

# NOTICE OF MEETING

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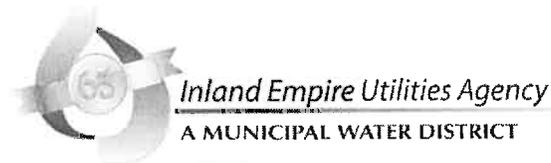
OF THE  
**AUDIT  
COMMITTEE**

OF THE  
BOARD OF DIRECTORS  
OF THE



IS SCHEDULED FOR  
**WEDNESDAY, DECEMBER 9, 2015**  
**9:00 A.M.**

AT THE ADMINISTRATION HEADQUARTERS  
6075 Kimball Avenue, Building A  
Chino, CA 91708



**AUDIT COMMITTEE MEETING  
INLAND EMPIRE UTILITIES AGENCY\*  
AGENCY HEADQUARTERS, CHINO, CA 91708**

**WEDNESDAY, DECEMBER 9, 2015  
9:00 A.M.**

**CALL TO ORDER**

**PUBLIC COMMENT**

Members of the public may address the Board on any item that is within the jurisdiction of the Board; however, no action may be taken on any item not appearing on the agenda unless the action is otherwise authorized by Subdivision (b) of Section 54954.2 of the Government Code. Those persons wishing to address the Board on any matter, whether or not it appears on the agenda, are requested to complete and submit to the Board Secretary a "Request to Speak" form, which are available on the table in the Board Room. Comments will be limited to five minutes per speaker. Thank you.

**ADDITIONS TO THE AGENDA**

In accordance with Section 54954.2 of the Government Code (Brown Act), additions to the agenda require two-thirds vote of the legislative body, or, if less than two-thirds of the members are present, a unanimous vote of those members present, that there is a need to take immediate action and that the need for action came to the attention of the local agency subsequent to the agenda being posted.

**1. ACTION ITEMS**

**A. MINUTES**

The Committee will be asked to approve the Audit Committee meeting minutes from September 9, 2015.

**B. IEUA FISCAL YEAR (FY) 2014/15 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)**

It is recommended that the Committee/Board:

1. Approve the CAFR for the FY ended June 30, 2015; and
2. Direct staff to distribute the report, as appropriate, to the various federal, state, and local agencies.

**C. FY 2014/15 SINGLE AUDIT REPORT FOR FEDERAL GRANT PROGRAMS**

It is recommended that the Committee/Board:

1. Approve the Single Audit Report for FY 2014/15; and
2. Direct staff to distribute the report, as appropriate, to the State Controller's Office, the Federal Clearing House, and other interested parties.

**2. INFORMATION ITEMS**

**A. UPDATES FOR THE AUDIT COMMITTEE AND THE INTERNAL AUDIT DEPARTMENT (IAD) CHARTERS (WRITTEN)**

**B. REGIONAL CONTRACT REVIEW FINAL REPORT (WRITTEN)**

**C. INTERNAL AUDIT DEPARTMENT QUARTERLY STATUS REPORT FOR DECEMBER 2015 (WRITTEN)**

**3. COMMITTEE MEMBER COMMENTS**

**4. COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS**

**5. ADJOURN**

\*A Municipal Water District

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Board Secretary (909-993-1736), 48 hours prior to the scheduled meeting so that the Agency can make reasonable arrangements.

Proofed by: SR

**DECLARATION OF POSTING**

I, Stephanie Riley, Executive Assistant of the Inland Empire Utilities Agency, A Municipal Water District, hereby certify that a copy of this agenda has been posted by 5:30 p.m. in the foyer at the Agency's main office, 6075 Kimball Avenue, Building A, Chino, CA on Thursday, December 3, 2015.

Stephanie Riley  
Stephanie Riley

**ACTION  
ITEM**

**1A**

**MINUTES  
SPECIAL AUDIT COMMITTEE MEETING  
INLAND EMPIRE UTILITIES AGENCY\*  
AGENCY HEADQUARTERS, CHINO, CA  
WEDNESDAY, SEPTEMBER 9, 2015  
9:00 A.M.**

**COMMITTEE MEMBERS PRESENT**

Terry Catlin, Chair  
Jasmin A. Hall

**STAFF PRESENT**

Christina Valencia, Chief Financial Officer/Assistant General Manager  
Teresa Velarde, Manager of Internal Audit  
Craig Proctor, Pretreatment and Source Control Supervisor  
Sapna Nangia, Senior Internal Auditor  
Stephanie Riley, Executive Assistant  
Peter Soelter, Senior Internal Auditor

**OTHERS PRESENT**

Travis Hickey, Audit Committee Advisor

The meeting was called to order at 9:00 a.m. There were no public comments received or additions to the agenda.

**ACTION ITEMS**

The Committee:

- ◆ Approved the Audit Committee meeting minutes of June 10, 2015 & June 17, 2015.
- ◆ Approved the Fiscal Year 2015/16 Annual Audit Plan.

**INFORMATION ITEMS**

The following information items were presented, received, or filed by the Committee:

- ◆ Regional Contract Review Update – Interim Report for the City of Ontario
- ◆ Follow up on Intercompany Receivables
- ◆ External Financial and Single Audit Request for Proposal Process and Audit Committee Financial Advisor Contract Extension
- ◆ Internal Audit Department Quarterly Status Report for September 2015

**GENERAL MANAGER'S COMMENTS**

None.

**COMMITTEE MEMBER COMMENTS**

None.

**COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS**

None.

With no further business, the meeting adjourned at 10:02 a.m.

Special Audit Committee  
September 9, 2015  
Page 2

Respectfully submitted,

Stephanie Riley  
Recording Secretary

\*A Municipal Water District

**APPROVED: December 9, 2015**

**ACTION  
ITEM**

**1B**



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Date: December 16, 2015

To: The Honorable Board of Directors

Through: Audit Committee (12/9/15)  
Finance, Legal, and Administration Committee (12/9/15)

From: *to* P. Joseph Grindstaff *[Signature]*  
General Manager

Submitted By: Christina Valencia *[Signature]*  
Chief Financial Officer/Assistant General Manager

*JCh #882* Javier Chagoyen-Lazaro  
Manager of Finance and Accounting

Subject: IEUA Fiscal Year (FY) 2014/15 Comprehensive Annual Financial Report (CAFR)

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### **RECOMMENDATION**

It is recommended that the Board of Directors:

1. Approve the CAFR for the FY ended June 30, 2015; and
2. Direct staff to distribute the report as appropriate, to the various federal, state, and local agencies, financial institutions, bond rating agencies, and other interested parties.

### **BACKGROUND**

The CAFR of the Inland Empire Utilities Agency (Agency) for the FY ended June 30, 2015, was presented, in substantially final form to the Audit Committee's review. The CAFR was prepared in conformity with Accounting Principles generally accepted in the United States of America (GAAP), as set forth by the Governmental Accounting Standards Board (GASB).

Responsibility for both the accuracy of the presented data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Agency. To the best of staff's knowledge, the data presented will be accurate in all material respects, and reported in a manner designed to fairly present the financial position and results of operations for the various funds and account groups in the Agency. Disclosures are included within the CAFR to enable the reader to gain an understanding of the Agency's financial activities.

FY 2014/15 Financial Highlights

The Agency's statement of net position for FY ended June 30, 2015, reflects \$494.7 million, an increase of \$22.1 million compared to the prior FY. The gain is primarily due to higher operating revenues resulting from rate increases, a greater number of new connections to the regional wastewater system, higher property tax receipts, and lower operating expenses. The decrease in operating expenses is primarily due the implementation of GASB No. 68 Accounting and Financial Reporting for Pension an amendment GASB Statement No. 27.

*GASB 68 Implementation*

GASB 68 revises and establishes new financial reporting requirements for most state and local governments that provide their employees with pension benefits. GASB also issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment to GASB 68. Implementation of both statements is required in the June 30, 2015, financial statements.

One primary change is the requirement to report the net pension liability, defined as the difference between the total pension liability and the plan fiduciary net position. This information was previously disclosed as required supplementary information under the Notes to the Basic Financial Statement section in the CAFR. Under GASB 68, the net pension liability is provided by an actuarial calculation prepared, in the case of the Agency, by CalPERS. Due to the timing of the actuarial report, the net pension liability accounted for in the current FY represents the position as of June 30, 2014. Some of the factors that determine the net pension liability and future adjustments include the difference between projected and actual interest earnings, changes in actuarial assumptions, payments to retirees, and special contributions toward the unfunded liability. For IEUA, the net pension liability reported in FY 2013/14 of \$45.6 million decreases to \$36.7 million at the end of FY 2014/15. The reduction of \$8.9 million is primarily due to higher interest earnings in FY 2013/14 than the projected 7.5% discount rate.

Another key change is the effect on how pension expense is calculated and reported. Prior to GASB 68, pension expense was based on the required contributions paid each pay period calculated as a percentage of employee salaries, (i.e. "pensionable" payroll per pay period multiplied by the total CalPERS rate). Under GASB 68, pension expense is calculated in the actuarial report provided by CalPERS, taking into consideration, among other factors, interest earnings, employee and employer contributions, and payments to retirees.

Under GASB 68, employer contributions during the current FY need to be classified as deferred outflows. These contributions will be included in the actuarial report that calculates the net pension liability for FY 2014/15 which will be recorded in FY 2015/16. For FY 2014/15, contributions recorded as deferred outflows amount to \$8.4 million, \$3.9 from payroll contributions and \$4.5 million in contribution toward the unfunded liability.

### Imported Water Pass-Through Sales and Purchases

Beginning in FY 2014/15 the reporting of the pass-through purchase and resale of imported water from Metropolitan Water District of Southern California (MWD) will be reinstated. Inclusion of these activities will provide a more complete account of the Agency's water related activities reported in the Water Resources (WW) fund. For FYs 2014/15 and 2013/14, sales revenue and operating costs in the WW fund will be increased by \$34.1 million and \$40.2 million, respectively.

### External Auditors' Independent Audit

The Agency's independent audit firm, White Nelson Diehl Evans LLP (WNDE), performed the annual financial audit. WNDE issued an unqualified opinion over the financial statements for the Fiscal Year ended June 30, 2015, indicating that the financial statements are presented fairly and in accordance with GAAP.

WNDE found no *material deficiency* in internal controls over financial reporting. As defined in WNDE's Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards, included in the Single Audit of Federally Assisted Grant Programs (Single Audit Report); "deficiency in internal control exists when the design of operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the agency's financial statements will not be prevented, or detected and corrected on a timely basis".

However, the Independent Auditor's Report on Internal Control Over Financial Reporting states there is "*significant deficiency*" in the Agency's internal control. The finding is related to the classification of project costs between capital and operations expense (finding 2015-001). "A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention to those charged with governance."

As explained in WNDE's Single Audit Report (Finding 2015-001-Capital Assets) over the last five years, and pursuant to the external auditor's recommendation, staff has been diligently validating project costs as part of the closure process to ensure costs are appropriately charged to capital (for projects that result in specific capital assets) or operations and maintenance (where no capital assets are constructed). In the case of multi-year projects, some of the costs were incurred in prior FYs resulting in reclassification of prior year costs in the current FY. This effort, to a large extent, has resulted in a significant reduction in total jobs in progress (capital projects under construction). Between FYs 2010/11 through 2014/15, total jobs in process have been reduced by over 330 percent; from \$153 million reported at the end of FY 2011 to \$45 million as June 30, 2015. The Single Audit Report which includes the external auditor's finding and recommendation, as well as management's response can be found in Exhibit B.

### Internal Audit Department Review

Internal Audit staff performed an additional quality control check/review of the draft financial statements with emphasis on; overall mathematical accuracy, validation of the MD&A, notes, and statistical sections to the financial statements or to other supporting information.

Internal Audit staff's review did not include tests of transactions, or tests of the reliability of the totals and amounts included in the various categories, accounts, funds, statements, etc. Staff relies on the work of the external auditors to test the reliability of the financial information reported. Staff's review is only one of an additional quality control to ensure a professional presentation, consistent with prior years.

### Government Financial Officers Association (GFOA) CAFR Award

For the past fifteen years, the Agency has applied for and received the GFOA CAFR Award for excellence in financial reporting. The deadline to submit the FY 2014/15 CAFR is December 31, 2015.

The IEUA FY 2014/15 CAFR is consistent with the Agency's Business Goal of Fiscal Responsibility in providing transparent communication of the Fiscal Year activity and the net position of the different programs of the Agency.

### PRIOR BOARD ACTION

On December 17, 2014, the Board of Directors approved the Agency's Comprehensive Annual Financial Report for FY 2013/14 reviewed by the Audit Committee & Finance and Administration Committee on December 10, 2014.

On March 16, 2011, the Board approved Contract No. 4600000883 for financial audit and Contract No. 4600000884 for single audit services, for three years with the option to extend two additional years (in single year increments); in June of 2013, the Agency exercised option to extend external financial auditing services and single audit services for one year through FY 2013/14, in June of 2014 the Agency again extended external financial auditing services and single audit services for one year through FY 2014/15 with the audit firm White Nelson Diehl Evans LLP.

### IMPACT ON BUDGET

There is no impact on the Agency's FY 2015/16 Budget as a result of this item, since related audit service fees are budgeted in the Administrative Services (GG) Fund under Professional Services.

#### Attachments:

Exhibit A – FY 2014/15 Basic Financial Statements and Notes to Basic Financial Statements (substantive form)

Exhibit B – WNDE's Single Audit Report of Federally Assisted Grant Programs (substantive form)

# Exhibit A

**INLAND EMPIRE UTILITIES AGENCY**  
**Statement of Net Position**  
**June 30, 2015**

ASSETS	Enterprise Funds	
	Regional Wastewater	Recycled Water
<b>Current assets</b>		
Cash and investments (note 3)	\$ 50,543,386	\$ 890,023
Accounts receivable	9,924,678	21,761,530
Interest receivable	169,539	1,148
Taxes receivable	300,611	17,433
Other receivables	69,655	110,023
Inventory	0	0
Prepaid items	1,200	3,500
<b>Total current assets</b>	<b>61,009,069</b>	<b>22,783,657</b>
<b>Restricted assets (note 3)</b>		
Deposits held by governmental agencies	41,023,148	0
Assets held with trustee/fiscal agent	1,780,556	1,254,993
<b>Total restricted assets</b>	<b>42,803,704</b>	<b>1,254,993</b>
<b>Noncurrent assets</b>		
<b>Capital assets (note 7)</b>		
Land	14,047,045	0
Jobs in progress	13,977,033	28,372,402
Capital assets, net of accumulated depreciation	352,329,573	163,199,526
Intangible assets, net of accumulated amortization	5,432,679	745,436
<b>Total capital assets</b>	<b>385,786,330</b>	<b>192,317,364</b>
<b>Other assets</b>		
Long-term investments (note 11)	45,577,499	0
Long-term receivables (note 10)	2,634,337	1,180,243
Advances to other funds (note 14)	13,500,000	0
Prepaid bond insurance	423,863	140,151
Prepaid Interest -SRF loans	1,043,432	1,244,678
<b>Total other assets</b>	<b>63,179,131</b>	<b>2,565,072</b>
<b>Total noncurrent assets</b>	<b>448,965,461</b>	<b>194,882,436</b>
<b>Total assets</b>	<b>552,778,234</b>	<b>218,921,086</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred loss on refunding	1,102,641	0
Deferred outflow related to net pension liability	6,209,683	775,759
<b>Total deferred outflows of resources</b>	<b>7,312,324</b>	<b>775,759</b>

