,203		
Increase (decrease) in				
Accounts payable	(1,440,929)	682,329		
Accrued liabilities	(19,591)	(707,430)		
Other noncurrent liabilities	0	0		
Compensated absences	0	0		
Net cash provided by (used for) operating activities	\$381,877	\$3,176,476		

Administrative	Totals				
Services	2010	2009			
\$227,718	\$244,466	\$820,416			
108,534	108,534	135,879			
336,252	353,000	956,295			
	<u> </u>				
4,355,777	(2,833,156)	(2,692,029)			
	<u>-</u>	<u> </u>			
14,037,926	29,053,316	31,745,345			
\$18,393,703	\$26,220,160	\$29,053,316			
(\$5,193,024)	(3,225,081)	(\$5,759,192)			
(\$3,193,024)	(3,223,001)	(ψυ, 1υθ, 1υθ)			
2 205 250	2 405 651	2 605 290			
2,285,358	3,495,651	3,695,289			
2 520 001	2 716 522	(001 112)			
2,529,991	3,716,533	(991,112) (156,517)			
14 208	328,866	(156,517)			
14,308	(3,565)	(70,636)			
(108,546)	(108,546)	(70,636)			
(57,375)	310,828	(275,446)			
(500 505)	(4.004.000)	0.444.0==			
(532,706)	(1,291,306)	2,111,958			
192,004	(535,017)	(2,623,941)			
983,488	983,488	1,416,404			
8,762	8,762	112,941			
#400.000	#2.600.040	(#O F4O OFO)			
\$122,260	\$3,680,613	(\$2,540,252)			
		(Continued)			

INLAND EMPIRE UTILITIES AGENCY

Statement of Cash Flows - (Continued from previous page)

For the Fiscal Year Ended June 30, 2010

	Non-Major Enterprise Funds		
		Non-reclaimable	
	Water	Wastewater	
RECONCILIATION OF CASH & CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:			
Cash and short-term investments	\$1,737,680	\$5,997,015	
Restricted assets	0	91,762	
Cash & cash equivalents at end of year	\$1,737,680	\$6,088,777	

Administrative	Total Non-Major Funds				
Services	2010	2009			
\$18,393,703	\$26,128,398	\$26,986,792			
0	91,762	2,066,525			
\$18,393,703	\$26,220,160	\$29,053,317			



Artist: Selena Zhang, 5th Grade

Etiwanda Colony Elementary School / Mrs. Pollock

Etiwanda School District

Cucamonga Valley Water District

Inland Empire Utilities Agency



INLAND EMPIRE UTILITIES AGENCY REGIONAL WASTEWATER FUND COMBINING SCHEDULES

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

Regional Capital Improvement (RC)

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

Regional Operations and Maintenance (RO)

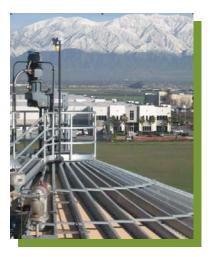
The RO Fund accounts for the revenue and operating cost directly related to the domestic sewage treatment service to the contracting agencies (Wastewater Collection and Treatment), and all organic management activities.

Obligation Payment (OP)

The OP Fund records the availability of tax proceeds with regard to providing adequate resources for the debt service requirements associated with both the 1994 Revenue Bond Issues as required by the Agency's Master Resolution.







INLAND EMPIRE UTILITIES AGENCY Regional Wastewater Fund Combining Schedule of Net Assets by Subfund June 30, 2010

	Regional Capital	Regional Operations &	Obligation		Totals	
	Improvement	Maintenance	Payment	Eliminations	2010	2009
ASSETS					·	
Current assets						
Cash and investments	\$3,405,189	\$23,490,087	\$5,861,449	\$0	\$32,756,725	\$37,510,341
Accounts receivable	3,786,694	5,878,945	0	0	9,665,639	11,257,624
Interest receivable	179,905	39,037	0	0	218,942	280,088
Taxes receivable	2,974,769	1,022,915	0	0	3,997,684	4,012,067
Other receivables	2,734,904	0	0	0	2,734,904	128,739
Prepaid items	3,845	0	0	0	3,845	19,869
Total current assets	13,085,306	30,430,984	5,861,449	0	49,377,739	53,208,728
Noncurrent assets						
Restricted assets						
Deposits held by governmental agencies	15,048,421	0	0	0	15,048,421	7,295,364
Assets held with trustee/fiscal agents	12,251,793	1,299,379	0	0	13,551,172	41,440,614
Total restricted assets	27,300,214	1,299,379	0_	0	28,599,593	48,735,978
Capital assets						
Land	14,120,545	0	0	0	14,120,545	13,878,880
Jobs in progress	61,549,678	3,578,555	0	0	65,128,233	147,902,854
Capital assets, net of accumulated depreciation	342,302,626	439,491	0	0	342,742,117	264,972,255
Intangible assets, net of accumulated amortization	6,169,512	0	0	0	6,169,512	6,306,364
Total capital assets	424,142,361	4,018,046	0	0_	428,160,407	433,060,353
Other assets						
Long-term investments	48,684,474			0	48,684,474	47,184,474
Advances to other funds	6,700,000	0	0	0	6,700,000	6,700,000
Long-term receivables	5,217,497	0	0	0	5,217,497	7,590,896
Deferred costs	3,402,624	51,984	0	0	3,454,608	2,394,648
Total other assets	64,004,595	51,984	0	0	64,056,579	63,870,018
Total noncurrent assets	515,447,170	5,369,409	0	0	520,816,579	545,666,349
Total assets	528,532,476	35,800,393	5,861,449	0	570,194,318	598,875,077 (Continued)

	Regional	Regional				
	Capital	Operations &	Obligation	-	Tota	als
	Improvement	Maintenance	Payment	Eliminations	2010	2009
LIABILITIES						
Current liabilities						
Accounts payable	1,697,251	2,700,790	0	0	4,398,041	11,722,937
Accrued liabilities	161,392	237,449	0	0	398,841	329,629
Retentions payable	137,527	4,481	0	0	142,008	967,044
Notes payable, due within one year	538,457	0	0	0	538,457	52,716
Long-term debt, due within one year	5,399,635	0	0	0	5,399,635	6,275,000
Interest payable	2,287,150	35,729	0	0	2,322,879	2,590,043
Retention deposits and escrows	1,525,119	511	0	0	1,525,630	1,838,783
Total current liabilities	11,746,531	2,978,960	0	0	14,725,491	23,776,152
Noncurrent liabilities						
Long-term debt, due in more than one year	194,468,888	4,448,667	0	0	198,917,555	224,426,304
Notes payable, due in more than one year	15,933,675	0	0	0	15,933,675	4,275,896
Other noncurrent liabilities	0	0	0	0	0	1,585,875
Total noncurrent liabilities	210,402,563	4,448,667	0_	0	214,851,230	230,288,075
Total liabilities	222,149,094	7,427,627	0_	0	229,576,721	254,064,227
NET ASSETS						
Invested in capital assets, net of related debt	217,387,825	880,632	0	0	218,268,457	224,274,910
Restricted for:						
Capital construction	15,173,581	1,311,254	0	0	16,484,835	33,539,838
Debt service	10,601,514	0	5,861,449	0	16,462,963	21,440,557
Bond operating contingency requirement	1,990,490	13,212,957	0	0	15,203,447	14,667,197
Total restricted	27,765,585	14,524,211	5,861,449	0	48,151,245	69,647,592
Unrestricted	61,229,972	12,967,923	0_	0	74,197,894	50,888,348
Total net assets	\$306,383,382	\$28,372,766	\$5,861,449	\$0	\$340,617,597	\$344,810,850

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, 2010 (With Comparative Totals for June 30, 2009)