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

Water Resources	Non-Major	Totals 2015
\$ 5,998,121	\$ 28,880,156	\$ 86,311,686
5,414,083	13,680,761	50,781,052
4,238	512,858	687,783
0	28,115	346,159
0	43,663	223,341
0	1,660,129	1,660,129
0	121,317	126,017
<u>11,416,442</u>	<u>44,926,999</u>	<u>140,136,167</u>
0	0	41,023,148
0	931,626	3,967,175
<u>0</u>	<u>931,626</u>	<u>44,990,323</u>
0	20,829	14,067,874
211,275	2,650,428	45,211,138
19,928	69,514,190	585,063,217
24,829	6,036,495	12,239,439
<u>256,032</u>	<u>78,221,942</u>	<u>656,581,668</u>
0	0	45,577,499
0	0	3,814,580
0	19,308,104	32,808,104
0	34,156	598,170
0	0	2,288,110
<u>0</u>	<u>19,342,260</u>	<u>85,086,463</u>
<u>256,032</u>	<u>97,564,202</u>	<u>741,668,131</u>
<u>11,672,474</u>	<u>143,422,827</u>	<u>926,794,621</u>
0	0	1,102,641
281,261	1,087,999	8,354,702
<u>281,261</u>	<u>1,087,999</u>	<u>9,457,343</u>

(continued)

**INLAND EMPIRE UTILITIES AGENCY**  
**Statement of Net Position (Continued from previous page)**  
**June 30, 2015**

LIABILITIES	Enterprise Fund Types	
	Regional Wastewater	Recycled Water
Current liabilities		
Accounts payable	\$ 3,575,639	\$ 3,014,354
Accrued liabilities	41,685	72,895
Compensated absences (note 1)	0	0
Retentions payable	149,878	787,258
Notes payable, due within one year (note 12)	1,896,195	3,962,026
Long-term debt, due within one year (note 12)	5,177,797	0
Interest payable	1,369,844	1,240,475
Retention deposits and escrows	95,146	0
<b>Total current liabilities</b>	<b>12,306,184</b>	<b>9,077,008</b>
Noncurrent liabilities		
Compensated absences (note 1)	0	0
Long-term debt, due in more than one year (note 12)	148,266,334	30,197,511
Notes payable, due in more than one year (note 12)	29,087,817	80,213,554
Advances from other funds (note 14)	0	28,500,000
Other noncurrent liabilities	0	267,184
Net pension liability (note 5)	27,283,277	3,408,427
Net OPEB liability (note 1d.)	0	0
<b>Total noncurrent liabilities</b>	<b>204,637,428</b>	<b>142,586,676</b>
<b>Total liabilities</b>	<b>216,943,612</b>	<b>151,663,684</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflow related to net pension liability	5,893,340	736,239
<b>Total deferred inflows of resources</b>	<b>5,893,340</b>	<b>736,239</b>
<b>NET POSITION</b>		
Net Investment in capital assets	202,229,783	77,944,273
Restricted for:		
Capital construction	41,023,148	0
SRF Loan debt service	1,447,479	5,162,397
Bond operating contingency requirement	16,022,083	0
<b>Total restricted</b>	<b>58,492,710</b>	<b>5,162,397</b>
Unrestricted	76,531,113	(15,809,748)
<b>Total net position</b>	<b>\$ 337,253,606</b>	<b>\$ 67,296,922</b>

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

Water Resources		Non-Major	Totals 2015
\$ 4,500,290	\$ 14,465,888	\$ 25,556,171	
513,208	3,096,707	3,724,495	
0	1,606,386	1,606,386	
27,520	0	964,656	
0	807,888	6,666,109	
0	632,203	5,810,000	
0	139,171	2,749,490	
0	72,324	167,470	
<u>5,041,018</u>	<u>20,820,567</u>	<u>47,244,777</u>	
0	2,732,734	2,732,734	
0	21,663,583	200,127,428	
0	3,133,583	112,434,954	
4,308,104	0	32,808,104	
0	0	267,184	
1,235,767	4,780,307	36,707,778	
0	1,291,524	1,291,524	
<u>5,543,871</u>	<u>33,601,731</u>	<u>386,369,706</u>	
<u>10,584,889</u>	<u>54,422,298</u>	<u>433,614,483</u>	
<u>266,933</u>	<u>1,032,573</u>	<u>7,929,085</u>	
<u>266,933</u>	<u>1,032,573</u>	<u>7,929,085</u>	
<u>256,032</u>	<u>52,843,986</u>	<u>333,274,074</u>	
0	0	41,023,148	
0	0	6,609,876	
0	3,425,731	19,447,814	
<u>0</u>	<u>3,425,731</u>	<u>67,080,838</u>	
<u>845,881</u>	<u>32,786,238</u>	<u>94,353,484</u>	
<u>\$ 1,101,913</u>	<u>\$ 89,055,955</u>	<u>\$ 494,708,396</u>	

INLAND EMPIRE UTILITIES AGENCY  
Statement of Revenues, Expenses, and  
Changes in Net Position  
For the Fiscal Year Ended June 30, 2015

	Enterprise Fund Types	
	Regional Wastewater	Recycled Water
<b>OPERATING REVENUES</b>		
Service charges	\$ 47,022,954	\$ 0
Water Sales	0	0
Recycled water sales	0	12,047,164
Total operating revenues	47,022,954	12,047,164
<b>OPERATING EXPENSES</b>		
Water Purchases	0	0
Wastewater collection	805,353	0
Wastewater treatment	19,001,130	0
Wastewater disposal	7,996,871	0
Operations and maintenance	0	3,262,561
Administration and general	20,262,896	4,115,498
Depreciation and amortization	23,154,752	6,990,988
Total operating expenses	71,221,002	14,369,047
Operating income (loss)	(24,198,048)	(2,321,883)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	288,683	132
Property tax revenue	35,554,077	2,063,827
Wastewater capital connection fees	15,073,882	0
Other nonoperating revenues	4,262,635	511,095
Interest on long-term debt	(6,368,586)	(2,744,069)
Other nonoperating expenses	(4,523,072)	(188,763)
Total nonoperating revenues (expenses)	44,287,619	(357,778)
Income (loss) before capital contributions and transfers	20,089,571	(2,679,661)
<b>TRANSFERS AND CAPITAL CONTRIBUTIONS</b>		
Transfers in (note 15)	1,273,557	0
Transfers out (note 15)	(1,373,285)	(2,048,687)
Capital grants	381,525	4,901,476
Change in net position	20,371,368	173,128
Total net position - beginning, as restated	316,882,238	67,123,794
Total net position - ending	\$ 337,253,606	\$ 67,296,922

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

Water Resources	Non-Major	Totals 2015
\$ 5,690,362	\$ 11,242,300	\$ 63,955,616
34,146,923	0	34,146,923
0	0	12,047,164
<u>39,837,285</u>	<u>11,242,300</u>	<u>110,149,703</u>
34,146,923	0	34,146,923
0	7,283,522	8,088,875
0	0	19,001,130
0	0	7,996,871
1,130,704	0	4,393,265
4,863,772	4,183,815	33,425,981
5,367	3,961,923	34,113,030
<u>40,146,766</u>	<u>15,429,260</u>	<u>141,166,075</u>
<u>(309,481)</u>	<u>(4,186,960)</u>	<u>(31,016,372)</u>
11,732	135,653	436,200
1,500,000	1,828,099	40,946,003
0	0	15,073,882
137,947	2,631,612	7,543,289
0	(480,211)	(9,592,866)
(995,857)	(1,472,681)	(7,180,373)
<u>653,822</u>	<u>2,642,472</u>	<u>47,226,135</u>
344,341	(1,544,488)	16,209,763
0	2,185,745	3,459,302
0	(37,330)	(3,459,302)
564,641	69,922	5,917,564
<u>908,982</u>	<u>673,849</u>	<u>22,127,327</u>
192,931	88,382,106	472,581,069
<u>\$ 1,101,913</u>	<u>\$ 89,055,955</u>	<u>\$ 494,708,396</u>

**INLAND EMPIRE UTILITIES AGENCY**  
**Statement of Cash Flows**  
**For the Fiscal Year ended June 30, 2015**

	Enterprise Funds	
	Regional Wastewater	Recycled Water
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 46,662,899	\$ 12,329,097
Cash received from interfund services provided	0	0
Cash payments to suppliers for goods and services	(16,326,917)	(2,237,842)
Cash payments to employees for services	(16,386,341)	(1,108,838)
Cash payments for interfund services used	(19,125,086)	(3,465,876)
Net cash provided by (used for) operating activities	(5,175,445)	5,516,541
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers in	1,273,557	0
Transfers out	(1,373,285)	(2,048,687)
Contract reimbursement from others	4,262,635	511,096
Tax revenues	35,668,009	2,070,439
Collection of long-term receivable	141,226	110,023
Cash paid to others	(4,320,720)	(220,170)
Investment in IERCA	864,374	0
Advances from other funds	0	10,500,000
Advances to other funds	(10,500,000)	0
Net cash provided by (used for) noncapital financing activities	26,015,796	10,922,701
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(13,546,823)	(34,341,664)
Proceeds from State Revolving Funds	27,033	9,818,036
Connection fees on deposit held by members	15,073,882	0
Capital grants received	381,525	4,901,476
Principal paid on capital debt	(22,565,747)	0
Interest paid on capital debt	(5,450,392)	(2,353,730)
Payments on State Revolving Funds	(1,332,709)	(2,772,546)
Bond administration fees	(202,352)	(38,182)
Contractor deposits collected	0	0
Net cash provided by (used for) capital and related financing activities	(27,615,583)	(24,786,610)

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

Water Resources		Totals
	Non-Major	2015
\$ 44,341,459	\$ 7,754,663	\$ 111,088,118
0	25,642,003	25,642,003
(43,195,699)	(8,463,944)	(70,224,402)
(936,254)	(25,924,205)	(44,355,638)
(402,641)	(1,780,495)	(24,774,098)
(193,135)	(2,771,978)	(2,624,017)
0	2,185,745	3,459,302
0	(37,330)	(3,459,302)
137,947	2,449,130	7,360,808
1,500,000	1,838,764	41,077,212
0	0	251,249
(995,856)	(1,397,811)	(6,934,557)
0	0	864,374
4,308,104	0	14,808,104
0	(4,308,104)	(14,808,104)
4,950,195	730,394	42,619,086
(211,275)	(3,153,599)	(51,253,361)
0	(216,378)	9,628,691
0	0	15,073,882
564,641	69,922	5,917,564
0	(1,391,403)	(23,957,150)
0	(570,153)	(8,374,275)
0	0	(4,105,255)
0	(7,882)	(248,416)
0	(393)	(393)
353,366	(5,269,886)	(57,318,713)

(Continued)

INLAND EMPIRE UTILITIES AGENCY  
Statement of Cash Flows (Continued from previous page)  
For the Fiscal Year ended June 30, 2015

	Enterprise Funds	
	Regional Wastewater	Recycled Water
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	\$ 323,577	\$ 12,249
Purchase of investments	0	0
Net cash provided by (used for) investing activities	323,577	12,249
Net increase (decrease) in cash and cash equivalents	(6,451,655)	(8,335,119)
Cash and cash equivalents - beginning	99,798,745	10,480,134
Cash and cash equivalents - ending	\$ 93,347,090	\$ 2,145,015
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (24,198,048)	\$ (2,321,883)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation and amortization	23,154,752	6,990,988
Changes in assets and liabilities		
(Increase) decrease in		
Accounts receivable	(309,552)	206,584
Other receivables	0	0
Short-term receivable	(50,503)	75,349
Inventory	0	0
Prepaid items	0	0
Increase (decrease) in		
Deferred outflow related to net pension liability	(3,434,675)	(429,085)
Accounts payable	316,300	1,092,089
Accrued liabilities	(56,916)	(33,023)
Net pension liability	(6,590,392)	(823,320)
Deferred inflow related to net pension liability	5,893,340	736,239
Other liabilities	0	79,323
Change in contractor deposits	100,249	(56,720)
Compensated absences	0	0
Net cash provided by (used for) operating activities	\$ (5,175,445)	\$ 5,516,541

Water Resources	Non-Major	Totals 2015
\$ 8,617	\$ 132,858	\$ 477,301
0	(61,472)	(61,472)
8,617	71,386	415,829
5,119,043	(7,240,084)	(16,907,815)
879,078	37,051,865	148,209,822
<u>\$ 5,998,121</u>	<u>\$ 29,811,781</u>	<u>\$ 131,302,007</u>

\$ (309,481)    \$ (4,186,959)    \$ (31,016,371)

5,367	3,961,923	34,113,030
4,478,806	(3,507,813)	868,025
0	28,503	28,503
25,368	(8,328)	41,886
0	(43,841)	(43,841)
0	(9,172)	(9,172)
(155,570)	(601,789)	(4,621,119)
(4,201,369)	4,687,069	1,894,089
(32,204)	(200,619)	(322,762)
(298,505)	1,032,573	(6,679,644)
266,933	(1,154,703)	5,741,809
0	(3,063,798)	(2,984,475)
27,520	0	71,049
0	294,976	294,976
<u>\$ (193,135)</u>	<u>\$ (2,771,978)</u>	<u>\$ (2,624,017)</u>

INLAND EMPIRE UTILITIES AGENCY  
Statement of Cash Flows - (Continued from previous page)  
For the Fiscal Year Ended June 30, 2015

Enterprise Funds	
Regional Wastewater	Recycled Water

RECONCILIATION OF CASH & CASH EQUIVALENTS  
TO THE STATEMENT OF NET ASSETS:

Cash and short-term investments	\$ 50,543,386	\$ 890,023
Restricted assets	42,803,704	1,254,993
Cash & cash equivalents at end of year	<u>\$ 93,347,090</u>	<u>\$ 2,145,016</u>

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

<u>Water Resources</u>	<u>Non-Major</u>	<u>Totals 2015</u>
\$ 5,998,121	\$ 28,880,155	\$ 86,311,685
0	931,626	44,990,323
<u>\$ 5,998,121</u>	<u>\$ 29,811,781</u>	<u>\$ 131,302,008</u>

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

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

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# NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2015

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## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *(1) Organization and Summary of Significant Accounting Policies:*

#### a. Description of the Reporting Entity

The Inland Empire Utilities Agency (hereafter referred to as the Agency), was authorized and established by the voters in an election held on June 6, 1950. The criteria used in determining the scope of the reporting entity are based on the provisions of Governmental Accounting Standards Board Statements. Agency is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the Agency appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden of the Agency. The Agency has accounted for the Chino Basin Regional Financing Authority (the Authority) as a "blended" component unit. Despite being legally separate, this entity is so intertwined with the Agency that it is, in substance, part of the Agency's operations. Accordingly, these basic financial statements present the Agency and its component unit, the Chino Basin Regional Financing Authority. The blended component unit has a June 30 year end.

The Authority was established on May 1, 1993 pursuant to California Government Code, Section 6500. The Authority was established to provide, through the issuance of debt, financing necessary for the construction of various public improvements. A separate fund is not maintained for the Authority as principal and interest payments on debt issued by the Authority is paid directly by the Agency. The payments are reported in the Regional Wastewater, Recycled Water, Non-reclaimable Wastewater, and Recharge Water Funds.

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, 2015, the Agency's staff is led by the Board-appointed General Manager, Executive Manager of Policy Development/Assistant General Manager (AGM), Executive Manager of Operations/AGM, Executive Manager of Engineering/AGM, and the Chief Financial Officer/AGM. The Agency's staff consisted of 290 authorized positions, of which 289 were filled as of June 30, 2015. 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.

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

### **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, deferred outflow of resources, liabilities, deferred inflow of resources, net position, revenues and expenses, as appropriate. The Agency's resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The Agency accounts for its activities in Enterprise Funds. These funds are included in the financial statements and have been grouped into fund types described as "Proprietary Fund Types."

For financial reporting purposes, the Agency has the following major funds: Regional Wastewater, Recycled Water, and Water Resources. These major funds are comprised of certain sub-funds within the Agency's accounting system. The composition of the major funds by sub-fund is indicated in the accompanying supplementary information schedules. (Refer to "Supplementary Schedules" section, and the "Individual Funds" section.) The composition of the non-major funds by sub-fund is indicated in the accompanying supplementary information schedules. (Refer to the "Individual Funds" section.)

### **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 revenues 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, imported water acre foot surcharge for the agency's administrative and operational cost associated with the delivery of imported water supplies and water resource development and planning activities, water meter service charge to meet the agency's readiness-to-serve (RTS) obligation pass through from MWD and to help support a portion of the agency's ground water recharge program, 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, deferred outflows of resources and all liabilities (whether current or non-current) associated with their activity are included on their statement of net position. Their reported fund equity (net total position) is segregated into net investment in capital assets, restricted net position, and unrestricted net position. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total position.

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

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

**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.

***The Regional Wastewater Capital Improvement Fund***

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

***Regional Wastewater Operations and Maintenance Fund***

The Regional Wastewater Operations and Maintenance (RO) Fund accounts for the revenues and operating expenses associated with the primary, secondary, and tertiary treatment of domestic wastewater delivered by the contracting agencies to the Agency's interceptors and water recycling facilities. These costs are associated with the domestic wastewater delivered to the regional sewage system, which serves the residential, commercial, and industrial entities within the Agency's 242 square-mile service area. The tertiary process includes chlorination, and dechlorination, to remove excess chlorine residuals thus protecting the habitats in the receiving waters, as required by the Agency's National Pollution Discharge Elimination System (NPDES) permits.

***Recycled Water Fund***

The Recycled Water (WC) Fund records the revenues and expenses associated with the operations and maintenance of the facilities used to distribute recycled water supplied from the Agency's water recycling plants. Additionally, the Recycled Water Fund records all of the costs associated with the construction and financing 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. This goal is anticipated to be reached by fiscal year 2024/25. Recycled water provides a cost effective and more reliable local water supply and is a key source to the Agency's goal of drought proofing its service area by 2030.

***Water Resources Fund***

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

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

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

#### Basis of Accounting

Basis of accounting refers to the timing when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. The Agency prepares its financial statements on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

#### Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as needed.

#### Recognition of Revenues and Expenses

The Agency records the Regional Wastewater Capital Connection Fees collected and held by contracting agencies, on behalf of the Agency, as revenue when the funds are received by each contracting agency. Fees held by the contracting agencies on behalf of the Agency are recorded as non-operating revenue and restricted assets.

Effective June 30, 2015, the Agency returned to 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 instead of recognizing certain imported water sales and purchases as pass-through transactions. 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.

#### Operating and Non-operating Revenues and Expenses

Operating revenues relate to the direct revenues generated as a result of services performed or sale of commodities. Examples include sewage treatment and disposal service charges, sales of recycled water, and surcharges on the deliveries of imported domestic water. Non-operating revenues do not directly relate to the Agency's core operations, such as: 1) property tax receipts; 2) interest income; 3) regional capital connection fees; and 4) reimbursement for contract services provided to Chino Basin Desalter Authority (CDA) and Inland Empire Regional Composting Authority (IERCA).

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

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

#### Operating and Non-operating Revenues and Expenses(Continued):

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. Typical operating expenses include sewage treatment, biosolids disposal costs, and the cost of delivering recycled water. In contrast, non-operating expenses are not directly related to the Agency's core operations, such as costs related to administrative and operational support provided to CDA and IERCA, interest expense and the cost of financial services.

#### Budgetary Policy and Control

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

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

#### New Accounting Pronouncements

##### Current Year Standards

In fiscal year 2014-2015, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68". These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pension plans, these Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Accounting changes adopted to conform to the provisions of these statements should be applied retroactively. The result of the implementation of these standards decreased the net position at July 1, 2014 by \$41,841,117.

GASB Statement No. 69 - "Government Combinations and Disposals of Government Operations" was required to be implemented in the current fiscal year and did not impact the Agency.

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

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

New Accounting Pronouncements

Pending Accounting Standards

GASB has issued the following statements which may impact the City's financial reporting requirements in the future:

- GASB 72 - "Fair Value Measurement and Application", effective for periods beginning after June 15, 2015.
- GASB 73 - "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", effective for periods beginning after June 15, 2015 - except for those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.
- GASB 74 - "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", effective for periods beginning after June 15, 2016.
- GASB 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", effective for periods beginning after June 15, 2017.
- GASB 76 - "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", effective for periods beginning after June 15, 2015.

d. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

Cash and Investments

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

For the purpose of the Statement of Cash Flows at June 30, 2015, 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 quarterly 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.

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

d. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued):

Receivables and Payables

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

Property taxes payable to the San Bernardino County Tax Assessor (The County) are annually attached as an enforceable lien on property as of January 1. Taxes are levied annually on July 1; and, are payable to the County in two installments on December 10 and April 10. The County bills and collects the property taxes and subsequently remits the amount due to the Agency in installments during the year. Annually in July, the County prepares a property tax year-end reconciliation and remits any unpaid taxes to the Agency generally within sixty days of the fiscal year end. Those taxes are accrued by the Agency and reflected as taxes receivable in the applicable Funds at 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, Proposition 13,) 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.

Although the Agency extends credit to customers in the normal course of operations, uncollectible amounts are generally not significant. When an account is determined to be uncollectible, it is written off as a bad debt expense in the period so determined, following Board approval.

Inventories and Prepaids

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

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

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

d. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued):

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 Regional Wastewater Capital Connection Fees collected on behalf of the Agency to fund regional capital construction expenditures, and (d) construction contract retentions which involve escrow agreements, and deposits held in lieu of retentions, both of which require funds to be separately set aside for retention.

Capital Assets

Property, plant and equipment are capitalized at cost. The cost of a capital investment includes purchase, rehabilitation or construction costs, Agency labor for engineering, construction management and administrative activities, capitalized interest, as well as ancillary expenses necessary to make productive use of the assets. Current capitalization thresholds are reflected in the following table:

Type of Expenditure	Total Cost	Estimated Life	Increase Estimated Life	Enhances Performance
Office Equipment	≥\$5,000	>1 Year	N/A	N/A
Computer Equipment	≥\$1,000	>1 Year	N/A	N/A
Other Equipment	≥\$5,000	>1 Year	N/A	N/A
Maintenance & Repair Expenditures	≥\$5,000	≥3 Years	-----	Yes
Single Year Capital Projects	≥\$5,000	≥3 Years	N/A	N/A
Multi-Year Capital Projects	≥\$15,000	≥1 Years	N/A	N/A

The Agency capitalizes interest on tax exempt debt issued to finance construction projects. The amount of interest capitalized is calculated after offsetting interest expense incurred from the date of borrowing until completion of the project with interest earned on invested proceeds over the same period.

During the year ended June 30, 2015, total interest of \$203,663 was capitalized on jobs in process related to the 2008A Revenue Bonds proceeds and is comprised of \$73,793 recorded in the Regional Wastewater Capital Improvement Fund, \$74,474 in the Recycled Water Fund and \$55,396 in the Regional Wastewater and Operations and Maintenance Fund.

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

**d. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued):**

**Capital Assets (continued):**

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

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	3 - 15 years
	Improvements	15 years
	Interceptors, buildings and plants	5 - 50 years
	Intangible Capacity Rights	50 years
	Computer Software	3 years

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Agency has two items that qualify for reporting in this category. One is the deferred loss on refunding, which results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other is the deferred outflow of resources for pensions equal to employer contributions made in the current year for future years after the measurement date of the net pension liability.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Agency has one item that qualifies for reporting in this category. It is the deferred inflow for the net difference between projected and actual earnings on investments of the pension plan fiduciary net position. This amount is amortized over a five year period beginning with the current year.

**Pensions:**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

**d. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued):**

Compensated Absences

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

Employees continuously employed by the Agency for at least five years receive partial payment, upon termination, of accrued sick leave hours. The payment percentage is based upon the number of years of service.

The accumulated vacation leave payable at July 1, 2014 was \$1,799,725 with additions and deletions during the year of \$566,048, and \$419,876 respectively, resulting in an ending June 30, 2015 balance of \$1,945,897. There was a net increase of \$146,172 over the previous fiscal year.

The sick and compensatory leave balance at July 1, 2014 was \$2,244,418 with additions and deletions during the year of \$1,551,301 and \$1,402,496 respectively, resulting in an ending June 30, 2015 balance of \$2,393,223. There was a net increase of \$148,805 over the previous fiscal year.

The compensated absences liability has been recorded in the Administrative Service Fund as a combined total of \$4,339,120. The current year liability is estimated to be \$1,606,386.

Other Post - Employment Benefits

In accordance with the Agency's Memorandum of Understanding (MOU), the Agency provides post-employment benefits to all retired employees through the California Public Employees' Retirement System (CalPERS) Public Employees Medical and Hospital Care Act (PEMHCA) health program.

The Agency contributes an additional monthly longevity benefit to each retiree minus the minimum PEMHCA contribution or \$122.00, whichever is greater, according to the chart below to each retiree who simultaneously retires from the Agency through CalPERS and who is a minimum age of fifty-five (55).

Hire Date	Retirement Date	Benefit Level	Minimum Years of Agency Service	Benefit
Before July 2, 1980	N/A	Employee and/or eligible dependent(s)	15	100% of applicable Kaiser Rate*
Before Jan. 1, 1992	N/A	Employee and/or eligible dependent(s)	20	50% of applicable Kaiser Rate*
N/A	After July 3, 2004	Employee only or surviving spouse	12	50% of applicable Kaiser Rate*

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

**d. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued):**

**Other Post - Employment Benefits (continued):**

The longevity benefit is available to qualifying retirees whether they enroll in a CalPERS medical plan or not. The retiree will be reimbursed on a monthly basis for his/her retiree longevity benefit via direct deposit to the retiree's (or surviving spouse's) bank account, up to the maximum benefit provided. Retirees are responsible for any taxes that may be due on reimbursement of retiree longevity benefits.

In accordance with GASB Statement No. 45 – Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pension (OPEB), public entities are required to accrue OPEB costs throughout the employee's working lifetime and record the actuarially calculated cost as a liability. The Agency contracted an independent pension consultant and actuaries to perform an actuarial valuation of the OPEB as of June 30, 2015. 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 level-percentage of pay method with which the Agency's unfunded actuarial accrued liability is being amortized over a 22 year closed period. Under the level-percentage of pay method, the amortization payment is scheduled to increase in future years based on wage inflation.

On June 4, 2014, the Agency entered into an agreement to prefund OPEB through CalPERS CERBT trust fund. As of June 30, 2015, the Agency has funded \$7,000,000 into the CERBT trust fund towards the OPEB obligation.

The following table presents the summary of the Actuarial Accrued Liability (AAL), Plan Assets and Annual Required Contribution for the Fiscal Year 2014/15.

<b>Valuation as on July 1, 2014</b>	<b>2014/15</b>
Annual Required Contribution (ARC)	\$937,681
Interest on Net OPEB Obligation	266,546
Adjustment to ARC	(266,025)
<b>Annual OPEB Costs</b>	<b>\$938,202</b>
IEUA Contribution	(4,002,000)
Percentage Contributed	426%
<b>Increase or Decrease in Net OPEB</b>	<b>(\$3,063,798)</b>
Net OPEB Obligation - Beginning of Year	4,355,322
Net OPEB Obligation - End of Year	1,294,524
Annual Covered Payroll	\$23,048,949

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

**d. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued):**

*Other Post - Employment Benefits (continued):*

*Three-year trend information for OPEB*

<b>Fiscal Year Ending</b>	<b>Annual OPEB Costs</b>	<b>% of OPEB Contributed</b>	<b>Net OPEB Obligation</b>
6/30/2013	\$1,424,675	31%	\$6,833,724
6/30/2014	\$1,516,123	262%	\$4,355,322
6/30/2015	\$ 938,202	426%	\$1,294,524

*Funded Status and Funding Progress*

As of June 30, 2015, the most recent actuarial valuation date, the plan was 48% funded. The actuarial accrued liability (AAL) for benefits was \$15,050,188 and the actuarial value of assets was \$6,992,580, resulting in unfunded actuarial accrued liabilities (UAAL) of \$8,087,608. The covered-employee payroll (annual total payroll of active employees covered by the plan) was \$23,048,949, and the ratio of the UAAL to the covered-employee payrolls was 35.09%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about rates of employee turnover, retirement, mortality, as well as economic assumptions regarding claim costs per retiree, healthcare inflation and interest rates. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

d. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (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. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. 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 years are calculated based on the number of projected retirees and dependents and the anticipated future per capita costs. Actuarial assumptions used for the July 1, 2015 valuation were:

*Actuarial report makes use of the following assumptions:*

Discount Rate	–	6.12% per annum
Inflation Rate	–	2.75% per annum
Payroll Increases	–	3% per annum
Asset Return Rate	–	6.12% per year

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

<u>Year</u>	<u>PPO</u>	<u>HMO</u>
2017	7.0%	6.5%
2018	6.5%	6.0%
2019	6.0%	5.5%
2020	5.5%	5.0%
2021 and after	5.0%	5.0%

A separate audited post-employment benefit plan report is not available.

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

d. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued):

Other Post - Employment Benefits (continued):

Discount Rate – a 6.12% discount was used to calculate the present value of future benefit payments.

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>PPG</u>	<u>HMO</u>
2017	7.0%	6.5%
2018	6.5%	6.0%
2019	6.0%	5.5%
2020	5.5%	5.0%
2021 and after	5.0%	5.0%

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

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Agency's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 position. Certain Bond premiums and discounts 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.

Prior Fiscal Year Data

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

## II. STEWARDSHIP

### (2) Stewardship, Compliance & Accountability

#### Encumbrances

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

Encumbrances (e.g., purchase orders, contracts, other commitments) outstanding at year end are reported as unrestricted net position and do not constitute expenses or liabilities. Upon Board approval, these commitments are re-appropriated and honored during the subsequent fiscal year.

### 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, held in trust. Each fund's position in the pool is reported on the combined statement of net position as cash and investments.

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

Cash and investments as of June 30, 2015 are classified in the accompanying financial statement as follows:

Statement of net position:	
Cash and investments	\$86,311,686
Cash and investments held by fiscal agent	44,990,323
<b>Total cash and investments</b>	<b>\$131,302,009</b>
Cash and investments as of June 30, 2015 consist of the following:	
Cash on hand (Petty Cash)	\$1,885
Deposits with financial institutions	4,273,979
Deposits held by other governmental agencies	41,023,148
Investments	86,002,997
<b>Total cash and investments</b>	<b>\$131,302,009</b>

#### Fair Value

The agency reports its investments at fair value in the balance sheet. All investment income, including changes in fair value of investments, is recognized as revenue in the operating statement.

#### Investments and Interest Receivable - Restricted

Restricted assets represent deposits held in short-term investments with Trustee/Fiscal Agents. Assets held with Trustee/Fiscal Agents include: (a) unspent bond proceeds available for capital construction payments; (b) proceeds from bonds which are restricted to making payments for debt service; (c) deposits held by contracting agencies for Regional Wastewater Capital Capacity Reimbursement Account (CCRA) fees collected on behalf of the Agency to fund regional wastewater 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 Non-current assets within the Restricted Assets category on the Statement of Net Position.

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

**(3) Cash and Investments (continued):**

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

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.

<b><u>Authorized Investment Type</u></b>	<b><u>Maximum Maturity</u></b>	<b><u>Maximum Percentage of Portfolio</u></b>	<b><u>Maximum Investment in One Issuer</u></b>
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
State Treasury Obligations	5 years	10%	None
Local Agency Obligations	5 years	None	None
Commercial Paper	270 days	20%	10%
Negotiable/Placement Certificates of Deposits	5 years	30%	None
Repurchase Agreements	90 days	40%	None
Medium-Term Notes	5 years	10%	None
Money Market Funds	N/A	20%	10%
Local Agency Investment Fund	N/A	None	None
Local Agency Investment Pools	N/A	\$20M/Acct	None
Bank Deposits	N/A	None	None

**Investments Authorized by Debt Agreements**

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

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

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

### (3) Cash and Investments (continued):

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

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

#### Investment Pool Oversight

##### Local Agency Investment Fund (LAIF)

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

##### Investment Trust of California (CalTRUST)

The Agency is a voluntary participant in the CalTRUST, a Joint Powers Authority established by public agencies in California for the purpose of pooling and investing local agency funds. A Board of Trustees supervises and administers the investment program of the Trust. CalTRUST invests in fixed income securities eligible for investment pursuant to California Government Code Sections 53601, et. Seq. and 53635, et. Seq. Investment guidelines adopted by the Board of Trustees may further restrict the types of investments held by the Trust. 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 CalTRUST for the entire CalTRUST portfolio. The balance available for withdrawal is based on the accounting records maintained by CalTRUST. For purposes of determining fair market value, securities are normally priced on a daily basis on specified days if banks are open for business and the New York Stock Exchange is open for trading. The value of securities is determined on the basis of the market value of such securities or, if market quotations are not readily available, at fair value, under guidelines established by the Trustees. Investments with short remaining maturities may be valued at amortized cost, which the Board has determined to equal fair value.