	Regional	Regional	0111 11		- .	
	Capital	Operations &	Obligation		Total	-
OPERATING REVENUES	Improvement	Maintenance	Payment	Eliminations	2010	2009
Service charges	\$0	\$33,226,273	\$0	\$0	\$33,226,273	\$33,359,174
Total operating revenues	0	33,226,273	0	0	33,226,273	33,359,174
OPERATING EXPENSES						
Wastewater collection	0	2,779,446	0	0	2,779,446	1,407,794
Wastewater treatment	0	19,016,466	0	0	19,016,466	20,049,102
Wastewater disposal	0	10,029,605	0	0	10,029,605	12,885,191
Administration and general	5,971,469	7,813,354	0	0	13,784,823	15,123,828
Depreciation and amortization	19,206,533	39,885	0	0	19,246,418	16,118,527
Total operating expenses	25,178,002	39,678,756	0	0	64,856,758	65,584,442
Operating income (loss)	(25,178,002)	(6,452,483)	0	0	(31,630,485)	(32,225,268)
NONOPERATING REVENUES (EXPENSES)						
Interest income	796,726	200,788	0	0	997,514	1,901,210
Property tax revenue	22,145,038	6,942,884	0	0	29,087,922	33,367,731
Wastewater capital connection fees	7,753,057		0	0	7,753,057	5,753,403
Other nonoperating revenues	91,720	4,622,389	0	0	4,714,109	673,010
Interest on long-term debt	(7,311,170)	(153,447)	0	0	(7,464,617)	(11,521,358)
Other nonoperating expenses	(2,430,192)	(3,299,779)	0	0	(5,729,971)	(2,546,169)
Total nonoperating revenues (expenses)	21,045,179	8,312,835	0	0	29,358,014	27,627,827
Income (loss) before capital contributions						
and transfers	(4,132,823)	1,860,352	0	0	(2,272,471)	(4,597,441)
TRANSFERS AND CAPITAL CONTRIBUTIONS						
Transfers in	22,129,092	5,057,364	28,765,213	(52,151,160)	3,800,509	5,270,007
Transfers out	(22,676,106)	(5,057,364)	(30,986,964)	52,151,160	(6,569,274)	(8,316,796)
Capital grants	762,976	85,007	0_	0	847,983	125,343
Change in net assets	(3,916,861)	1,945,359	(2,221,751)	0	(4,193,253)	(7,518,887)
Total net assets - beginning	310,300,243	26,427,407	8,083,200	0	344,810,850	352,329,737
Total net assets - ending	\$ 306,383,382	\$ 28,372,766	\$ 5,861,449	\$ -	\$ 340,617,597	\$ 344,810,850

INLAND EMPIRE UTILITIES AGENCY RECHARGE WATER FUND COMPARATIVE SCHEDULES

Recharge Water Fund

Established in FY 2002/03, The Recharge Water (RW) Fund accounts for the revenues and expenses associated with the groundwater recharge operations and maintenance through the joint effort of the CBWM, the Chino Basin Water Conservation District (CBWCD), the San Bernardino County Flood Control District (SBCFCD), and the Inland Empire Utilities Agency. These include general basin maintenance or restoration costs, groundwater administration (labor, equipment, tools, and lease), compliance reporting, environmental documentation, and contracted services that are fully funded by the Chino Basin Watermaster and the Agency.

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



Groundwater Recharge Basins



INLAND EMPIRE UTILITIES AGENCY Recharge Water Fund Schedule of Net Assets June 30, 2010

	Tota	als
	2010	2009
ASSETS		
Current assets		
Cash and investments	\$1,475,983	\$149,030
Accounts receivable	4,209,341	4,789,527
Interest receivable	0	659
Prepaid items	1,356	0
Total current assets	5,686,680	4,939,216
Noncurrent assets		
Restricted assets		
Assets held with trustee/fiscal agents	841,647	841,910
Total restricted assets	841,647	841,910
Capital assets		
Jobs in progress	6,624,373	8,930,176
Capital assets net of accumulated depreciation	42,909,656	41,047,427
Intangible assets, net of accumulated amortization	65,304	74,011
Total capital assets	49,599,333	50,051,614
Other assets		
Deferred costs	70,987	74,214
Total other assets	70,987	74,214
Total noncurrent assets	50,511,967	50,967,738
Total assets	56,198,647	55,906,954
		(Continued)

	Tota	Totals		
	2010	2009		
LIABILITIES				
Current liabilities				
Accounts payable	96,969	426,937		
Accrued liabilities	0	0		
Long-term debt, due within one year Interest payable	520,365 28,376	500,000 6,681		
Retentions payable	26,376 17,316			
Retentions payable	17,310	212,018		
Total current liabilities	663,026	1,145,636		
Noncurrent liabilities				
Advances from other funds	3,700,000	3,700,000		
Long-term debt, due in more than one year	17,193,618	17,712,804		
Total noncurrent liabilities	20,893,618	21,412,804		
Total liabilities	21,556,644	22,558,440		
NET ASSETS				
Invested in capital assets, net of related debt	31,885,350	31,838,810		
Restricted for:				
Debt service	841,647	841,910		
Total restricted	841,647	841,910		
Unrestricted	1,915,006	667,794		
Total net assets	\$34,642,003	\$33,348,514		

INLAND EMPIRE UTILITIES AGENCY Recharge Water Fund Schedule of Revenues, Expenses and Changes in Fund Net Assets For the Fiscal Year Ended June 30, 2010 (With Comparative Totals for June 30, 2009)

	Totals		
	2010	2009	
OPERATING REVENUES			
Recycled water sales	\$0	\$0_	
Total operating revenues	0	0	
OPERATING EXPENSES			
Administration and general Depreciation and amortization	732,409 995,582	697,218 943,814	
Total operating expenses	1,727,991	1,641,032	
Operating income (loss)	(1,727,991)	(1,641,032)	
NONOPERATING REVENUES (EXPENSES)			
Interest income	0	7,687	
Other nonoperating revenues	1,267,670	1,030,024	
Interest on long-term debt	(77,819)	(418,953)	
Other nonoperating expenses	(111,427)	(111,484)	
Total nonoperating revenues (expenses)	1,078,424	507,274	
Income (loss) before contributions			
and transfers	(649,567)	(1,133,758)	
TRANSFERS AND CAPITAL CONTRIBUTIONS			
Transfers in	1,111,705	2,329,215	
Capital grants	831,351	4,449,302	
Change in net assets	1,293,489	5,644,759	
Total net assets - beginning	33,348,514	27,703,755	
Total net assets - ending	\$34,642,003	\$33,348,514	

INLAND EMPIRE UTILITIES AGENCY RECYCLED WATER FUND COMPARATIVE SCHEDULES

Recycled Water Fund:

The Recycled Water (WC) fund records the revenues and expenses associated with the operations and maintenance of the facilities used to distribute recycled water supplied from the Agency's recycling plants. Additionally, the WC fund records all of the revenues and costs related to the construction of recycled water capital projects. These project costs include site studies, environmental reviews, design, construction, and construction management, trunk and distribution lines and pumping stations needed in the distribution of recycled water within the Agency's service area.





City of Ontario - Soccer Field



Lee Farm on Whispering Lakes Lane



INLAND EMPIRE UTILITIES AGENCY Recycled Water Fund Schedule of Net Assets by Subfund June 30, 2010

	Totals		
ASSETS	2010	2009	
Current assets			
Cash and investments	\$875,948	\$59,898	
Accounts receivable	14,981,621	11,740,894	
Interest receivable	36,809	259	
Taxes receivable	239,926	0	
Prepaid items	3,500	103,500	
Total current assets	16,137,804	11,904,551	
Noncurrent assets			
Restricted assets			
Assets held with trustee/fiscal agents	26,842,076	5,884,410	
Total restricted assets	26,842,076	5,884,410	
Capital assets			
Jobs in progress	38,712,451	47,086,902	
Capital assets, net of accumulated depreciation	80,303,117	51,150,335	
Intangible assets, net of accumulated amortization	37,659	39,262	
Total capital assets	119,053,227	98,276,499	
Other assets			
Long term receivables	1,497,082	0	
Deferred costs	2,052,354	1,875,202	
Total other assets	3,549,436	1,875,202	
Total noncurrent assets	149,444,739	106,036,111	
Total assets	165,582,543	117,940,662 (Continued)	

	Totals	
LIADULTIFO	2010	2009
LIABILITIES		
Current liabilities		
Accounts payable	4,698,324	1,770,723
Accrued liabilities	261,935	19,647
Notes payable, due within one year	1,898,435	1,809,493
Interest payable	741,099	244,270 33,563
Retention deposits and escrows	571,966	
Total current liabilities	8,171,759	3,877,696
Noncurrent liabilities		
Advances from other funds	18,000,000	12,000,000
Long-term debt, due in more than one year	30,388,421	10,168,173
Notes payable, due in more than one year	47,309,412	38,336,641
Other noncurrent liabilities	684,265	614,980
Total noncurrent liabilities	96,382,098	61,119,794
Total liabilities	104,553,857	64,997,490
NET ASSETS		
Invested in capital assets, net of related debt	65,642,830	53,623,188
Restricted for:		
Capital construction	26,185,870	5,660,996
Bond debt service	84,241	189,851
Total restricted	26,270,111	5,850,847
Unrestricted	(30,884,254)	(6,530,863)
Total net assets	\$61,028,686	\$52,943,172

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, 2010 (With Comparative Totals for June 30, 2009)