#### Deposits

At June 30, 2015, the carrying amount of the Agency's deposits was \$4,273,979 and the bank balance was \$4,881,497. The \$607,518 difference represents outstanding checks and other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure public agencies deposits by pledging government securities with a value of 110% of a public agency's deposits. California law also allows financial institutions to secure entity's deposits by pledging first mortgage notes having a value of 150% of the Agency's total deposits. California law also allows financial institutions to secure Entity deposits by pledging first mortgage notes having a value of 150% of the District's total deposits. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking.

### (3) Cash and Investments (continued):

#### Deposits (continued):

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.

Presented below is the minimum rating required by the Agency's investment policy, and the actual Moody's rating as of fiscal year ended June 30, 2015 for each investment type:

Investment Type		Minimum Legal Rating	Moody's Rating as of June 30, 2015			
			Aaa to Aa3	A1 to A3	Baa1 to Baa3	Unrated
Repurchase Agreement	\$28,898,737	N/A	\$0	\$0	\$0	\$28,898,737
U.S. Agency Securities	16,999,140	N/A	16,999,140	0	0	0
Medium Term Notes	4,001,690	A	1,000,190	3,001,500	0	0
State Municipal Bonds	1,011,420	A	1,011,420	0	0	0
LAIF	24,835,685	N/A	0	0	0	24,835,685
Cal Trust	3,539,402	N/A	0	0	0	3,539,402
CBB Certificate of Deposit	4,172,210	N/A	0	0	0	4,172,210
<i>Held by Bond Trustee:</i>						
Money Market Mutual Funds	2,544,713	N/A	0	0	0	2,544,713
<b>Total</b>	<b>\$86,002,997</b>		<b>\$19,010,750</b>	<b>\$3,001,500</b>	<b>\$0</b>	<b>\$63,990,747</b>

#### Concentration of Credit Risk

The Agency's investment policy contains several limitations on the amount that can be invested with any one issuer and type of investment as well as that stipulated by the California Government Code. Investments in any one issuer (excluding investment pools) that represents 5% or more of the total Agency's investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>Percentage</u>
Citizen Business Bank	Repurchase Agreement	\$28,898,737	33.6%
FHLMC	U.S. Agency Securities	6,990,710	8.13%

### (3) Cash and Investments (continued):

#### Custodial Credit Risk

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

California law also allows financial institutions to secure Agency deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2015, 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.

The investment in the repurchase agreement is uninsured with the collateral for the repurchase agreement held in the name of the bank and not in the name of the Agency.

For investments identified as held by bond trustee, the trustee selects the investments under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the Agency.

#### Interest Rate Risk

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

### (3) Cash and Investments (continued):

#### Interest Rate Risk (continued):

As of June 30, 2015, the Agency had the following investments and original maturities:

Investment Type	Remaining Maturity (in Months)				Fair Value
	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months	
Repurchase Agreement	\$28,898,737	\$0	\$0	\$0	\$28,898,737
U.S Agency Securities	1,998,660	4,003,690	2,998,030	7,998,760	16,999,140
Medium Term Notes	3,003,020	0	998,670	0	4,001,690
State Municipal Bonds	1,011,420	0	0	0	1,011,420
State Investment Pool	24,835,685				24,835,685
Cal Trust	3,539,402	0	0	0	3,539,402
CBB Certificate of Deposit	4,172,210	0	0	0	4,172,210
Held by Bond Trustee:					
Money Market Mutual Fund	2,544,713	0	0	0	2,544,713
<b>Total</b>	<b>\$70,003,847</b>	<b>\$4,003,690</b>	<b>\$3,996,700</b>	<b>\$7,998,760</b>	<b>\$86,002,997</b>

### (4) Deferred Compensation

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 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.

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 \$53,000 for 2015. 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.

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.

## (5) Defined Benefit Pension Plan

### General information about the Pension Plans

#### Plan Description

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

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

#### Benefits Provided

The Agency is required to contribute the actuarially determined remaining amounts necessary to fund the retirement benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration.

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

Hire date	Prior to January 1, 2012	On or After January 1, 2012	After January 1, 2013
Benefit formula	2.5%@55	2%@55	2%@62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Eligible retirement age	50 – 55	50 – 63+	52 – 67+
Monthly benefits, as a % of eligible compensation	2% - 2.5%	1.426% - 2.418%	1% - 2.5%
FY2013/14 required employee contribution rates*	8%	7%	6.25%
FY2013/14 required employer contribution rates	16.105%	16.105%	16.105%

\* Effective the first pay period of each fiscal year, full-time and limited-term employees will contribute an additional fixed percentage per respective memorandum of understanding (MOU) until the employees are fully funding the employee paid contribution rate. Employees hired after January 1, 2013 pays for one half (1/2) of their total normal cost rate as determined by CalPERS. See table below for the additional fixed percentage per the MOUs:

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

General information about the Pension Plans (continued)

<i>Fiscal Year</i>	<i>Hired Prior to January 1, 2012</i>	<i>Hired On or After January 1, 2012</i>	<i>Hired After January 1, 2013</i>
2014/15	4.0%	5.0%	6.25%
2015/16	5.5%	6.5%	6.25%
2016/17	7.0%	7.0%	6.25%
2017/18	8.0%	7.0%	6.25%
<b>Employee contribution rates</b>	<b>8.0%</b>	<b>7.0%</b>	<b>6.25%</b>

Employees Covered

At June 30, 2015, the following employees were covered by the Plans' terms:

Inactive employees or beneficiaries currently receiving benefits	195
Inactive employees entitled to but not yet receiving benefits	182
Active employees	273
<b>Total</b>	<b>650</b>

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Agency is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Net Pension Liability

The net pension liability is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

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

### Actuarial Assumptions

The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increases	3.30% to 14.20% depending on age, service, and type of employment
Investment Rate of Return	7.50% (net of pension plan investment and administration expenses; includes inflation)
Mortality	The probabilities of mortality are derived using CalPERS membership data for all funds. The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using society of actuaries scale BB. For more details on this table please refer to the 2014 experience study report.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

### Discount Rate

The discount rate used to measure the total pension liability was 7.50% for the Agency's Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the

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

materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time a change in methodology occurs.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short term and long term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short term and long term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years	
		1-10 (a)	11+(b)
Global Entity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	(0.55%)	(1.05%)
Total	100.00%		

- (a) An expected inflation of 2.5% used for this period
- (b) An expected inflation of 3.0% used for this period

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

Changes in the Net Pension Liability

The changes in the net pension liability for the Agency's Plan are as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
<b>Balances at June 30, 2013</b>	\$ 145,020,505	\$ 99,445,805	\$ 45,574,700
<b>Changes in the Year:</b>			
Service cost	3,768,503	-	3,768,503
Interest on the total pension liability	10,818,920	-	10,818,920
Differences between actual and expected experience	-	-	-
Changes in assumptions	-	-	-
Changes in benefit terms	-	-	-
Contribution - employer	-	3,733,583	(3,733,583)
Contribution - employee (paid by employer)	-	-	-
Contribution - employee	-	2,374,649	(2,374,649)
Net investment income	-	17,346,113	(17,346,113)
Administrative expenses	-	-	-
Benefit payments, including refunds of employee contributions	(5,304,990)	(5,304,990)	-
<b>Net Changes</b>	<b>\$ 9,282,433</b>	<b>\$ 18,149,355</b>	<b>\$ (8,866,922)</b>
<b>Balance at June 30, 2014</b>	<b>\$ 154,302,938</b>	<b>\$ 117,595,160</b>	<b>\$ 36,707,778</b>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Miscellaneous Plan, (Agency Plan), calculated using the discount rate for each Plan, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Discount Rate - 1% (6.5%)	Current Discount Rate (7.5%)	Discount Rate + 1% (8.5%)
<b>Net Pension Liability</b>	\$ 58,006,751	\$ 36,707,778	\$ 19,059,357

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

(5) Defined Benefit Pension Plan (continued):

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Recognition of Gains and Losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	Difference between projected and 5 year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the measurement period ended June 30, 2014, the Agency recognized pension expense of \$2,795,746. As of June 30, 2014, the Agency has deferred outflows and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred inflows of Resources
Pension contributions subsequent to measurement date	\$ 8,354,702	0
Differences between actual and expected experience	0	0
Change in assumptions	0	0
Net differences between projected and actual earnings on plan investments	0	(7,929,085)
<b>Total</b>	<b>\$ 8,354,702</b>	<b>\$ (7,929,085)</b>

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

Deferred outflows of resources related to contributions subsequent to the measurement date of \$8,354,702 will be recognized as a reduction of net pension liability in the year ending June 30, 2016.

Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Measurement Period Ending June 30:	Deferred Outflows/(Inflows) of Resources
2015	\$ (1,982,271)
2016	(1,982,271)
2017	(1,982,271)
2018	(1,982,271)
2019	0
Thereafter	0

### Payable to the Pension Plan

At June 30, 2015, the Agency had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

### (6) Risk Management

The Agency is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. During fiscal year 1985/86, the Agency chose to establish a risk management program for risks associated with all liability losses except workers' compensation losses. These risks are covered by commercial insurance purchased from independent third parties.

- ✱ General and auto liability, public officials and employees' error and omissions: The Agency retains the risk of loss for general liability, automobile liability, and, errors and omissions claims of up to \$500,000 per person per occurrence.
- ✱ The Agency also retains the risk of loss for property damage, and boiler machinery claims of up to \$25,000.

## (6) Risk Management (continued):

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

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

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

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

- ❖ Employee dishonesty coverage up to \$50,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage's, and computer fraud; with a deductible of \$1,000 per occurrence.
- ❖ Property damage has a \$1,000,000,000 per occurrence coverage limit, subject to a \$25,000 deductible per occurrence. All other claims categories provide coverage up to \$800,000,000 on an annual aggregate basis.
- ❖ Boiler and machinery coverage for the replacement cost up to a shared limit of \$500,000,000, 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, 2015, 2014, and 2013. 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 accrued liabilities.

## (6) Risk Management (continued):

### Claim Liabilities (continued):

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

	Worker's Compensation		General Liability	
	2014/15	2013/14	2014/15	2013/14
Unpaid Claims, beginning of fiscal year	\$229,358	\$263,382	\$500,000	\$500,000
Incurred claims (including IBNRs)	123,752	76,768	15,661	14,998
Claim payments	(103,231)	(110,792)	(15,661)	(14,998)
<b>Unpaid claims, end of fiscal year</b>	<b>\$249,879</b>	<b>\$229,358</b>	<b>\$500,000</b>	<b>\$500,000</b>

## (7) Changes in Capital Assets

### Jobs in Progress

At the Fiscal Year ended June 30, 2015, the Agency had several jobs in progress designed to expand the Regional Recycled Water Distribution System as part of the amendments to the Recycled Water Business Plan adopted in December 2007. Other significant projects are also underway to expand, improve, and refurbish existing treatment facilities in the Agency's Regional Wastewater Program, including the disposition of wastewater by-products and provide for ancillary facilities that support operating activities.

Other Projects (less than \$1,000,000 each)	\$ 9,653,393
Wineville Extension Recycled Water Pipeline Segment A	13,397,648
Wineville Recycle Water Extension Segment B	9,091,627
RP-1 Outfall Relocation & Upsizing	3,924,409
Montclair Lift Station Upgrades	2,847,940
RP-4 Headworks Retrofit	2,556,600
Philadelphia Pump Station Upgrades	2,157,943
Supervisory Control and Data Acquisition Enterprise System	1,581,578
<b>Total Jobs in Progress</b>	<b>\$ 45,211,138</b>

## (7) Changes in Capital Assets (continued):

The following is a summary of jobs in progress, property, plants, equipment, and intangible assets at June 30, 2015:

### Capital Assets

Capital Assets	Balance at 6/30/14 (As Restated)	Additions	Transfers & Retirements	Balance at 6/30/15	Accumulated Depreciation at 6/30/15	Net Book Value at 6/30/15
<b>Capital Assets-not being depreciated:</b>						
Land	\$ 14,067,874	\$ -	\$ -	\$ 14,067,874	\$ -	\$ 14,067,874
Jobs in Progress	84,947,342	48,563,364	(88,299,568)	45,211,138	-	45,211,138
Total Capital Assets, not being depreciated	\$ 99,015,216	\$ 48,563,364	\$ (88,299,568)	\$ 59,279,012	\$ -	\$ 59,279,012
<b>Capital Assets-being depreciated:</b>						
Interceptors, trunk lines and inter-ties	\$ 36,078,588	\$ 642,658	\$ -	\$ 36,721,246	\$ (9,969,038)	\$ 26,752,208
Office facilities	12,076,617	-	-	12,076,617	(2,708,841)	9,367,776
Collection, outfall, and transmission lines	122,175,508	1,467,592	-	123,643,100	(68,895,584)	54,747,516
Reservoirs, settling basins, ponds, and chlorination station	114,988,821	4,415,575	-	119,404,396	(26,979,216)	92,425,180
Recycled water distribution system	119,180,002	2,142,470	-	140,607,472	(17,939,453)	122,668,019
Treatment plants, pump stations and office buildings	258,703,973	13,174,659	-	271,878,632	(117,327,511)	154,551,121
Equipment	160,774,493	43,084,943	(309,728)	203,549,708	(98,653,715)	104,895,993
Land improvement	25,977,548	3,885,507	-	29,863,055	(10,207,651)	19,655,404
Total capital assets, being depreciated	\$ 849,955,550	\$ 88,098,404	\$ (309,728)	\$ 937,744,226	\$ (352,681,009)	\$ 585,063,217
<b>Less accumulated depreciation for:</b>						
Interceptors, trunk lines and inter-ties	\$ (9,123,088)	\$ (845,950)	\$ -	\$ (9,969,038)		
Office facilities	(2,469,806)	(239,035)		(2,708,841)		
Collection, outfall, and transmission lines	(65,226,463)	(3,669,121)		(68,895,584)		
Reservoirs, settling basins, ponds, and chlorination station	(24,187,697)	(2,791,519)		(26,979,216)		
Recycled water distribution system	(14,943,016)	(2,996,437)		(17,939,453)		
Treatment plants, pump stations and office buildings	(110,707,427)	(6,620,084)		(117,327,511)		
Equipment	(84,590,904)	(14,372,539)	309,728	(98,653,715)		
Land improvement	(8,981,503)	(1,226,148)		(10,207,651)		
Total accumulated depreciation	\$ (320,229,904)	\$ (32,760,833)	\$ 309,728	\$ (352,681,009)		
Total capital assets, being depreciated, net	\$ 529,725,646	\$ 55,337,571	\$ -	\$ 585,063,217		
<b>Total capital assets- Enterprise Funds, Net</b>	<b>\$ 628,740,862</b>	<b>\$ 103,900,935</b>	<b>\$ (88,299,568)</b>	<b>\$ 644,342,229</b>		