(vvitii	Comparative	TOTALS TO	ii Julie	30, 2009,	

	Totals		
	2010	2009	
OPERATING REVENUES			
Recycled water sales	\$4,162,140	\$2,715,636	
Total operating revenue	4,162,140	2,715,636	
OPERATING EXPENSES			
Administration and general Depreciation and amortization	3,320,250 2,435,603	3,816,882 1,426,912	
Total operating expenses	5,755,853	5,243,794	
Operating income (loss)	(1,593,713)	(2,528,158)	
NONOPERATING REVENUES (EXPENSES)			
Interest income Property tax revenue Other nonoperating revenues Other nonoperating expenses Interest on long-term debt	266,268 2,444,395 15,080 (1,210,242) (1,937,272)	105,008 0 13,475 (356,657) (1,118,611)	
Total nonoperating revenues (expenses)	(421,771)	(1,356,785)	
Income (loss) before contributions and transfers TRANSFERS AND CAPITAL CONTRIBUTIONS	(2,015,485)	(3,884,943)	
Transfers in Transfers out Capital grants	3,548,068 (1,866,129) 8,419,060	790,000 (112,987) 7,631,498	
Change in net assets	8,085,514	4,423,568	
Total net assets - beginning	52,943,172	48,519,604	
Total net assets - ending	\$61,028,686	\$52,943,172	

INLAND EMPIRE UTILITIES AGENCY WATER RESOURCES FUND COMPARATIVE SCHEDULES

Water Resources Fund

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

For FY 2009/10, the major source of revenue for the Water Resources Fund is a \$12 per acre foot surcharge for imported water sold within the service area and a monthly water meter service charge of \$.795 per meter, connection fees, standby charges, interest and grants from MWD, State and Federal agencies as well as from other sources.



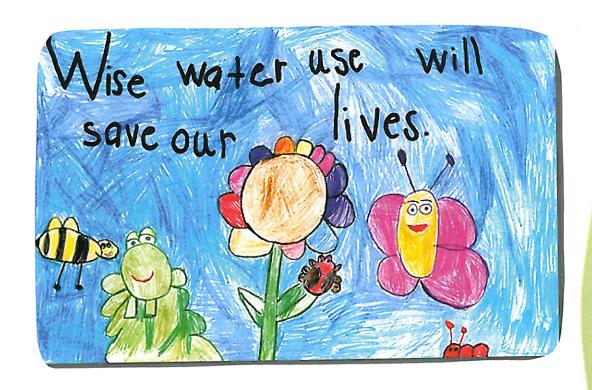
INLAND EMPIRE UTILITIES AGENCY Water Resources Fund Schedule of Net Assets June 30, 2010

(With Comparative Totals for June 30, 2009)

	Totals			
	2010	2009		
ASSETS				
Current assets				
Cash and investments	\$1,737,680	\$1,755,573		
Accounts receivable	6,875,555	8,607,597		
Interest receivable	3,185	10,328		
Other receivable	28,177	10,304		
Total current assets	8,644,597	10,383,802		
Noncurrent assets				
Capital assets				
Jobs in progress	126,825	94,104		
Capital assets, net of accumulated depreciation	22,658	23,204		
Intangible assets, net of accumulated amortization	48,934	53,754		
Total capital assets	198,417	171,062		
Total noncurrent assets	198,417	171,062		
Total assets	8,843,014	10,554,864		
LIABILITIES				
Accounts payable	5,998,113	7,439,042		
Accrued liabilities	442,163	461,754		
Total liabilities	6,440,276	7,900,796		
NET ASSETS				
Invested in capital assets, net of related debt	198,417	171,062		
Unrestricted	2,204,321	2,483,006		
Total net assets	\$2,402,738	\$2,654,068		

INLAND EMPIRE UTILTIES AGENCY
Water Resources Fund
Schedule of Revenues, Expenses, and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2010
(With Comparative Totals for June 30, 2009)

	Totals			
	2010	2009		
OPERATING REVENUES				
Service charges	\$2,436,933	\$2,257,068		
Total operating revenues	2,436,933	2,257,068		
OPERATING EXPENSES				
Operations and maintenance Administration and general Depreciation and amortization	99,695 2,209,009 5,367	99,782 1,858,434 5,367		
Total operating expenses	2,314,071	1,963,583		
Operating income (loss)	122,862	293,485		
NONOPERATING REVENUES (EXPENSES)				
Interest income Other nonoperating revenues Other nonoperating expenses	31,503 71,471 (400,568)	53,807 445,117 (4,762,801)		
Total nonoperating revenues (expenses)	(297,594)	(4,263,877)		
Income (loss) before contributions and transfers	(174,732)	(3,970,392)		
TRANSFERS AND CAPITAL CONTRIBUTIONS				
Transfers out Capital grants	(300,000) 223,402	(300,000) 1,648,540		
Change in net assets	(251,330)	(2,621,852)		
Total net assets - beginning	2,654,068	5,275,920		
Total net assets - ending	\$2,402,738	\$2,654,068		



Artist: Meadow Vinyard, Kindergarten

Community Christian School / Mrs. Julie LoMont

Private / Hemet

Eastern Municipal Water District

INLAND EMPIRE UTILITIES AGENCY NON-RECLAIMABLE WASTEWATER FUND COMPARATIVE SCHEDULES

The Non-reclaimable Wastewater Fund consists of the following:

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

Additionally, administrative costs associated with the implementation and maintenance of capital projects required for the improvements or collection lines of the NRW System are recorded.

Funds are budgeted for the design, construction, management, and administration cost as the need for additional non-reclaimable wastewater facilities or replacement of the existing pipelines, interceptor capacity, and treatment capacity is identified.



NRW Collections in Action



INLAND EMPIRE UTILITIES AGENCY Non-reclaimable Wastewater Fund Schedule of Net Assets June 30, 2010

(With Comparative Totals for June 30, 2009)

	Tota	
ASSETS	2010	2009
Current assets		
Cash and investments	\$5,997,015	\$11,193,293
Accounts receivable	2,178,232	1,632,733
Interest receivable	282,421	58,819
Other receivables	139,597	468,464
Prepaid items	192,386	560,589
Total current assets	8,789,651	13,913,898
Noncurrent assets		
Restricted assets		
Assets held with trustee/fiscal agent	91,762	2,066,525
Total restricted assets	91,762	2,066,525
Capital assets		
Jobs in progress	8,240,748	6,861,165
Capital assets, net of accumulated depreciation	5,398,832	4,572,262
Intangible assets, net of accumulated amortization	24,906,062	24,681,155
Total capital assets	38,545,642	36,114,582
Other assets		
Advances from other funds	15,000,000	9,000,000
Long-term receivables	109,062	134,346
Deferred costs	86,539	90,495
Total other assets	15,195,601	9,224,841
Total noncurrent assets	53,833,005	47,405,948
Total assets	62,622,656	61,319,846 (Continued)

	Totals				
LIABILITIES	2010	2009			
Current liabilities					
Accounts payable	1,090,782	408,453			
Accrued liabilities	1,636,459	2,343,890			
Retention deposits and escrows	94,987	283,211			
Notes payable, due within one year	111,757	105,432			
Interest payable	59,479	60,104			
Total current liabilities	2,993,464	3,201,090			
Noncurrent liabilities					
Long-term debt, due in more than one year	7,405,800	7,493,021			
Notes payable, due in more than one year	1,013,257	1,125,014			
Total noncurrent liabilities	8,419,057	8,618,035			
Total liabilities	11,412,521	11,819,125			
NET ASSETS					
Invested in capital assets, net of related debt	30,069,267	29,323,973			
Restricted for:					
Capital construction	54,439	1,932,857			
Bond debt service	37,323	77,236			
Bond operating contingency requirement	1,943,880	1,806,684			
Total restricted	2,035,642	3,816,777			
Unrestricted	19,105,226	16,359,971			
Total net assets	\$51,210,135	\$49,500,721			

INLAND EMPIRE UTILITIES AGENCY Non-reclaimable Wastewater Fund Schedule of Revenues, Expenses and Changes in Fund Net Assets by Subfund For the Fiscal Year Ended June 30, 2010 (With Comparative Totals for June 30, 2009)

	Tota	als
	2010	2009
OPERATING REVENUES		
Service charges	\$8,881,646	\$8,215,676
Total operating revenues	8,881,646	8,215,676
OPERATING EXPENSES		
Wastewater collection Administration and general Depreciation and amortization	4,558,505 1,273,134 1,204,926	4,531,264 888,789 1,152,049
Total operating expenses	7,036,565	6,572,102
Operating income (loss)	1,845,081	1,643,574
NONOPERATING REVENUES (EXPENSES)		
Interest income Property tax revenue Other nonoperating revenues Interest on long-term debt Other nonoperating expenses Total nonoperating revenues (expenses)	201,704 161 210,613 (411,341) (127,121) (125,984)	380,785 12 29,463 (439,286) (27,896)
Income (loss) before contributions and transfers	1,719,097	1,586,652
TRANSFERS	1,7 10,007	1,000,002
Transfers out	(9,683)	(14,384)
Change in net assets	1,709,414	1,572,268
Total net assets - beginning	49,500,721	47,928,453
Total net assets - ending	\$51,210,135	\$49,500,721

INLAND EMPIRE UTILITIES AGENCY ADMINISTRATIVE SERVICES FUND COMPARATIVE SCHEDULES

Administrative Services Fund

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



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



Reception Area of Headquarters, Building A

INLAND EMPIRE UTILITIES AGENCY Administrative Services Fund Schedule of Net Assets June 30, 2010

(With Comparative Totals for June 30, 2009)

	Totals				
	2010	2009			
ASSETS					
Current assets					
Cash and investments	\$18,393,703	\$14,037,926			
Accounts receivable	944,180	3,474,171			
Interest receivable	47,680	57,113			
Taxes receivable	373,022	304,936			
Other receivables	45,532	59,840			
Inventory	1,758,776	1,650,230			
Prepaid items	128,139	70,764			
Total current assets	21,691,032	19,654,980			
Noncurrent assets					
Restricted assets					
Assets held for 401(a) plan	1,033,707	1,376,084			
Total restricted assets	1,033,707	1,376,084			
Capital assets					
Land	20,829	20,829			
Jobs in progress	2,979,190	2,644,647			
Capital assets, net of accumulated depreciation	12,632,409	14,279,405			
Intangible assets, net of accumulated amortization	4,250,818	4,877,528			
Total capital assets	19,883,246	21,822,409			
Other assets					
Deferred costs	758_	758			
Total other assets	758	758			
Total noncurrent assets	20,917,711	23,199,251			
Total assets	42,608,743	42,854,231			
		(Continued)			

	Totals				
	2010	2009			
LIABILITIES					
Current liabilities					
Accounts payable	805,621	1,338,326			
Accrued liabilities	1,862,464	1,670,460			
Compensated absences	2,056,418	1,761,673			
Retentions payable	6,816	13,474			
Current liabilities	4,731,319	4,783,933			
Noncurrent liabilities					
Compensated absences	1,788,025	2,074,008			
Liability for 401(a) plan	1,033,707	1,376,084			
Net OPEB liability (note 1 d.)	3,757,349	2,773,861			
Total noncurrent liabilities	6,579,081	6,223,953			
Total liabilities	11,310,400	11,007,886			
NET ASSETS					
Invested in capital assets, net of related debt	19,883,246	21,822,409			
Restricted for:					
Bond operating contingency requirement	969,222	1,261,159			
Total restricted	969,222	1,261,159			
Unrestricted	10,445,875	8,762,777			
Total net assets	\$31,298,343	\$31,846,345			

INLAND EMPIRE UTILITIES AGENCY Administrative Services Fund Schedule of Revenues, Expenses and Changes in Fund Net Assets For the Fiscal Year Ended June 30, 2010

(With Comparative Totals for June 30, 2009)

	Totals			
	2010	2009		
OPERATING REVENUES				
Service charges	\$0	\$0		
Total operating revenues	0	0		
OPERATING EXPENSES				
Administration and general Depreciation and amortization	2,907,666 2,285,358	5,158,379 2,537,873		
Total operating expenses	5,193,024	7,696,252		
Operating income (loss)	(5,193,024)	(7,696,252)		
NONOPERATING REVENUES (EXPENSES)				
Interest income Property tax revenue Other nonoperating revenues Other nonoperating expenses	218,285 2,822,907 1,358,865 (104,921)	347,600 2,957,255 1,351,990 (226,253)		
Total nonoperating revenues (expenses)	4,295,136	4,430,592		
Income (loss) before contributions and transfers	(897,888)	(3,265,660)		
TRANSFERS AND CAPITAL CONTRIBUTIONS				
Transfers in Transfers out Capital grants	2,301,867 (2,017,063) 65,082	2,624,952 (2,270,007) 69,138		
Change in net assets	(548,002)	(2,841,577)		
Total net assets - beginning	31,846,345	34,687,922		
Total net assets - ending	\$31,298,343	\$31,846,345		



Index of Statistical Section Schedules

June 30, 2010

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

(1)	Financial Trends
(2)	Revenue Capacity
(3)	Debt Capacity
(4)	Operating Indicators
(5)	Demographic and Economic Information
	Sources: Unless otherwise noted, the information in these schedules is derived from

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

Historical Operating Results Wastewater Revenue Funds' Combined Statement of Revenues, Expenses and Changes in Fund Net Assets Fiscal Years Ended June 30, 2001 through 2010 (Dollars in Thousands)

	2009/10 2008/09		2008/09	2007/08		007/08 2006/07		2005/06		
Operating revenues										
Service charges	\$	42,108	\$	41,575	\$	38,021	\$	36,132	\$	31,716
Other charges		4,162		2,715		_		-		-
Total operating revenues		46,270		44,290		38,021		36,132		31,716
Operating expenses										
Wastewater collection		7,338		5,939		5,361		1,086		1,143
Wastewater treatment		19,016		20,049		22,429		25,082		22,694
Wastewater disposal		10,030		12,885		12,722		7,434		6,235
Operations and maintenance		-		-		2,135		4,442		42
Administration and general		22,018		25,685		12,728		17,650		16,607
Depreciation and amortization		26,168		22,179		17,289		17,603		18,261
Total operating expenses		84,570		86,737		72,665		73,297		64,982
Operating income (loss)		(38,300)		(42,447)		(34,644)		(37,165)		(33,266)
Non-operating revenues (expenses)										
Interest income		1,684		2,742		4,659		5,226		3,670
Property tax revenue		34,355		36,325		34,451		31,018		20,070
Wastewater capital connection fees		7,753		5,753		16,626		24,671		20,896
Other nonoperating revenues		7,566		3,098		15,280		5,711		6,302
Interest on long-term debt		(9,891)		(13,498)		(10,101)		(8,419)		(7,029)
Other nonoperating expenses		(7,283)		(3,268)		(1,224)		(15,275)		(1,415)
Total nonoperating revenues (expenses)		34,184		31,152		59,692		42,932		42,494
Income (loss) before contributions and transfers		(4,116)		(11,295)		25,048		5,767		9,228
Capital grants		10,163		12,275		1,095		3,380		2,493
Contribution in aid		-		-		· -		-		75
Transfers (to non-sewer funds)		300		300		(4,546)		(14,358)		(3,107)
Change in net assets		6,347		1,280		21,597		(5,210)		8,689
Total net assets - beginning		511,897		434,393		412,797		422,441		413,752
Prior period adjustment		311,001		76,224		,		(4,434)		,
Total net assets - ending	\$	518,244	\$	511,897	\$	434,393	\$	412,797	\$	422,441

Historical Operating Results Wastewater Revenue Funds' Combined Statement of Revenues, Expenses and Changes in Fund Net Assets Fiscal Years Ended June 30, 2001 through 2010 (Dollars in Thousands)

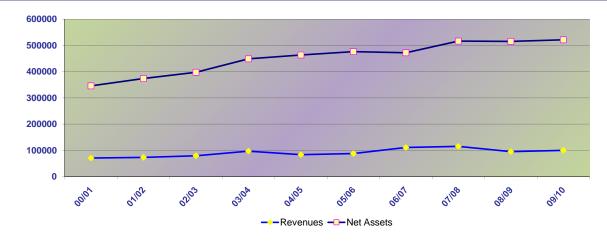
2004/05	2	2003/04		2002/03		2001/02		2000/01	
\$ 27,091 1,755	\$	25,579 1,707	\$	25,253 1,677	\$	24,768 1,609	\$	22,970 1,590	
28,845		27,286		26,930		26,376		24,560	
1,052		967		1,521		875		584	
19,194		18,677		15,790		15,876		13,472	
5,851		4,749		4,663		4,037		3,735	
1,067		-		-		-			
15,483		11,997		10,937		8,514		8,691	
16,160		14,178		13,614		13,555	13,16		
58,807		50,568		46,525		42,857		39,649	
(29,962)		(23,282)		(19,595)	(16,481)			(15,089)	
2,642		2,693		3,735		4,449		6,345	
16,674		21,508		19,292		17,269		15,933	
27,958		28,451		23,999		20,135	17,672		
2,005		12,780		935		963		544	
(6,613)		(6,669)		(7,134)		(7,038)		(6,915)	
(804)		(3,152)		(908)		(86)		(662)	
41,862		55,612		39,919 35,693		35,693		32,917	
11,900	32,329			20,324		19,212		17,828	
975		221		79		1,010		-	
- (6.104)		1,225		(2.000)		(4.000)		- (C 00E)	
(6,124) 6,751		(4,838) 28,938		(3,888) 16,515		(4,080) 16,142		(6,085) 11,743	
0,731		20,330		10,515		10,142		11,743	
407,001		378,063		361,548		345,406		333,664	
\$ 413,752	\$	407,001	\$	378,063	\$	361,548	\$	345,407	