## (7) Changes in Capital Assets (continued):

### Intangible Assets

Intangible Assets	Balance at 6/30/14	Additions	Transfers & Retirements	Balance at 6/30/15	Accumulated Amortization at 6/30/15	Net Book Value at 6/30/15
<b>Intangible assets-being amortized:</b>						
Computer software	\$ 10,735,955	\$ 201,160	\$ -	\$ 10,937,115	\$ (6,245,908)	\$ 4,691,207
Contributed capital-lease	129,324	-	-	129,324	(9,699)	119,625
Metropolitan Water District connections	198,891	-	-	198,891	(177,013)	21,878
Corps of Engineers-Cucamonga Creek	43,489	-	-	43,489	(26,449)	17,040
San Bernardino County Flood Control- Chino Road Barrier	48,078	-	-	48,078	(18,432)	29,646
Santa Ana Watershed Project Authority capacity rights	12,467,002	-	-	12,467,002	(6,394,747)	6,072,255
Organization and master planning	1,939,805	-	-	1,939,805	(652,017)	1,287,788
<b>Total intangible assets being-amortized</b>	<b>\$ 25,562,544</b>	<b>\$ 201,160</b>	<b>\$ -</b>	<b>\$ 25,763,704</b>	<b>\$ (13,524,265)</b>	<b>\$ 12,239,439</b>
<b>Less accumulated amortization for:</b>						
Computer software	\$ (5,241,694)	\$ (1,004,214)	\$ -	\$ (6,245,908)		
Contributed capital-lease	(3,233)	(6,466)	-	(9,699)		
Metropolitan Water District connections	(173,035)	(3,978)	-	(177,013)		
Corps of Engineers-Cucamonga Creek	(25,579)	(870)	-	(26,449)		
San Bernardino County Flood Control- Chino Road Barrier	(16,829)	(1,603)	-	(18,432)		
Santa Ana Watershed Project Authority capacity rights	(6,097,163)	(297,584)	-	(6,394,747)		
Organization and master planning	(614,542)	(37,475)	-	(652,017)		
<b>Total accumulated amortization</b>	<b>\$ (12,172,075)</b>	<b>\$ (1,352,190)</b>	<b>\$ -</b>	<b>\$ (13,524,265)</b>		
<b>Total intangible assets-Enterprise Funds, Net</b>	<b>\$ 13,390,469</b>	<b>\$ (1,151,030)</b>	<b>\$ -</b>	<b>\$ 12,239,439</b>		
<b>Total capital assets-Enterprise Funds, net</b>	<b>\$ 642,131,331</b>	<b>\$ 102,439,817</b>	<b>\$ (87,989,480)</b>	<b>\$ 656,581,668</b>		

The ending balance of accumulated depreciation and amortization for all capital assets has been adjusted to the Statement of Net Position for 2015 (rounding difference). For the Fiscal year ended June 30, 2015, depreciation was \$32,760,833 and amortization expense was \$1,352,190

## (8) Construction Commitments

The Agency is committed to several significant construction contracts. Total outstanding obligations were \$4,600,521 at June 30, 2015. Some of the contracts for ongoing projects at the Agency's regional plants are: 1) One Agency wide project totaling \$2,124,606; 2) Two major recycled water projects totaling \$1,930,109; 3) Two projects on-going at RP-1 totaling \$373,304; 4) One retrofit project on-going at RP-4 with a contract balance totaling \$99,928; 5) One Agency wide HVAC project with a contract balance totaling \$38,731; and 6) One major project on-going at the Carbon Canyon facility totaling \$33,843.

The major projects include:

- **Supervisory Control and Data Acquisition (SCADA) Enterprise System - EN13016.** The SCADA Enterprise system will eliminate the multi-vendor platforms currently operating as islands of automation. The design and construction of a highly-reliable and scalable Enterprise SCADA system that enables the control of any facility from any location, remote operations as well as integration with the Business system, and supports wastewater treatment, recycled water, and groundwater supply-demand management. This project has an outstanding obligation of \$2,124,606.
- **Wineville Recycled Water Extension Pipeline Segment A – EN06025.** This project will plan, design and construct a 24 and 20-inch recycled water pipeline from the Wineville Recycled Water Pipeline at Jurupa and Wineville, to the RP-3 basins at Beech and Jurupa. The pipeline is located in the cities of Ontario and Fontana. The project consists of approximately 24,000 lineal feet of pipe, and will serve recycled water customers as well as provide recycled water for ground water recharge at the RP-3 and Declez Basins. This project has an outstanding obligation of \$1,096,429.
- **Wineville Recycled Water Extension Pipeline Segment B - EN13045.** The Wineville Recycled Water Extension Pipeline Segment B will install 2.8 miles of 30-inch recycled water pipeline in addition to the associated appurtenances, and is located in the central service area. The new pipeline consists of approximately 12,000 linear feet of 36-inch cement lined and coated steel pipeline in the City of Fontana. The pipeline connects to Segment A terminus on one end (west), and terminates at RP-3 and Declez recharge basins where approximately 1,000 linear feet of 16-inch PVC is installed inside RP-3. The pipeline will provide recycled water of approximately 4,100 acre-feet per year for direct use and groundwater recharge. This project has an outstanding obligation of \$833,680.
- **RP-1 Digester Gas System Evaluation & Improvements - EN15056.** The RP-1 digester gas system is subject to large fluctuations in gas consumption due to the inconsistent nature of the fuel cell operation and its gas cleaning system. The RP-1 flare and associated digester gas piping area will be paved to provide access for operations and maintenance staff. This project will include the necessary equipment to enhance the digester gas system reliability, safety, and ensure compliance. This design build project involves the investigations and evaluations of the pressure losses in the digester gas system piping, and provides recommendations for repairs and upgrades.

The project will also include the installation of a new automatic sludge direct feed valve for Digester No. 1, and modifications of the digester loop emergency release valve controls with full interface with the SCADA system in the control room; and, new pavement to replace the dirt area surrounding the flare and gas piping area to provide convenient and safe access to the equipment. This project has an outstanding obligation of \$356,935.

## (B) Construction Commitments (continued):

- **RP-4 Headworks Retrofit – EN09021.** This project entails altering the headworks building to improve accessibility for operations and maintenance, and replacing the leaky sluice gates at the bar screen. Two options have been presented for evaluation. One option is to have the headworks building altered by adding a speed door on the south side while the gates will be replaced with stainless steel ones. Another option that is being evaluated is to cover all screens and the opening above the lower level with aluminum sheets. The foul air duct would be extended to the lower level. This would eliminate the need for the building entirely. The conceptual design drawings are being finalized for the second design option. The project has an outstanding obligation of \$99,928.
  
- **Agency-Wide HVAC Improvements - EN13056.** The scope of this project is to evaluate electrical and control building HVAC systems, and provide solutions/upgrades for the RP-4 Motor Control Center #5, Carbon Canyon Facility switchgear room, RP-4 main building, and the RP-1 maintenance building. It will also replace the evaporative coolers for the Carbon Canyon Facility switchgear with an air conditioning system, and modify the ventilation system configuration. This project scope includes the design, procurement and installation of all necessary HVAC equipment. This project has an outstanding obligation of \$38,731.
  
- **Carbon Canyon Facility Secondary Clarifier No. 3 Rehabilitation - EN14027.** The Carbon Canyon Facility has three secondary clarifiers that have been in service since 1993. With the clarifiers and their associated equipment approaching their service life, it is vital to rehabilitate the clarifiers and replace antiquated equipment. Within the last two years two secondary clarifiers (1 & 2) were rehabilitated. This project will rehabilitate the Secondary Clarifier No. 3 and replace most of its equipment. This project will recoat the concrete walls of the clarifier from the bottom elevation to the top, excluding the base; weld the eroded metal work; sandblast and recoat the metal work; replace the valves at the dewatering, return sludge, effluent and influent; and, construct a new sludge level indicator. The project has a contract with an outstanding obligation of \$33,843.
  
- **Major Facilities Repairs/Replacements – EP14002.** Throughout the year, Maintenance is required to repair and/or replace major assets/equipment. This project encompasses several items for multiple facilities, and includes 15 luminescent dissolved oxygen (LDO) meters; 3 anoxic mixers; a uninterrupted power supply (UPS) for the chemical system; RP1/TP1 Waste Wash Water (WWW) basin Motor Control Centers (MCC) cubicle replacement; Gravity thickener (GT) scum pumps; Air Flow meters; actuators for aeration basins; a mixed liquor pump; MCC6; digester hot water valves; a shower trailer; a 6-inch trash pump; a mobile air compressor; a headworks conveyor; a swing heat exchanger; and, brush holder assemblies for secondary clarifiers. The project has a remaining obligation of \$16,369.

## **(9) Contingent Liabilities**

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

At June 30, 2015, the Agency was a defendant in a number of lawsuits arising in the ordinary course of operations, which allege liability on the part of the Agency in connection with worker's compensation and general liability matters. Based on legal counsel's opinion, the potential losses and/or resolutions of these cases will not materially affect the financial condition of the Agency.

## **(10) Long-Term Receivables**

### City of Ontario

On June 4, 2004, the Agency entered into an amendment to its original contract with the City of Ontario for the reimbursement of the RP-1 to RP-5 By-Pass Project. The project was completed on March 31, 2008, and as of June 30, 2015, the long term receivable amount is \$2,634,337 and is recorded in the Regional Wastewater Capital Improvement (RC) Fund.

### Monte Vista Water District

On February 2, 2008, the Agency entered into an agreement with Monte Vista Water District (MVWD) for the construction of the regional recycled water distribution system that resides within the MVWD service area. Monte Vista Water District agreed to reimburse the Agency \$1,068,418 for the construction costs, payable yearly beginning June, 2009, plus interest at an annum rate of 2.2% for 20 years. As of June 30, 2015, the long term receivable amount is \$695,835, and is recorded in the Recycled Water (WC) Fund.

### Cucamonga Valley Water District

On November 24, 2009, the Agency entered into an agreement with Cucamonga Valley Water District (CVWD) for the design and construction of the Church Street Recycled Water Lateral that resides within the CVWD service area. CVWD agreed to reimburse the Agency \$690,648 for the construction costs, payable yearly beginning June, 2011, plus interest at an annum rate of 0.74% for 20 years. As of June 30, 2015, the long term receivable amount is \$484,408, and is recorded in the Recycled Water (WC) Fund.

## (11) Joint Ventures - Long-Term Agreements

The Agency participates in the following joint ventures with other districts and agencies for various water projects and operating facilities in Southern California.

### Santa Ana Watershed Project Authority

The Santa Ana Watershed Project Authority (SAWPA) was formed under a joint exercise of power agreement for the purpose of undertaking projects for water quality control and protection in the Santa Ana River Watershed. SAWPA is composed of the five (5) water agencies within the watershed area: Eastern Municipal Water District, Orange County Water District, San Bernardino Valley Municipal Water District, Western Municipal Water District, and the Inland Empire Utilities Agency. Each participating agency appoints two commissioners to SAWPA to form an oversight committee of ten. Equal contributions are made by each member agency for administration and contributions based on capacity use rights for project agreements under which capital construction is accomplished. Special projects or studies are funded by equal contributions from each Agency based on the general or specific nature of the project or study. Financial data is available at the Agency's main office.

Audited financial information for the operation of SAWPA as of and for the fiscal years ended June 30, 2015 is summarized as follows:

	<b>2015</b>	<b>2014</b>
Total Assets	\$ 173,051,031	\$177,502,546
Deferred Outflows of Resources	273,547	
Total Liabilities	107,505,347	113,612,307
Deferred Inflows of Resources	784,673	
<b>Total Net Position</b>	<b>65,034,558</b>	<b>63,890,239</b>
Total Revenues	15,228,824	14,329,188
Total Expenses	(14,084,505)	(15,393,664)
<b>Net Change in Net Position</b>	<b>\$ 1,144,319</b>	<b>\$ (1,064,476)</b>

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

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

Over the course of time, the Agency has purchased capacity from SAWPA in the Santa Ana Regional Interceptor (SARI) System, now called Inland Empire Brine Line (IEBL).

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

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

As of June 30, 2005, the Agency has 4.0 mgd IEBL pipeline and 2.25 mgd treatment capacity. This consisted of the following:

- A) On June 10, 1981, the Agency entered into Project Agreement #7. The Agency purchased through its Non-reclaimable Capital Improvement (NC) Fund capacity use rights of 2.5 mgd in the IEBL 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 Wastewater Capital Improvement (RC) Fund 1.5 mgd of IEBL pipeline and treatment capacity. In September 1993, the Agency's Board approved the sale of 0.4 mgd IEBL discharge right to the State of California Department of Corrections. The net cost of the 1.1 mgd of IEBL 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 IEBL pipeline capacity. One third of this capacity is earmarked for the Regional Wastewater Program. The Agency, through Regional Wastewater Capital Improvement (RC) Fund, purchased 0.5 mgd. The remaining 1.0 mgd was purchased with monies from the Non-reclaimable Capital Improvement (NC) Fund. The total cost of the purchase was \$5,625,000, with a 5% down payment. The balance is payable over 20 years with a zero interest rate, and has been discounted by \$2,095,253 at an imputed interest rate of 6%.
- E) In July 7, 1999, the Agency Board of Directors approved the purchase of 1.0 mgd of IEBL pipeline capacity from SAWPA. The purchase price was \$3,750,000, and is recorded in the Non-reclaimable Wastewater (NC) Fund. The agreement called for a 5% down payment of \$187,500, and the balance of \$3,562,500 to be financed by SAWPA for a 20 year-period at a 6% interest rate. This note was paid in full as approved by the Board on May 21, 2003 for a principal balance of \$2,961,171 plus accrued interest of \$167,935.
- F) On April 21, 2004, the Agency Board of Directors approved the sale of 2.10 mgd of pipeline capacity and 2.05 mgd of treatment and disposal capacity to the Chino Basin Desalter Authority (CDA). The sale price totaled \$14.25 million payable in three equal installments within one year. This sale was recorded in two separate funds with \$4.73 million going to the Regional Wastewater Capital Improvement (RC) Fund and \$9.52 million going to the Non-reclaimable Wastewater (NC) Fund.

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

### **Chino Basin Desalter**

The Chino Basin Desalter Authority (CDA) was formed in September, 2001 as a Joint Powers Authority (JPA) to acquire all assets and liabilities from Santa Ana Watershed Project Authority (SAWPA) Project #14. The purchase was consummated in February, 2002. The JPA is comprised of the cities of Chino, Chino Hills, Ontario, Norco, the Jurupa Community Services District, the Santa Ana River Water Company, and Inland Empire Utilities Agency (IEUA). IEUA serves as a non-voting member and provides finance and administration support for the JPA, as well as operational support for the Desalter 1 facility. In August of 2008, Western Municipal Water District was added as an additional member of CDA.

As of June 30, 2015, Desalter 1 and Desalter 2 delivered a total of 25,795 acre feet of water. Financial data is available at the CDA's main office located at 2151 S. Haven Avenue, Suite 202, Ontario, CA 91761.

### **Inland Empire Regional Composting Authority**

In February 2002, the Agency entered into a Joint Power Authority Agreement (JPA) with the Sanitation District No. 2 of Los Angeles County (SDLAC) to form the Inland Empire Regional Composting Authority (IERCA). The purpose of the JPA is to build and operate a fully enclosed biosolids composting facility. The JPA Agreement calls for a 50/50 share of all costs related to the activities of the JPA.

Prior to the JPA Agreement, the two partners entered into a separate agreement in December, 2001 to acquire real property for proposed joint use. As a result of this agreement, a piece of property and building in the City of Rancho Cucamonga, adjacent to IEUA's Regional Plant No. 4 (RP-4) was acquired in December, 2001 at a cost of \$15,116,229. Subsequent to the property acquisition, preliminary and final designs were launched to modify the building. The facility started operation in FY 2006/2007 and is currently staffed by twenty-four full time IEUA employees who provide all operational activities including production, maintenance, safety and industrial hygiene training, and sales and administration. The IERCA reimburses IEUA 100% of employment costs. A tipping fee is paid by JPA partners for biosolids deliveries to IERCA, to recover O&M and R&R costs. The agency records biosolids tipping fees in the RO fund.