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)

	2009/10 2008/0		2008/09	8/09 2007/08			2006/07		
Operating revenues									
Service charges	\$	44,545	\$	43,832	\$	39,459	\$	37,964	
Other Charges		-		-		-		-	
Recycled water sales		4,162		2,716		2,007		3,254	
Total operating revenues		48,707		46,548		41,466		41,218	
Operating expenses									
Wastewater collection		7,338		2,351		5,361		1,086	
Wastewater treatment		19,016		23,640		22,429		25,082	
Wastewater disposal		10,030		9,885		12,723		7,434	
Administration and general		24,227		25,101		22,322		24,447	
Depreciation and amortization		26,173		22,185		19,054		18,944	
Operations and maintenance		100		5,539		2,175		7,431	
Total operating expenses		86,884		88,701		84,064		84,424	
Operating income (loss)		(38,177)		(42,154)		(42,598)		(43,206)	
Nonoperating revenues (expenses)									
Interest income		1,715		2,796		5,006		5,325	
Property tax revenue		34,355		36,325		34,451		31,018	
Wastewater capital connection fees		7,753		5,753		16,626		24,671	
Other nonoperating revenues		7,638		3,543		17,720		8,645	
Interest on long-term debt		(9,891)		(13,498)		(11,278)		(9,540)	
Other nonoperating expenses		(7,684)		(8,031)		(1,890)		(19,678)	
Total nonoperating revenues (expenses)		33,886		26,888		60,635		40,441	
Income (loss) before contributions and transfers		(4,291)		(15,266)		18,036		(2,765)	
Capital grants		10,387		13,924		12,373		13,883	
Contributions in aid		-		-		-		-	
Change in net assets	\$	6,096	\$	(1,342)	\$	30,409	\$	11,118	
Net assets by component:									
Invested in capital assets, net of related debt		365,948		370,516		355,794		330,897	
Restricted for Debt service & Capital construction		78,268		81,418		123,620		66,071	
Unrestricted		76,984		63,170		37,032		75,224	
Total net assets	\$	521,200	\$	515,104	\$	516,446	\$	472,192	

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

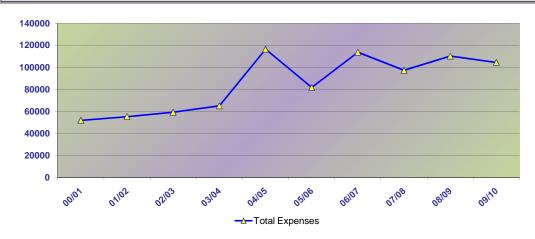


INLAND EMPIRE UTILITIES AGENCY Combined Schedule of Revenues, Expenses and Changes in Fund Net Assets - All Funds -

For The Past Ten Fiscal Years (continued) (Dollars in Thousands)

	2005/06	2005/06 2004/05		 2003/04	2002/03		 2001/02	:	2000/01
\$	33,837	\$	29,194	\$ 27,509	\$	26,586	\$ 25,781	\$	23,963
	-		1,755	1,707		1,677	1,608		1,590
	1,147		653	589		586	1,642		1,809
	34,984		31,602	29,805		28,849	 29,031		27,362
	1,143		1,052	967		1,521	875		584
	22,694		19,194	18,677		15,790	15,876		13,472
	6,236		5,851	4,749		4,663	4,037		3,735
	23,568		20,605	14,415		13,515	11,898		11,128
	18,719		16,311	14,328		13,769	13,700		13,310
	67		1,688	 1,788		1,367	 1,606		1,808
	72,427		64,701	 54,924		50,625	 47,992		44,037
	(37,443)		(33,099)	(25,119)		(21,776)	 (18,961)		(16,675)
	3,868		2,903	2,874		4,246	4,657		6,601
	20,070		16,674	21,508		19,292	17,269		15,934
	20,895		27,958	28,451		23,999	20,135		17,672
	8,007		4,195	14,288		2,848	2,013		2,850
	(7,796)		(7,138)	(6,876)		(7,355)	(7,037)		(7,153)
	(1,478)		(868)	(3,211)		(1,176)	(160)		(668)
	43,566		43,724	57,034		41,854	 36,877		35,236
	6,123		10,623	10,625		20,078	20,078		17,916
	6,656		4,220	17,480		3,104	9,679		-
	68		26	1,482		866	188		75
\$	12,847	\$	14,869	\$ 29,587	\$	24,048	\$ 29,945	\$	17,991
-				 			 		
	339,320		300,869	256,642		219,305	234,640		198,171
	59,447		101,162	138,875		127,349	102,648		97,913
	77,673		61,563	 53,208		51,193	 36,511		6,488
\$	476,440	\$	463,594	\$ 448,725	\$	397,847	\$ 373,799	\$	302,572

Operating & Nonoperating Expense Trends For the Past Ten Fiscal Years



Wastewater Capital Connection Deposits Held For the Past Ten Fiscal Years

Fiscal Year	CVWD*	Chino	Chino Hills	Fontana
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	1,603,879	1,217,755	2,360,905	2,711,172
2008/09	1,228,895	901,211	977,018	2,288,501
2009/10	2,133,583	836,680	641,781	2,509,193
Percentage	26.5%	10.4%	8.0%	31.2%

Wastewater Capital Connection Fee Agreement

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

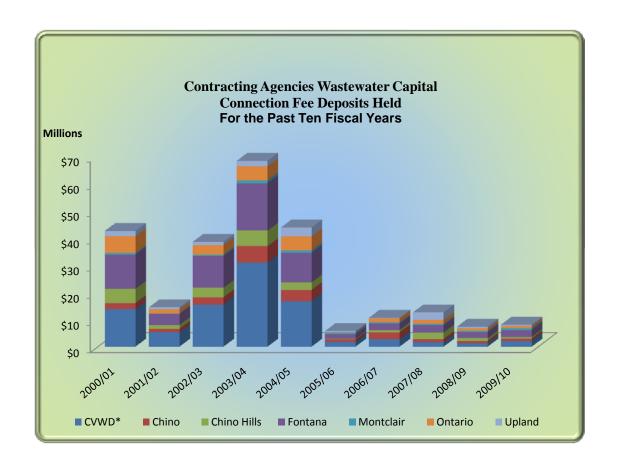
In accordance with the Chino Basin Regional Sewage Service Contract, IEUA must provide each Contracting Agency: a) a quarterly report concerning the level of Capital Capacity Reimbursement Account reserves, b) Regional wastewater capital improvement expenditures and, c) the estimated amount of Supplemental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

Connection fee payments to IEUA are calculated based on the percentage of each Contracting Agency's Reimbursement Account balance relative to the total balance of all Contracting Agency held funds. That percentage is then utilized to calculate each Contracting Agency's (pro rata) contribution of an IEUA "Capital Call" for funds from the Reimbursement Accounts. The table above represents the connection fee balances reported in the respective Contracting Agency's Annual Financial Reports. Balances reported for FY 2009/10 are subject to further adjustment after audit.

^{*}Cucamonga Valley Water District

Wastewater Capital Connection Deposits Held For the Past Ten Fiscal Years

Fiscal Year	Montclair	Ontario	Upland	Total
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	417,175	1,498,502	2,732,573	12,541,961
2008/09	372,384	921,436	605,408	7,294,854
2009/10	651,837	842,484	432,863	8,048,420
Percentage	8.1%	10.5%	5.4%	100.0%



Wastewater Revenue Funds' Capital Requirements For the Ten Fiscal Years Ending June 30, 2019* (Dollars in Thousands)