As of June 30, 2015, the Agency's equity share is \$45,577,499 recorded in the Regional Wastewater Capital Improvement (RC) Fund. There was an additional write-down of \$864,373 (50% of the Agency's equity share) of the JPA's net position at June 30, 2015; this reduction is recorded in the non-operating expenses on the statement of revenues in RC Fund. The Agency records the JPA labor costs for operating the facility in the RO Fund. IERCA financial data is available at the Agency's main office.

### **Santa Ana River Watermaster**

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

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

Santa Ana River Watermaster (continued):

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

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

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

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

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

	<u>2014</u>	<u>2013</u>
Total Assets	<u>\$12,701</u>	<u>\$12,701</u>
Fund Balance	12,701	12,701
Total Revenues	14,000	14,000
Total Expenses	<u>(14,000)</u>	<u>(22,598)</u>
<b>Net Increase/(Decrease) in Equity</b>	<u><u>\$0</u></u>	<u><u>(\$8,598)</u></u>

Santa Ana River Watermaster issues a separate Comprehensive Annual Financial Report. Copies of the report may be obtained upon request to: 380 East Vanderbilt Way, San Bernardino, California 92408-3593.

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

### Long-term Debt

Summary of changes in Long-Term debt for the fiscal year ended June 30, 2015:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Amounts Due</u> <u>within One Year</u>	<u>Amounts Due</u> <u>after One Year</u>
<b>Bonds Payable:</b>						
2005A Revenue Bonds (1999 Refinancing)	\$ 16,200,000		\$ 16,200,000	\$ -	\$ -	\$ -
2008A Revenue Bonds	125,000,000			125,000,000	-	125,000,000
2008B Variable Rate (2002A Refinancing)	45,850,000		1,790,000	44,060,000	1,865,000	42,195,000
2010A Revenue Bonds (1994 Refinancing)	34,760,000		3,810,000	30,950,000	3,945,000	27,005,000
Sub-Total	221,810,000	-	21,800,000	200,010,000	5,810,000	194,200,000
Bond Premium	6,794,318		866,889	5,927,429		5,927,429
<b>Revenue Bonds</b>	<b>\$ 228,604,318</b>	<b>\$ -</b>	<b>\$ 22,666,889</b>	<b>\$ 205,937,429</b>	<b>\$ 5,810,000</b>	<b>\$ 200,127,429</b>

### 2005A Revenue Bonds

On May 1, 2005, the Chino Basin Regional Financing Authority issued the Chino Basin Regional Authority Revenue Bonds, Series 2005A in the amount of \$24,735,000.

- The bonds were issued to refund a portion of the outstanding Chino Basin Regional Financing Authority Revenue Bonds, Series 1999.
- The bonds maturing through 2023 are Insured Serial Bonds payable in annual installments ranging from \$1,390,000 to \$2,120,000 with interest rates from 3.00% to 5.00%. The balance at July 1, 2014 comprised of the principal of \$16,200,000, plus a bond premium of \$368,013 for a total of \$16,568,013 which was defeased in November 2014.

### 2008A Revenue Bonds

On February 5, 2008, the Chino Basin Regional Financing Authority issued the Chino Basin Regional Financing Authority Revenue Bonds, Series 2008A in the amount of \$125,000,000.

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

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

Long-term Debt (continued):

2008A Revenue Bonds (continued):

- The bonds maturing through 2028 are Serial Bonds payable in annual installments ranging from \$2,620,000 to \$4,305,000 with an interest rate of 5.00%.
- The bonds maturing through 2034 are Term Bonds payable in annual installments ranging from \$5,495,000 to \$10,735,000 with an interest rate of 5.00%.
- The bonds maturing through 2039 are Term Bonds payable in annual installments ranging from \$11,285,000 to \$13,785,000 with an interest rate of 5.00%.
- The balance outstanding at June 30, 2015 is comprised of the principal of \$125,000,000, plus a bond premium of \$3,883,951, for a total of \$128,883,951.

2008B Revenue Bonds

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

- The Bonds were issued to refund all of the outstanding Chino Basin Regional Financing Authority (Inland Empire Utilities Agency) Variable Rate Revenue Bond Series 2002A. The refunding resulted in a \$700,406 amortization in the deferred cost balance of the Series 2002A Bonds, expensed in 2008, and the recording of \$249,242 of deferred charge on refunding for the Series 2008B Bonds to be amortized through the year 2032.
- The bonds maturing through 2032 are Serial Bonds payable in annual installments ranging from \$1,865,000 to \$3,480,000 with a variable interest rate no higher than 12.00% per annum. The balance outstanding at June 30, 2015 comprised the principal amount of \$44,060,000.

2010A Revenue Bonds

On July 15, 2010, the Chino Basin Regional Financing Authority issued the Chino Basin Regional Financing Authority Refunding Revenue Bonds, Series 2010A in the amount of \$45,570,000.

- The bonds were issued to (i) refund the outstanding Chino Basin Regional Financing Authority (Inland Empire Utilities Agency) Revenue Bond Series 1994 (Chino Basin Municipal Water District Sewer System Project), and (ii) pay the costs of issuing the bonds. The agency reduced its aggregate debt service payment by almost \$9,434,527 over the next 13 years. Net present value of this economic gain was \$8,022,916.

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

### Long-term Debt (continued):

#### 2010A Revenue Bonds (continued):

- The bonds maturing through 2022 are payable in annual installments ranging from \$3,945,000 to \$5,075,000 with an interest rate from 1.35% to 5.00% per annum, payable semi-annually. The balance outstanding on June 30, 2015 is comprised of the principal amount of \$30,950,000, plus unamortized deferred bond premium of \$2,043,477, for a total of \$32,993,477.

#### Aggregate Long Term Debt

As of June 30, 2015, the aggregate debt service requirements on bonded indebtedness to maturity are summarized as follows:

<u>Year Ending June 30</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total</u>
2016	\$ 5,810,000	\$ 7,680,840	\$ 13,490,840
2017	6,015,000	7,516,020	13,531,020
2018	6,180,000	7,346,590	13,526,590
2019	6,380,000	7,151,975	13,531,975
2020	6,800,000	6,924,990	13,724,990
2021-2025	27,550,000	31,750,205	59,300,205
2026-2030	38,495,000	26,754,365	65,249,365
2031-2035	51,545,000	19,544,289	71,089,289
2036-2039	51,235,000	5,283,375	56,518,375
Subtotal	200,010,000	119,952,649	319,962,649
Plus: Net Premium	5,927,429		5,927,429
<b>Total Debt Service Payable</b>	<b>\$ 205,937,429</b>	<b>\$ 119,952,649</b>	<b>\$ 325,890,078</b>

The 2008B Variable Rate Revenue bond interest payments are calculated using a 0.2% interest rate.

#### Debt Covenants

In accordance with bond covenants, system generated revenues comprised of user charges and connection fees and property tax revenues are pledged to fund bond debt service costs. San Bernardino County property tax revenues are distributed November through June annually. Each fiscal year end the Agency is required to reserve six months of tax receipts to fund debt service requirements due July through November of the following fiscal year. Management has determined that the Agency has complied with all covenants related to the outstanding debt issues as of June 30, 2015. (Refer to the Agency System Total Debt Coverage Ratio Schedule included in the statistical section).

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

**Notes Payable**

Summary of notes payable activity for the Fiscal Year ended June 30, 2015 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due After One Year
<b><u>Notes Payable:</u></b>						
SARIPipeline Cap. 1.5mgd	\$ 925,834	\$ -	\$ 211,638	\$ 714,196	\$ 224,334	\$ 489,862
State Revolving Fund Loan	88,017,521	24,541,466	4,105,255	108,453,732	5,300,865	103,152,867
City of Fontana	6,969,268	-	482,578	6,486,690	482,578	6,004,112
CSDLAC Past 4R's	4,089,976	-	643,531	3,446,445	658,332	2,788,113
<b>Total Notes Payable</b>	<b>\$ 100,002,599</b>	<b>\$ 24,541,466</b>	<b>\$ 5,443,002</b>	<b>\$ 119,101,063</b>	<b>\$ 6,666,109</b>	<b>\$ 112,434,954</b>

**Santa Ana Watershed Project Authority**

As a result of the purchase of 1.5 million gallons per day (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 eighteenth installment is due on July 15, 2015. This is a combined note payable recorded in the Non-reclaimable Wastewater Capital Improvement (NC) and Regional Wastewater Capital Improvement (RC) Funds.

As of June 30, 2015, the future payments for the remaining note payable obligation by year is as follows:

Year Ending June 30	Principal Payments	Imputed Interest	Total
2016	\$ 224,336	\$ 42,852	\$ 267,188
2017	237,796	29,391	267,187
2018	252,064	15,124	267,188
<b>Total SAWPA Note</b>	<b>\$ 714,196</b>	<b>\$ 87,367</b>	<b>\$ 801,563</b>

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

### Notes Payable (continued):

#### State Water Resources Control Board

- The Regional Recycled Water Distribution System Phase I-V projects are in part funded by the State Revolving Fund (SRF) loans financed by the State Water Resources Control Board. As of June 30, 2007, the five projects in Phase I had been completed and received \$15,141,192 of SRF funding. Payments on SRF loans commenced one year after the completion of construction, with principal and interest paid annually for 20 years at an annual rate of 2.5%. As of June 30, 2015, the balance is \$8,455,918.
- The RP-1 Pump Station and West Edison SAC Recycled Water Pipeline A & B projects (Phase II) are also in part funded by the State Revolving Fund (SRF). The three projects were completed as of June 30, 2010 and received \$14,752,201 of SRF funding. The current balance as of June 30, 2015 is \$10,473,993.
- The RP-4 Pump Station, Pipeline and Reservoir projects (Phase III) are also in part funded by the State Revolving Fund (SRF). The three projects were completed as of June 30, 2010 and received \$10,862,198 of SRF funding, with a current balance as of June 30, 2015 of \$7,635,806.
- The Recycled Water projects included in Phase IV are also in part funded by the State Revolving Fund (SRF). As of June 30, 2012, the four projects were completed and received \$15,061,175 of SRF funding. The current balance as of June 30, 2015 is \$12,087,681.
- The Recycled Water Project (Construction of 2 Monitoring Wells) in Phase V is also in part funded by the State Revolving Fund (SRF). The project was completed by June 30, 2011 and received \$999,024 of SRF funding. The current balance at June 30, 2015 is \$767,256.
- The Recycled Water Project (Southern Area) in Phase VI is also in part funded by the State Revolving Fund (SRF). As of June 30, 2015, we reflect a current balance of \$27,137,673.
- The Recycled Water Project (Central Area) in Phase X is also partially funded by the State Revolving Fund (SRF). As of June 30, 2015, we reflect a current balance of \$17,617,254.
- The RP-1 Dewatering Facility Expansion project is also in part funded by the State Revolving Fund (SRF) and received \$27,546,972 of SRF funding. As of June 30, 2015, we reflect a current balance of \$23,617,422.
- The Regional Water Quality Laboratory project is also funded in part by the State Revolving Fund (SRF). As of June 30, 2015, 50% of the design phase has been completed and has a current balance of \$660,730.

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

Notes Payable (continued):

State Water Resources Control Board (continued):

As of June 30, 2015, the future payments for the remaining loan obligations by year are as follows:

Year Ending June 30	Principal Payments	Interest Payment	Total
2016	\$ 5,300,865	\$ 1,170,379	\$ 6,471,244
2017	5,770,002	1,383,940	7,153,942
2018	5,862,038	1,321,749	7,183,787
2019	5,940,017	1,243,770	7,183,787
2020	6,019,682	1,164,105	7,183,787
2021/2025	31,272,438	4,563,723	35,836,161
2026/2030	26,069,196	2,572,846	28,642,042
2031/2035	14,827,798	1,147,860	15,975,658
2036/2040	3,242,647	320,074	3,562,721
2041/2045	3,415,163	147,557	3,562,720
2046/2049	733,886	8,592	742,478
<b>Total SRF Loans</b>	<b>\$ 108,453,732</b>	<b>\$ 15,044,595</b>	<b>\$ 123,498,327</b>

City of Fontana

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

As of June 30, 2015, the future payments for the remaining note payable obligation by year are as follows:

Year Ending June 30	Principal Payments	Interest Amortization	Total
2016	\$ 482,578	\$ 79,824	\$ 562,402
2017	482,578	79,824	562,402
2018	482,578	79,824	562,402
2019	482,578	79,824	562,402
2020	482,578	79,824	562,402
2021/2025	2,412,890	399,120	2,812,010
2026/2029	1,660,910	245,192	1,906,102
<b>Total SRF Loans</b>	<b>\$ 6,486,690</b>	<b>\$ 1,043,432</b>	<b>\$ 7,530,122</b>

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

**Notes Payable (continued):**

*Sanitation District of Los Angeles County*

On June 30, 2014, the Agency recorded the reimbursement agreement with the Sanitation District No. 21 of Los Angeles County (SDLAC) for the 4R Capital Charges that were allowed to be funded to SDLAC by State Revolving Fund loans under Prior Contracts. The Agency has agreed to pay SDLAC the balance in annual installments over a six year term with an interest rate of 2.3%. As of June 30, 2015, the remaining note payable obligation is \$3,446,445.

<u>Year Ending June 30</u>	<u>Principal Payments</u>
2016	\$ 658,332
2017	673,473
2018	688,963
2019	704,809
2020	720,868
Total SDLAC Loans	<u>\$ 3,446,445</u>

**(13) Arbitrage Rebate Obligation**

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

- The 2008A Revenue, 2008B Variable Rate, and 2010A Revenue Bonds are all subject to arbitrage limitations.
- On the 2008A and 2008B Bonds, the initial arbitrage rebate will be due in June, 2018.
- The initial arbitrage rebate on the 2010A Bonds will be due in July, 2015.

No arbitrage liability is currently due at June 30, 2015.

**(14) Advance to/from Other Funds**

The composition of advances to/from other funds balances as of June 30, 2015, is as follows:

	<b>Advances To Other Funds:</b>		
	<u>Recycled Water</u> Fund	<u>Water Resources</u> Fund	Total
<b>Advances From Other Funds:</b>			
Regional Wastewater Capital Improvement Fund	\$ 13,500,000	\$ -	\$ 13,500,000
Non-Major Funds	15,000,000	4,308,104	19,308,104
<b>Total Advances</b>	<b>\$ 28,500,000</b>	<b>\$ 4,308,104</b>	<b>\$ 32,808,104</b>

Regional Wastewater Capital Improvement Fund & Recycled Water Fund

At June 30, 2015, the Regional Wastewater Capital Improvement (RC) Fund reported an advance to the Recycled Water (WC) Fund in the amount of \$13,500,000. 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-Major Funds & Recycled Water Fund & Water Resources Fund

At June 30, 2015, the Non-reclaimable Wastewater Capital Improvement (NC) Fund reported an advance to the Recycled Water (WC) Fund, in the amount of \$15,000,000. This advance will support capital construction expenditures related to the Regional Recycled Water Distribution System as part of the Agency's Recycled Water Business Plan adopted in December 2007. Repayment is scheduled over several fiscal years from increased recycled water deliveries.

At June 30, 2015, the Administrative Services (GG) Fund reported an advance to the Water Resources (WW) Fund, in the amount of \$4,308,104. This advance will support the implementation of regional drought and conservation projects. Repayment is scheduled over several fiscal years from meter equivalent revenues.

**(15) Interfund Transfers**

The Regional Wastewater Operations & Maintenance (RO) Fund received capital support from the Recycled Water (WC) Fund in the amount of \$1,273,557.

Non-Major Enterprise Funds received transfers in the amount of \$2,185,745 including \$1,373,285 from the Regional Wastewater Funds. These transfers included \$1,097,945 in capital support from various funds to the Administrative Services (GG) Fund. The remaining amount consisted of \$350,000 in debt service support, \$400,000 in operating support, and \$337,800 in capital support to the Recharge Water (RW) Fund.

### (15) Interfund Transfers (continued):

The following table reflects the interfund transfer balances in and out by fund as of June 30, 2015.

Transfers Out:	Transfers In:		
	Regional Wastewater	Non-Major Enterprise Funds	Total
Regional Wastewater Funds	\$ -	\$ 1,373,285	\$ 1,373,285
Recycled Water Fund	1,273,557	775,130	2,048,687
Non-Major Enterprise Funds		37,330	37,330
<b>Total Transfers</b>	<b>\$ 1,273,557</b>	<b>\$ 2,185,745</b>	<b>\$ 3,459,302</b>

### (16) Operating Leases

The Agency has two operating leases at June 30, 2015:

- One postage meter lease extending to June 30, 2016
- One lease for fourteen copiers for \$21,176 for the year ended June 30, 2015.

Total operating lease costs were \$24,498 for the year ended June 30, 2015. The future minimum lease payments for equipment leases are as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2016	21,811
2017	22,465
	<u>44,276</u>

### (17) Restatement of Net Position and Related Accounts

#### Regional Wastewater Capital Improvement Fund

Net Position as of July 1, 2014 has been restated to reflect prior years' recording of financial impact.

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

Net position at July 1, 2014 as previously reported	\$348,543,926
GASB 68 Net Equity Adjustment	(31,098,660)
Cost for prior year recorded as capital assets	(563,028)
Net position at July 1, 2014 as restated	<u>\$316,882,238</u>

**(17) Restatement of Net Position and Related Accounts (continued):**

Recycled Water Fund

Net Position as of July 1, 2014 has been restated to reflect prior years' recording of financial impact.

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

Net position at July 1, 2014 as previously reported	\$71,717,820
GASB 68 Net Equity Adjustment	(3,885,073)
Cost for prior year recorded as capital assets	(708,953)
Net position at July 1, 2014 as restated	<u>\$67,123,794</u>

Water Resources Fund

Net Position as of July 1, 2014 has been restated to reflect prior years' recording of financial impact.

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

Net position at July 1, 2014 as previously reported	\$3,065,128
GASB 68 Net Equity Adjustment	(1,408,581)
Cost for prior year recorded as capital assets	(1,463,616)
Net position at July 1, 2014 as restated	<u>\$ 192,931</u>

Non-Major Funds

Net Position as of July 1, 2014 has been restated to reflect prior years' recording of financial impact.

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

Net position at July 1, 2014 as previously reported	\$94,095,036
GASB 68 Net Equity Adjustment	(5,448,801)
Cost for prior year recorded as capital assets	(264,129)
Net position at July 1, 2014 as restated	<u>\$88,382,106</u>

## (18) Reclassification of Prior Year Data

### Water Resources Fund

Water Purchases as of June 30, 2014 has been restated to reflect prior years' recording of financial impact.

The effects of the restatement of operating revenue, and operating expenses are as follows:

Operating revenue as previously reported June 30, 2014	\$ 4,923,653
Sales	40,225,028
Operating revenue as restated, June 30, 2014	<u>\$45,148,681</u>
Operating expense as previously reported June 30, 2014	\$ 5,028,069
Water purchases	40,225,028
Operating expense as restated, June 30, 2014	<u>\$45,253,097</u>

## (19) Subsequent Event

In preparing these financial statements, the Agency has evaluated events and transactions for potential recognition or disclosure through December 4, 2015, the date the financial statements were available to be issued, and found no subsequent events that would affect the 2015 financial statements.

---

**REQUIRED SUPPLEMENTARY  
INFORMATION**

---

**Schedule of Changes in Net Pension Liability and Related Ratios**

**Schedule of Contributions**

**INLAND EMPIRE UTILITIES AGENCY**  
**REQUIRED SUPPLEMENTARY INFORMATION**

**CalPERS Miscellaneous Pension Plan**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Last Ten Years\***

	<u>2015</u>
<b>Total Pension Liability:</b>	
Service cost	\$ 3,768,503
Interest on total pension liability	10,818,920
Differences between expected and actual experience	-
Changes in assumptions	-
Changes in benefits	-
Benefit payments, including refunds of employee contributions	(5,304,990)
Net Change in Total Pension Liability	<u>9,282,433</u>
Total Pension Liability - Beginning of Year	<u>145,020,505</u>
Total Pension Liability - End of Year (a)	<u>\$ 154,302,938</u>
<b>Plan Fiduciary Net Position:</b>	
Contributions - employer	\$ 3,733,583
Contributions - employee	2,374,649
Net investment income	17,346,113
Benefit payments	(5,304,990)
Net Change in Plan Fiduciary Net Position	<u>18,149,355</u>
Plan Fiduciary Net Position - Beginning of Year	<u>99,445,805</u>
Plan Fiduciary Net Position - End of Year (b)	<u>\$ 117,595,160</u>
<b>Net Pension Liability - Ending (a)-(b)</b>	<u>\$ 36,707,778</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>76.21%</b>
<b>Covered - employee payroll</b>	<b>\$ 23,048,949</b>
<b>Net pension liability as percentage of covered- employee payroll</b>	<b>159.26%</b>

**Notes to Schedule:**

**Benefit Changes:**

There were not changes in benefits.

**Changes in Assumptions:**

There were not changes in assumptions

\* - Fiscal year 2014/15 was the 1st year of implementation, therefore only one year is shown.

**REQUIRED SUPPLEMENTARY INFORMATION (continued)**

**CalPERS Miscellaneous Pension Plan  
Schedule of Contributions  
As of June 30, 2015  
Last Ten Years\***

	<b>2015</b>
Actuarially determined contribution	\$ 3,733,583
Contributions in relation to the actuarially determined contributions	(3,733,583)
Contribution deficiency (excess)	<u>\$ -</u>
Covered - employee payroll	\$ 23,048,949
Contributions as a percentage of covered - employee payroll	16.20%

Notes to Schedule:

Valuation Date 6/30/2012

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	21 years as of the valuation report
Asset valuation method	15 years smooth market
Inflation	2.75%
Salary increases	3.30% to 14.20% depending on age, service and type of employment
Investment rate of return	7.50%, net of pension plan investment and administrative expense, includes inflation
Retirement age	55 years (2.5%@55, 2%@55, and 2%@62)
Mortality	Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board, first used in the June 30, 2009 valuation. For purposes of the post-retirement mortality rates, those revised rates include 5 years of projected on-going mortality improvement using Scale AA published by the Society of Actuaries until June 30, 2010. There is no margin for future mortality improvement beyond the valuation date.

\* - Fiscal year 2014/15 was the 1st year of implementation, therefore only one year is shown.

*REQUIRED SUPPLEMENTARY INFORMATION (continued)*

Other Post-Employment Benefit Plan  
Funding Progress  
As of June 30, 2015

Actuarial Valuation Date	Entry Age Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL) (a-b)	Funded Ratio (b/a)	Covered-Employee Payroll (c)	UAAL as a Percentage of Covered-Employee Payroll ((a - b)/c)
04/01/09	13,977,691	-	13,977,691	0.00%	24,293,839	57.50%
10/01/11	14,520,001	-	14,520,001	0.00%	23,924,612	60.70%
07/01/13	17,476,486	-	17,476,486	0.00%	23,184,095	76.50%
06/30/15	15,080,188	6,992,580	8,087,608	48%	23,048,949	35.09%

# Exhibit B

**INLAND EMPIRE UTILITIES AGENCY**

**SINGLE AUDIT OF FEDERALLY ASSISTED  
GRANT PROGRAMS**

**JUNE 30, 2015**

*Preliminary Draft*



INLAND EMPIRE UTILITIES AGENCY

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors  
Inland Empire Utilities Agency  
Chino, California

We have audited, in accordance with the 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, the financial statements of Inland Empire Utilities Agency (the Agency) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated **DATE**.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## **Internal Control over Financial Reporting (Continued)**

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2015-001 that we consider to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Agency's Response to the Finding**

The Agency's response to the finding identified in our audit is described in the accompanying schedule of finding and questioned costs. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Irvine, California  
**DATE**

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 AND ON THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors  
Inland Empire Utilities Agency  
Chino, California

**Report on Compliance for Each Major Federal Program**

We have audited Inland Empire Utilities Agency's (the Agency) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2015. The Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

## **Opinion on Each Major Federal Program**

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

## **Report on Internal Control over Compliance**

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the Agency, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements. We issued our report thereon dated DATE, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133  
(Continued)**

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Irvine, California  
**DATE**

Preliminary Draft

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

*Preliminary Draft*

INLAND EMPIRE UTILITIES AGENCY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2015

Federal Grantor/Pass - Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Grant Identification Number	Federal Expenditures
<u>United States Department of the Interior</u>			
Direct Assistance:			
Water Reclamation and Reuse Program:			
1010 Zone Pump Station & New Product Water Pipelines	15.504	R12AC35339	\$ 2,295,111
Chino Creek Wellfield Development Project Well 1, 2, 3	15.504	R11AC35306	606,050
Groundwater Supply Wells & Raw Water Pipelines	15.504	R14AC00049	357,743
Total Water Reclamation and Reuse Program			3,258,904
WaterSMART - Regional Residential Landscape Survey	15.507	R12AP35353	29,882
Total United States Department of the Interior			3,288,786
<u>United States Environmental Protection Agency</u>			
Passed through the California State Water Resources Control Board:			
Capitalization Grants for Clean			
Water State Revolving Funds	66.458	C-06-5318-110	5,002,216
	66.458	C-06-7885-110	21,240
Total United States Environmental Protection Agency			5,023,456
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 8,312,242</u>

See accompanying notes to schedule of expenditures of federal awards (page 7).

# INLAND EMPIRE UTILITIES AGENCY

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2015

### 1. GENERAL:

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the federal financial assistance programs of Inland Empire Utilities Agency (the Agency). The Agency's reporting entity is defined in Note 1 of the notes to the Agency's financial statements. All financial assistance received directly from federal agencies and federal financial assistance passed through other government agencies to the Agency is included in the accompanying schedule.

### 2. BASIS OF ACCOUNTING:

The expenditures included in the accompanying schedule were reported on the accrual basis of accounting. Under the accrual basis of accounting, expenditures reported include any property or equipment acquisitions incurred under the federal program in the fiscal year.

### 3. RELATIONSHIP TO COMPREHENSIVE ANNUAL FINANCIAL REPORT:

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree to amounts reported within the Agency's Comprehensive Annual Financial Report. The amounts for Grant Numbers R12AC35339, R11AC35306, and R14AC00049 are reported as a receivable from the granting agency and a payable to Chino Basin Desalter Authority (CDA) as the Agency is a pass-through entity for these federal grants.

### 4. CONTINGENCIES:

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

INLAND EMPIRE UTILITIES AGENCY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2015

1. Summary of Auditors' Results:

*Financial Statements*

Type of auditors' report issued:

- Unmodified

Internal control over financial reporting:

- Material weakness identified?  yes  no
- Significant deficiency identified?  yes  none reported  
See Finding 2015-001

Noncompliance material to financial statements noted:  yes  no

*Federal Awards:*

Internal control over major programs:

- Material weakness identified?  yes  no
- Significant deficiency identified?  yes  none reported

Type of auditors' report issued on compliance for major programs:

- Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

yes  no

Identification of major programs:

CFDA Number

15.504

Name of Federal Program or Cluster

United States Department of the Interior, Direct Assistance, Water Reclamation and Reuse Program

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

yes  no

INLAND EMPIRE UTILITIES AGENCY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2015

2. Findings Relating to Financial Statements:

Finding 2015-001

Criteria

As a part of internal control over financial reporting, the Agency should have proper procedures in place to determine whether costs incurred for a certain project are capitalizable costs.

Condition

During our review of the construction in progress project listing as of June 30, 2015, we noted a few items that were incorrectly included as "capital projects".

Cause

The Agency does not have controls in place to properly determine whether costs incurred are capitalizable costs.

Effect

We requested the Agency's staff review additional items reported as capital projects, and based on a more thorough review of the actual project costs incurred, staff determined some of the projects did not result in a specific capital asset, and therefore would be more appropriately recognized as an operating expense. Some of the projects were multi-year projects that were finally completed and closed out at the end of the current fiscal year. For these multi-year projects, costs incurred in a prior fiscal year resulted in a prior year adjustment with the reclassification from construction in progress to operating expense.

Recommendation

There is considerable diversity in how costs are capitalized in practice. However, we recommend that the Agency continue to apply the following guidelines in capitalization of costs. First, a cost should only be capitalized only if it is directly identifiable with a specific asset. Therefore, a study undertaken to determine the best location of a building would be capitalized. Second, a cost should only be capitalized if incurred after acquisition of the capital asset has come to be probable. Thus, the cost of a feasibility study should not be capitalized. We recommend the Agency continue to monitor these transactions and revise its capitalization policy as needed to incorporate the above guidelines in the application of categorizing projects.

INLAND EMPIRE UTILITIES AGENCY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2015

2. Findings Relating to Financial Statements (Continued):

Finding 2015-001 (Continued)

Management's Response

We have taken corrective action which has resulted in the reclassification of costs for projects initially set up as capital projects but for which specific assets were not constructed. This effort, to a large extent, was been successful in significantly reducing total Jobs in Process (assets under construction). Between fiscal years 2010/11 through 2014/15, total Jobs in Process have been reduced by over 330 percent; from \$153 million reported at the end of fiscal year 2011 to \$45 million as June 30, 2015. Pursuant to the external auditors' recommendation, a comprehensive review process has been put in place to ensure new project request forms are appropriately defined prior to the creation and start of the project. Beginning in fiscal year 2015/16, Finance and Accounting staff has also begun to monitor the costs charged to Jobs in Process more frequently. Additionally, Finance and Accounting staff is facilitating mandatory training for all project managers and their support staff to further their understanding of the difference between capital and operation projects and the importance of timely completion of project closures. This overall proactive approach should help to minimize project reclassification issues in the future, with the exception of a few items that may result from unforeseen changes in project scope or cancellation of projects.

3. Findings and Questioned Costs Relating to Major Federal Awards:

None.

INLAND EMPIRE UTILITIES AGENCY  
SUMMARY OF PRIOR YEAR FINDINGS

For the year ended June 30, 2015

There were no findings or questioned costs for the year ended June 30, 2014.

Preliminary Draft



*Inland Empire Utilities Agency*  
A MUNICIPAL WATER DISTRICT

# **Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2015**

**December 2015  
Board Meeting**

# FY 2014/15 Highlights

- ❖ Implementation of GASB Statement No. 68 Accounting and Financial Reporting for Pensions, and amendment to GASB Statement No.27.
  - Changes in how pension expenses are recorded

<b>\$ in millions</b>	<b>2014/15</b>	<b>2013/14</b>
<b>Pension expenses</b>	<b>\$3.9</b>	<b>\$4.8</b>
<b>Pension contributions</b>	<b>\$8.4</b>	<b>\$4.8</b>

- Reporting net pension liability:

<b>\$ in millions</b>	<b>2014/15</b>	<b>2013/14</b>
<b>Net Pension Liability</b>	<b>\$36.7</b>	<b>\$45.6</b>

# FY 2014/15 Highlights

- ❖ Reinstatement of imported water “pass-through” purchases and sales in Financial Statements.