	Actual Thru	Projected			
Project Description	2009/10	2010/11	2011/12		
Replacement projects DD4 Assetion Pagin Clean and Air Pagel Membrane Paglacement	Φ	Ф 500	Φ.		
RP1 Aeration Basin Clean and Air Panel Membrane Replacement	\$ -	\$ 520	\$ -		
Plant Equipment Improvements	92	515	500		
Major Facilities Repairs/Replacement	102	500 147	500		
Collection Systm Emergency Upgrade	193	147	-		
RP1, RP2, Carbon Canyon OM Manuals	- 131	-	-		
RP1 Digester PD Pumps		-	-		
Various Replacement Projects	239	322	4.000		
Total replacement projects	655	2,004	1,000		
Equipment projects					
SBLS Critical Spare Equipment purchase	-	220	=		
DCS UPS Redundancy	-	175	-		
CCRWF Primary Effluent Pump Assembly	-	140	-		
Agency Wide Sodium Bisulfite (SBS) Freezing Protection Project	=	100	=		
Replacement PCs/Laptops	-	17	150		
Various Equipment Projects	503	311	861		
Total equipment projects	503	963	1,011		
Construction projects					
RP1 Dewatering Facility Expansion	5,976	18,504	495		
Capital Upgrades to RP-1, RP-2, CCWRF, RP4, & RP5	-	3,850	4,400		
RP1 Odor Control - Phase I	115	3,337	-		
RP1 Asset Replacement	894	1,300	500		
New Operations Laboratory	132	1,050	-		
RP4 Storage Pond Improvements	<u>-</u>	515	-		
RP5 System Fac Upgrade & Improvements	730	330	-		
Headquarters' Repairs and Drainage Improvements	-	325	-		
RP2 Digester Cleaning	-	300	-		
Engineering Misc. Wastewater Construction & Emergency Projects	-	250	250		
Sub-Metering (All Facilities)	-	150			
RP1 Facilities Improvements	1,176	100	-		
RP2 Dewatering Cake Storage	907	-	_		
San Bernardino Avenue Pump Station	495	_	-		
Miscellaneous Regional Capital Construction Projects	453	-	-		
RP4 Liquid Expansion	436	_	-		
RP5 Renewable Energy	279	_	_		
Engineering Regional Sewer Projects FY 2010/11	-	100	100		
CM Misc. Wastewater Construction & Emergency Projects	5	250	250		
RP2 Waste Storage Pump	260	-	-		
Various Construction Projects	901	789	371		
Total construction projects	12,759	31,150	6,366		
Total projected capital costs	¢ 42.047	¢ 2/147	¢ 0277		
rotar projected capital costs	\$ 13,917	\$ 34,117	\$ 8,377		

^{*} Source: Projections were derived from the 2010/11 IEUA Ten Year Capital Improvement Plan.

Wastewater Revenue Funds' Capital Requirements For the Ten Fiscal Years Ending June 30, 2019* (continued) (Dollars in Thousands)

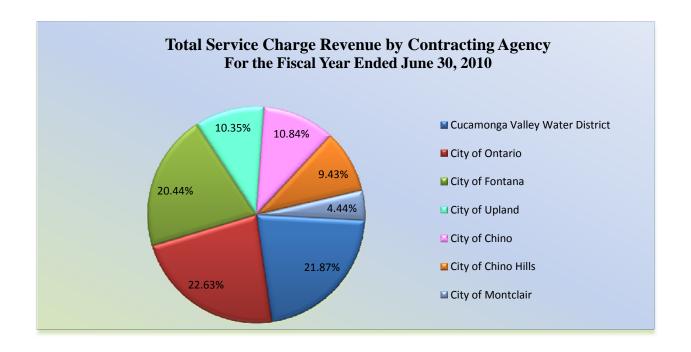
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2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	<u>TOTAL</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 520
500	1,000	500	2,000	2,000	2,000	1,775	10,882
500	500	500	-	-	-	-	2,500
-	-	-	-	-	-	-	339
-	-	-	-	500	496	416	1,412
-	=	-	-	=	-	-	131
-	-	-	-	-	-	-	561
1,000	1,500	1,000	2,000	2,500	2,496	2,191	16,345
-	-	-	-	-	-	-	220
-	-	-	-	-	-	-	175
-	-	-	-	-	-	-	140
-	-	-	-	-	-	-	100
150	70	70	70	70	70	70	737
1,283	576	485	-	-	-	-	4,019
1,433	646	555	70	70	70	70	5,391
-	-	-	-	-	-	-	24,975
1,400	1,900	1,500	1,500	7,000	2,900	1,500	25,950
-	-	-	<u>-</u>	- 	-	<u>-</u>	3,452
500	500	700	250	1,300	300	2,250	8,494
-	-	-	-	-	-	-	1,182
-	-	-	-	-	-	-	515
=	=	=	-	=	-	=	1,060
-	=	=	-	-	-	=	325
250	250	250	250	250	250	250	300
250	250	250	250	250	250	250	2,250 150
-	-	-	-	-	-	-	1,276
_	_	_	_	_	_	_	907
_	_	_	_	_	_	_	495
_	_	_	_	_	_	_	453
_	_	_	_	_	_	_	436
_	_	_	_	_	_	_	279
100	100	100	100	100	100	100	900
250	250	250	250	250	250	250	2,255
230	230 -	250 -	250 -	-	<u>-</u>	-	2,233
250	250	250	250	250	250	250	3,811
2,750	3,250	3,050	2,600	9,150	4,050	4,600	79,725
5,183	\$ 5,396	\$ 4,605	\$ 4,670	\$ 11,720	\$ 6,616	\$ 6,861	\$ 101,461

Regional Wastewater Funds Service Charge Revenue and Rates by Contracting Agency For the Fiscal Year Ended June 30, 2010

Through hard work, commitment and discipline, the IEUA team provides the communities they live and work in with wastewater and related utility services, at some of the lowest rates in the State. The following table displays data for FY 2009/10.

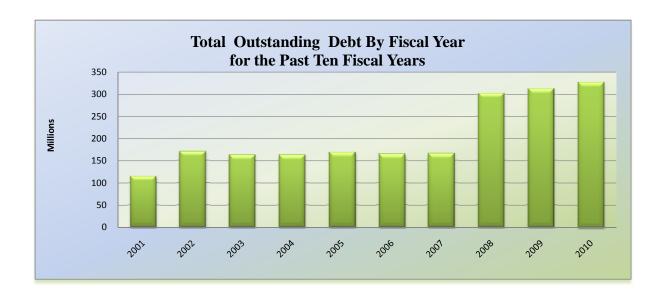
Contracting Agency	Total EDU's	Rate	Service Charge Revenue	% of Service Charge Revenue
Cucamonga Valley Water District	661,435	10.75	\$7.110.425	21.87%
City of Ontario	684,069	10.75	7,353,747	22.63%
City of Fontana	618,130	10.75	6,644,893	20.44%
City of Upland	313,001	10.75	3,364,761	10.35%
City of Chino	327,915	10.75	3,525,084	10.84%
City of Chino Hills	285,006	10.75	3,063,814	9.43%
City of Montclair	134,168	10.75	1,442,309	4.44%
Total Contracting Agencys' Service Charge Revenue	3,023,724		\$32,505,033	100.00%



Ratios of Outstanding Debt For the Past Ten Fiscal Years

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

Fiscal Year	Revenue Bonds (2)	State of California Loans (2)	CSDLAC Note (2)	SAWPA Note (2)	City of Fontana(2)	Total Outstanding Debt (2)	Per Capita (1)	Percentage of Personal Income(1)
2001	\$108,291,222	\$0	\$1,066,557	\$5,972,034	\$0	\$115,329,813	\$65	0.29%
2002	164,433,220	0	0	5,770,154	0	170,203,374	94	0.40%
2003	160,500,181	0	0	2,594,992	0	163,095,173	88	0.37%
2004	153,967,142	6,534,146	0	2,483,504	0	162,984,792	85	0.34%
2005	152,957,336	14,079,679	0	2,365,327	0	169,402,342	87	0.33%
2006	147,608,907	14,547,366	0	2,225,451	0	164,381,724	83	0.31%
2007	143,140,252	20,490,644	0	2,107,273	0	165,738,169	83	0.30%
2008	271,851,506	28,984,381	0	1,966,522	0	302,802,409	150	0.50%
2009	266,575,303	43,887,866	0	1,817,326	0	312,280,495	152	N/A
2010	259,825,394	56,246,235	0	1,659,178	8,899,580	326,630,387	158	N/A



- (1) Refer to the Schedule of Demographic and Economic Statistics on page 132 for personal income and population data.
- (2) Source: Inland Empire Utilities Agency Fiscal Management Department

Agency System Subordinate Debt Coverage Ratio

For Fiscal Years Ended June 30, 2010

(With Comparative Totals for the Fiscal Year Ended June 2009)

_	2009/10	2008/09
Revenues:	\$ 33.226.273	Ф 24.0E2.EEE
Wastewater System Service Charges Wastewater Capital Connection Fees	\$ 33,226,273 7,753,057	\$ 31,052,555 5,753,403
Property Tax	34,355,385	36,324,998
NRW System Service Charges	8,881,646	8,215,676
Interest	1,580,151	2,742,290
Recycled Water Sales	4,162,140	2,715,636
Desalter/Composter Services	3,586,584	3,318,721
Other	2,564,773	1,321,837
Total Revenues	\$ 96,110,009	\$ 91,445,116
Operation and Maintenance Costs:		
Wastewater Treatment	\$ 19,016,466	\$ 20,049,103
Administration and General	19,534,233	21,157,856
Wastewater Disposal	10,029,605	9,885,191
Wastewater Collection	7,263,946	5,942,478
Operations and maintenance	2,571,132	7,532,822
Other	1,020,527	949,952
Total Operation and Maintenance Costs:	\$ 59,435,909	\$ 65,517,402
Revenues Available to Pay Senior Debt Service	\$ 36,674,100	\$ 25,927,714
Senior Obligation Debt Service		
1994 Installment Payments	\$ 6,438,513	\$ 6,411,776
1999 Installment Payments	1,115,019	1,119,850
Total Senior Obligation Debt Service	\$ 7,553,532	\$ 7,531,626
Senior Obligation Debt Service Coverage	4.86	3.44
Net Revenues	\$ 29,120,568	\$ 18,396,088
Parity Obligation Debt Service		
2005A Installment Purchase Payments	\$ 2,282,538	\$ 1,156,825
2008A Installment Payments	6,250,000	6,250,000
2008B Installment Payments	1,632,529	2,687,594
Total Parity Obligation Debt Service	\$ 10,165,067	\$ 10,094,419
Parity Obligation Debt Service Coverage	2.86	1.82
Net Revenues	\$ 18,955,501	\$ 8,301,669
Subordinate Obligations		
State Revolving Fund Loan	\$ 2,490,003	\$ 1,794,610
SAWPA Sari Capacity Purchase	267,188	267,182
City of Fontana	518,704	0
Total Subordinate Obligations	\$ 3,275,895	\$ 2,061,792
Other Debt Service Coverage	5.79	4.03
Remaining Net Revenue	\$ 15,679,606	\$ 6,239,877
Revenues available after O&M expenses	\$ 36,674,100	\$ 25,927,714
Total debt service	\$ 20,994,494	\$ 19,687,837
Total debt coverage ratio	1.75	1.32

Agency System Subordinate Debt Coverage Ratio For Fiscal Years Ended June 30, 2010 (With Comparative Totals for the Fiscal Year Ended June 2009)

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

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

In February 2008, the Chino Basin Regional Financing Authority issued 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 FY 2009/10 amended budget for operating and maintenance expenses for four months was \$22,209,174
- > As of the Fiscal Year Ended June 30, 2010, the Agency had designated debt service reserves of \$17,426,174. This balance exceeded the stated minimum requirements.

INLAND EMPIRE UTILITIES AGENCY Computation of Direct and Overlapping Bonded Debt As of June 30, 2010

 $\underline{2009/2010 \; \text{Assessed Valuation}} : \$54,839,381,136 \; (after deducting \, \$27,487,480,671 \; \text{Redevelopment Incremental Valuation})$

valuation)			
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable (1)	Debt 6/30/10	
Metropolitan Water District	3.032%	\$ 8,011,150	
Chaffey Community College District	99.569	154,721,791	
San Bernardino Community College District	0.224	971,980	
Chino Valley Unified School District	100.	142,404,999	
Colton Joint Unified School District	2.224	3,142,933	
Fontana Unified School District	97.160	281,669,472	
Rialto Unified School District	0.109	48,641	
Upland Unified School District	99.758	68,313,956	
Chaffey Union High School District	99.711	97,118,514	
Alta Loma School District	99.784	19,283,131	
Central School District	100.	23,840,777	
Mountain View School District & School Facilities Improvement District No.	100.	15,214,416	
Ontario-Montclair School District	100.	53,374,903	
Inland Empire Utilities Agency	100.	0	(2)
City of Chino Community Facilities Districts	100.	129,625,000	()
City of Chino Hills Community Facilities Districts	100.	66,605,000	
Etiwanda School District Community Facilities Districts	100.	107,670,000	
Upland Unified School District Community Facilities District No. 99-1	100.	4,711,000	
City of Fontana Community Facilities Districts	4.930-100.	86,184,116	
Mountain View School District Community Facilities District	100.	4,560,000	
San Bernardino County Community Facilities Districts No. 2002-1	100.	23,230,000	
City of Ontario Community Facilities District	100.	10,605,000	
City of Rancho Cucamonga Community Facilities Districts	100.	102,625,000	
City of Upland Community Facilities Districts	100.	43,050,000	
City of Chino Hills 1915 Act Bonds	100.	6,905,000	
City of Ontario 1915 Act Bonds	100.	14,650,933	
City of Rancho Cucamonga 1915 Act Bonds	100.	2,930,000	
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$1,471,467,712	
OVERLAPPING GENERAL FUND OBLIGATION DEBT:			
San Bernardino County General Fund Obligations	46.262%	\$ 335,785,788	
San Bernardino County Pension Obligations	46.262	299,944,577	
San Bernardino County Flood Control General Fund Obligations	46.262	53,067,140	
Chaffey Community College District Certificates of Participation	99.569	12,511,508	
Chino Valley Unified School District Certificates of Participation	100.	41,870,000	
Colton Joint Unified School District Certificates of Participation	2.224	140,890	
Fontana Unified School District Certificates of Participation	97.160	50,698,088	
Rialto Unified School District Certificates of Participation	0.109	15,674	
Upland Unified School District Certificate of Participation	99.758	1,306,830	
Cucamonga School District Certificate of Participation	100.	11,715,000	
City of Chino Hills	100.	21,865,000	
City of Fontana Certificates of Participation	91.600	51,085,320	
City of Montclair General Fund Obligations	100.	28,945,000	
City of Ontario General Fund Obligations	100.	63,269,573	
Other City General Fund Obligations	5.711&100.	1,737,898	
West Valley Vector Control District Certificates of	100.	3,625,000	
·	2.2.	\$ 977,583,286	
TOTAL NET OVERLAPPING GENERAL FUND			
NET COMBINED TOTAL DEBT		\$2,449,050,998	(8)
HET COMBINED TOTAL DEDT		<u>ΨΕ,ΤΤΟ,UJU,330</u>	(0)

INLAND EMPIRE UTILITIES AGENCY Computation of Direct and Overlapping Bonded Debt, (continued) As of June 30, 2010

Ratios to 2009-10 Assessed	Valuation:
----------------------------	------------

Direct Debt	0.00%
Total Direct and Overlapping Tax and Assessment Debt	1.79%
Ratios to Adjusted Assessed Valuation:	
Combined Direct Debt	4.47%
State School Building Aid Repayable As Of 6/30/10:	\$0

Source: California Municipal Statistics, Inc.

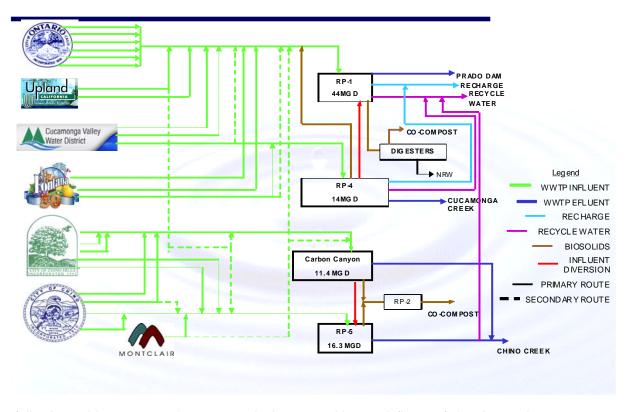
Footnotes:

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

Operating Indicators - Wastewater Facilities Design Capacity and Average Flow As of June 30, 2010

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

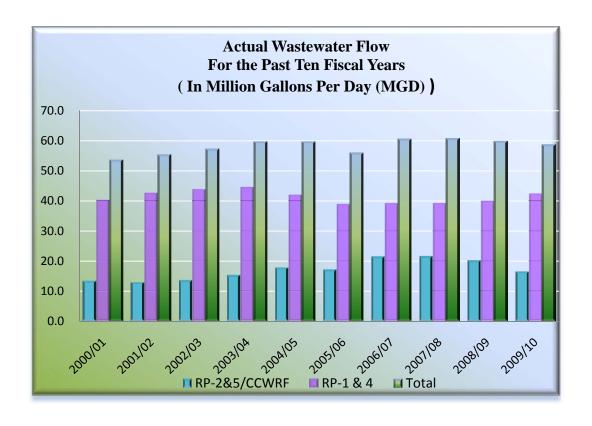


The following table presents the current design capacities and flows of the Agency's wastewater treatment as of June 30, 2010:

Facility	Design Capacity (MGD)	Average Flow (MGD)	Average Flow as % of Design Capacity
RP-1	44.0	29.6	67.2%
RP-2/RP-5	16.3	8.3	51.0
RP-4	14.0	12.7	90.8
CCWRF	11.4	8.1	70.9
Total	85.7	58.7	69.8%

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

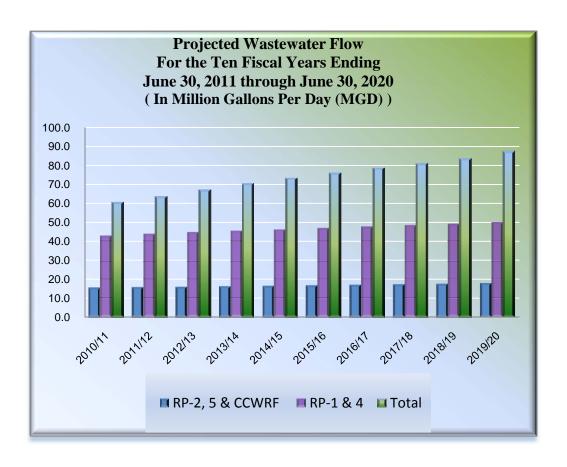
Figural	DD 4 9 4	DD 20 E/CCWDE	Total
Fiscal Year	RP-1 & 4 (MGD)	RP-2&5/CCWRF (MGD)	Total (MGD)
i c ai	(IVIGD)	(MGD)	(MGD)
2000/01	40.2	13.3	53.5
2001/02	42.5	12.8	55.3
2002/03	43.7	13.5	57.2
2003/04	44.4	15.2	59.6
2004/05	41.9	17.7	59.6
2005/06	38.8	17.0	55.8
2006/07	39.1	21.4	60.5
2007/08	39.1	21.5	60.6
2008/09	39.8	20.0	59.8
2009/10	42.3	16.4	58.7



Operating Indicator - Projected Wastewater Flow
For the Ten Fiscal Years Ending June 30, 2011 through June 30, 2020*

(In Million Gallons Per Day (MGD))

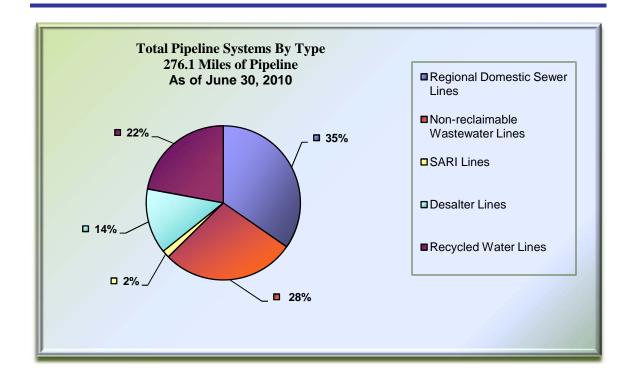
Fiscal Year	RP-1 & 4 (MGD)	RP-2, 5 & CCWRF (MGD)	Total (MGD)
2010/11	40.5	15.6	56.1
2010/11	40.6	15.8	56.4
2012/13	40.7	16.0	56.7
2013/14	40.8	16.2	57.0
2014/15	41.0	16.5	57.5
2015/16	41.2	16.7	57.9
2016/17	41.5	17.0	58.5
2017/18	41.7	17.2	58.9
2018/19	42.1	17.5	59.6
2019/20	42.4	17.8	60.2



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

Operating and Capacity Indicators - Pipeline Systems By Type As of June 30, 2010

Pipeline Types	Miles of Pipeline	Percentage of Pipelines
Regional Domestic Sewer Lines	95.7	35%
Non-reclaimable Wastewater Lines	77.3	28%
SARI Lines	4.3	2%
Desalter Lines	37.8	
Recycled Water Lines	61.0	22%
Total Miles of Pipeline By Type	276.1	100%



Source: IEUA FY 2010/11 Budget

No data available prior to most recent information.

Operating Indicators - FY 2009/10 Staffing Allocations As of June 30, 2010

Total staffing positions by Program: 283 FTE

Regional Wastewater Operations	164.7
Regional Wastewater Capital Programs	30.0
Recycled Water Programs	24.1
Inland Empire Regional Composting Authority Operations	17.3
Non-reclaimable Wastewater System Programs	17.4
Chino Basin Desalter Operations & Capital Programs	13.5
Recharge Water Programs	3.1
Water Related Activities & Conservation Programs	7.8
General Administration	5.1
Total Staffing in FTE *	283.0

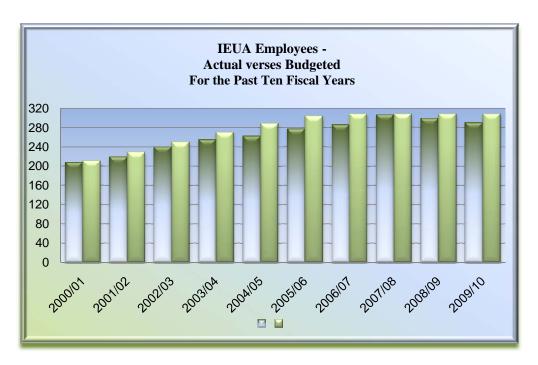
Source: IEUA FY 2010/11 Adopted Budget, IEUA June 2010 Position Control Report

Budgeted employee = 308, Actual FTE = 283

*FTE- Full Time Equivalent

Operating Indicators - Staffing Actuals verses Budgeted Positions For the Past Ten Fiscal Years

Fiscal Year	Actual Employees	Budgeted Employees
0000/04		• • •
2000/01	207	211
2001/02	218	228
2002/03	240	249
2003/04	254	270
2004/05	262	288
2005/06	276	303
2006/07	286	308
2007/08	306	308
2008/09	299	308
2009/10	290	308

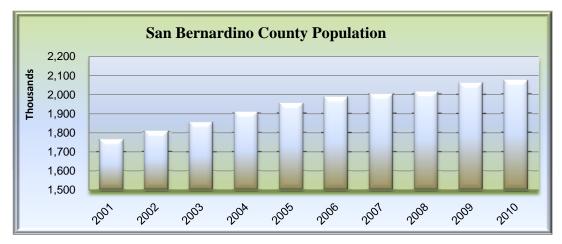


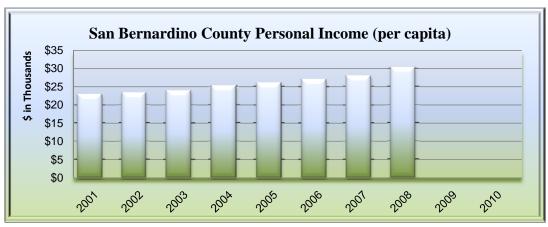
The chart and table above reflect the number of actual employees verses budgeted positions by fiscal year for the past ten fiscal years.

Demographic and Economic Statistics For the Past Ten Fiscal Years

San Bernardino County (1)

			Personal Income	Personal Income
Year	_	Population	(thousands of dollars)	(per capita)
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		2,002,208	56,110,017	28,024
2008		2,015,355	60,875,315	30,363
2009	(2)	2,060,950	N/A	N/A
2010	(2)	2,073,149	N/A	N/A





Footnotes:

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

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
Fontanta Unified School District	Fontana	3,953
United Parcel Service	Ontario	3,500
San Antonio Community Hospital	Upland	2,999
Chino Valley Unified School District	Chino	3,200
California Institution for Men	Chino	2,327
Montclair School District	Montclair	2,000
Chaffey Joint Union High School Dist	rict Montclair	1,930
Pro & Sons Inc.	Ontario	1,575

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



Ontario International Airport



Kaiser Medical Center



United Parcel Service



Fontana Unified School District

Footnote: No data available prior to most recent information.

Corporate Information Inland Empire Utilities Agency

Mailing Address:
Post Office Box 9020
Chino Hills, CA 91709



❖ GENERAL COUNSEL

Jean Cihigoyenetche Cihigoyenetche, Grossberg and Clouse

LABOR COUNSEL

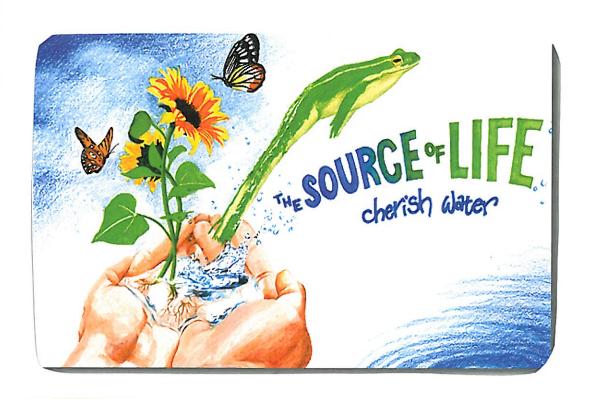
Liebert Cassidy Whitmore Los Angeles, California

AUDITOR

Mayer Hoffman McCann P.C.
Conrad Government Services Division
2301 Dupont Drive, Suite 200
Irvine, California

Acknowledgements

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



Artist: Cherry Mo, 10th Grade

Arcadia High School / Ms. Tuttle

Arcadia Unified School District

Upper San Gabriel Valley Municipal Water District





6075 Kimball Avenue Chino, California 91710

Phone: (909) 993-1600 FAX: (909) 993-1986 www.ieua.org



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