\$ in millions	2014/15	2013/14
MWD Water Purchases/Sales	\$34.1	\$40.2
Deliveries-Acre Feet (AF)	58,908	67,833

- ❖ Early retirement of 2005A bonds and new SRF loans for recycled water projects (Central and Southern Areas)

\$ in millions	2014/15	2013/14
Bond debt outstanding	\$200.0	\$221.8
SRF loan	108.5	88.0
Other debt	15.4	16.7
<b>TOTAL DEBT</b>	<b>\$323.9</b>	<b>\$326.5</b>
<b>Total Debt Coverage Ratio</b>	<b>2.89</b>	<b>2.09</b>

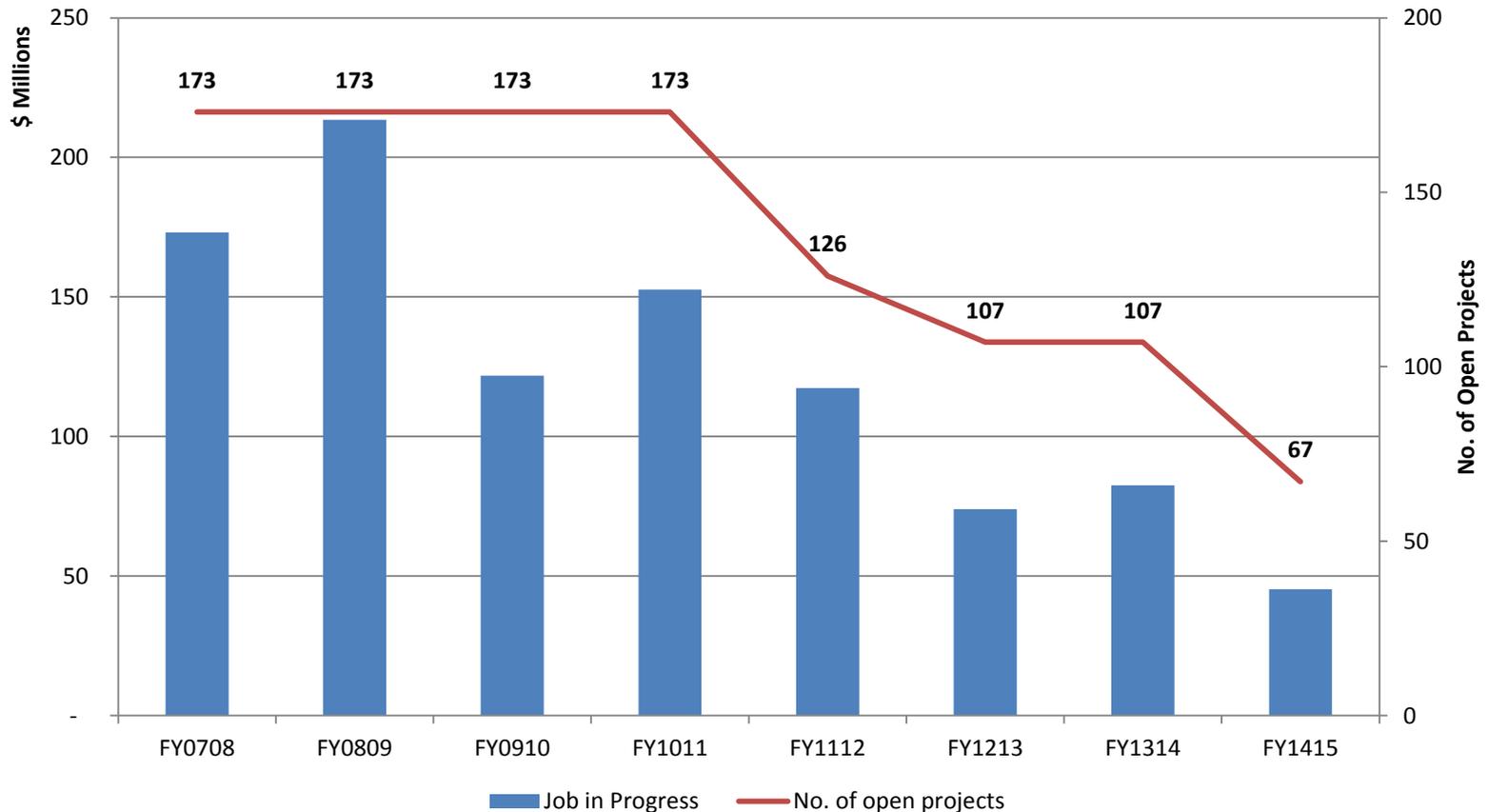
# FY 2014/15 Highlights



- ❖ External Auditor issued an unqualified “clean” opinion.
  - Agency’s financial statements are fairly presented with GAAP.
  - There were no material weaknesses on Agency’s internal controls.
  - There were no instances of non-compliance under Government Auditing Standards
  
- ❖ A ***significant deficiency*** was identified in internal control related to the reclassification of project costs between capital and operating expenses. A significant deficiency is less severe than a material weakness.

# FY 2014/15 Highlights

- ❖ Significant drop in Jobs in Progress due to more timely project closures



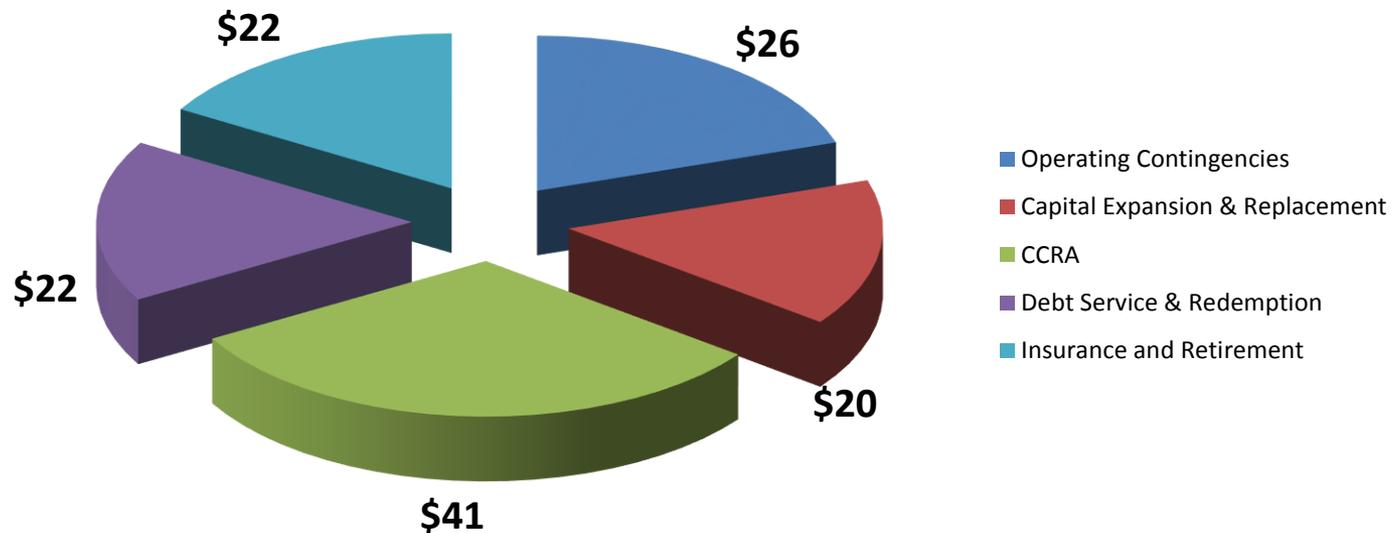
# Change in Operating and Non-Operating Activities

<i>(In \$ Thousands)</i>				
Item Category	FY 2014/15	FY 2013/14	Increase (Decrease)	%
<b>Operating</b>				
Total Operating Revenues	\$ 110,586	\$ 107,791	\$ 2,795	2.6%
Total Operating Expenses	141,951	145,799	(3,848)	-2.6%
<b>Net Operating Rev &amp; Exp</b>	<b>\$ (31,365)</b>	<b>\$ (38,008)</b>	<b>\$ 6,643</b>	<b>-17.5%</b>
<b>Non Operating</b>				
Non Operating Revenues	\$ 69,481	\$ 57,275	\$ 12,206	21.3%
Non Operating Expenses	15,988	38,406	(22,418)	-58.4%
<b>Net Non Operating Rev &amp; Exp</b>	<b>\$ 53,493</b>	<b>\$ 18,869</b>	<b>\$ 34,624</b>	<b>183.5%</b>
<b>Net Increase (Decrease) in Fund Balance</b>	<b>\$ 22,128</b>	<b>\$ (19,139)</b>	<b>\$ 41,267</b>	<b>215.6%</b>
Beginning Net Assets	472,581	491,720	(19,139)	-3.9%
<b>Ending Net Fund Balances</b>	<b>\$ 494,709</b>	<b>\$ 472,581</b>	<b>\$ 22,128</b>	<b>4.7%</b>

# FY 2014/15 CASH POSITION

- ❖ Decrease in cash position of \$16.9 million is primarily due to early defeasance of the 2005A Revenue Bonds and payments toward long term pension obligations.

## FY 2014/15 CASH POSITION \$131 Million



The comprehensive annual financial report is consistent with the Agency's business goal of fiscal responsibility

**ACTION  
ITEM**

**1C**



***Inland Empire Utilities Agency***

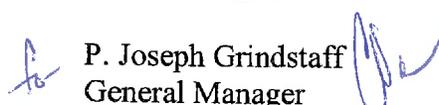
**A MUNICIPAL WATER DISTRICT**

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Date: December 16, 2015

To: The Honorable Board of Directors

Through: Audit Committee (12/9/15)  
Finance, Legal, and Administration Committee (12/9/15)

From:  P. Joseph Grindstaff  
General Manager

Submitted by:  Chris Berch  
Executive Manager of Engineering/Assistant General Manager

Jason Gu  
Grants Officer 

Subject: Fiscal Year (FY) 2014/15 Single Audit Report for Federal Grant Programs

---

**RECOMMENDATION**

It is recommended that the Board of Directors:

1. Approve the Single Audit Report for FY 2014/15; and
2. Direct staff to distribute the report, as appropriate, to the State Controller's Office, the Federal Audit Clearing House, and other interested parties.

**BACKGROUND**

The Single Audit Act and Office of Management and Budget (OMB) Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, require each non-Federal entity that expends \$500,000 or more of Federal grants to undergo an annual independent audit.

In FY 2014/15, IEUA incurred \$8,312,242 in federal costs for the three federal programs listed in the table below. The Agency's independent external audit firm, White Nelson Diehl Evans LLP (WNDE), performed the annual single audit for fiscal year ended June 30, 2015.

Grantor	Program Title	Federal Expenditures
United States Bureau of Reclamation (USBR)	Title XVI Desalination Water Reuse Program – Drinking Water	\$3,258,904
United States Bureau of Reclamation (USBR)	WaterSMART Program – Water Conservation	\$ 29,882
United States Environmental Protection Agency (EPA)	Clean Water State Revolving Fund (SRF) Program Recycled Water	\$5,023,456
	<b>TOTAL</b>	<b>\$8,312,242</b>

The objectives of Single Audit are to determine whether there are issues that could have a direct and material effect over:

1. Compliance for each major federal grant award program.
2. Internal control over compliance requirements of federal grant award programs.
3. Eligibility of federal grant award program expenditures.

The Single Audit Report stated that the Agency qualifies as a “Low-Risk Grantee,” and expressed the following opinions:

1. IEUA is in compliance with each major federal grant award program.
2. No significant deficiencies in internal control over major federal award programs.
3. No findings or questioned costs to major federal award programs.

As required by OMB A-133, the Single Audit Report included the Independent Auditor’s Report on Internal Control Over Financial Reporting which states there is a significant deficiency in internal control over financial reporting. The auditor’s recommendation and management’s response are addressed in Agency’s Board letter approving the FY 2014/15 Comprehensive Annual Financial Report and also included in the attached Single Audit Report, under Schedule of Finding and Questioned Costs.

The Single Audit Report is consistent with the Agency’s Business Goal of fiscal responsibility in providing transparent communication regarding federal grant award programs.

**PRIOR BOARD ACTION**

On December 17, 2014, the Board reviewed the FY 2013/14 Single Audit Report presented to the Audit Committee on December 10, 2014.

**IMPACT ON BUDGET**

The audit fee for the Single Audit Report is within the Agency’s FY 2015/16 budget in the Administrative Services (GG) fund under professional fees and services category.

**INLAND EMPIRE UTILITIES AGENCY**  
**SINGLE AUDIT OF FEDERALLY ASSISTED**  
**GRANT PROGRAMS**

**JUNE 30, 2015**

Preliminary Draft

INLAND EMPIRE UTILITIES AGENCY

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors  
Inland Empire Utilities Agency  
Chino, California

We have audited, in accordance with the 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, the financial statements of Inland Empire Utilities Agency (the Agency) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated **DATE**.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## **Internal Control over Financial Reporting (Continued)**

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2015-001 that we consider to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Agency's Response to the Finding**

The Agency's response to the finding identified in our audit is described in the accompanying schedule of finding and questioned costs. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Irvine, California

**DATE**

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 AND ON THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors  
Inland Empire Utilities Agency  
Chino, California

**Report on Compliance for Each Major Federal Program**

We have audited Inland Empire Utilities Agency's (the Agency) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2015. The Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

## **Opinion on Each Major Federal Program**

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

## **Report on Internal Control over Compliance**

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the Agency, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements. We issued our report thereon dated **DATE**, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133  
(Continued)**

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Irvine, California  
DATE

Preliminary Draft

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

*Preliminary Draft*

INLAND EMPIRE UTILITIES AGENCY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the year ended June 30, 2015

Federal Grantor/Pass - Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Grant Identification Number	Federal Expenditures
<u>United States Department of the Interior</u>			
Direct Assistance:			
Water Reclamation and Reuse Program:			
1010 Zone Pump Station & New Product Water Pipelines	15.504	R12AC35339	\$ 2,295,111
Chino Creek Wellfield Development Project Well 1, 2, 3	15.504	R11AC35306	606,050
Groundwater Supply Wells & Raw Water Pipelines	15.504	R14AC00049	357,743
Total Water Reclamation and Reuse Program			3,258,904
WaterSMART - Regional Residential Landscape Survey	15.507	R12AP35353	29,882
Total United States Department of the Interior			3,288,786
<u>United States Environmental Protection Agency</u>			
Passed through the California State Water Resources Control Board:			
Capitalization Grants for Clean			
Water State Revolving Funds	66.458	C-06-5318-110	5,002,216
	66.458	C-06-7885-110	21,240
Total United States Environmental Protection Agency			5,023,456
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 8,312,242</u>

See accompanying notes to schedule of expenditures of federal awards (page 7).

INLAND EMPIRE UTILITIES AGENCY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2015

1. GENERAL:

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the federal financial assistance programs of Inland Empire Utilities Agency (the Agency). The Agency's reporting entity is defined in Note 1 of the notes to the Agency's financial statements. All financial assistance received directly from federal agencies and federal financial assistance passed through other government agencies to the Agency is included in the accompanying schedule.

2. BASIS OF ACCOUNTING:

The expenditures included in the accompanying schedule were reported on the accrual basis of accounting. Under the accrual basis of accounting, expenditures reported include any property or equipment acquisitions incurred under the federal program in the fiscal year.

3. RELATIONSHIP TO COMPREHENSIVE ANNUAL FINANCIAL REPORT:

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree to amounts reported within the Agency's Comprehensive Annual Financial Report. The amounts for Grant Numbers R12AC35339, R11AC35306, and R14AC00049 are reported as a receivable from the granting agency and a payable to Chino Basin Desalter Authority (CDA) as the Agency is a pass-through entity for these federal grants.

4. CONTINGENCIES:

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

INLAND EMPIRE UTILITIES AGENCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2015

1. Summary of Auditors' Results:

*Financial Statements*

Type of auditors' report issued:

- Unmodified

Internal control over financial reporting:

- Material weakness identified?  yes  no
- Significant deficiency identified?  yes  none reported  
See Finding 2015-001

Noncompliance material to financial statements noted:  yes  no

*Federal Awards:*

Internal control over major programs:

- Material weakness identified?  yes  no
- Significant deficiency identified?  yes  none reported

Type of auditors' report issued on compliance for major programs:

- Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

yes  no

Identification of major programs:

CFDA Number  
15.504

Name of Federal Program or Cluster  
United States Department of the Interior, Direct Assistance, Water Reclamation and Reuse Program

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

yes  no

INLAND EMPIRE UTILITIES AGENCY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2015

2. Findings Relating to Financial Statements:

Finding 2015-001

Criteria

As a part of internal control over financial reporting, the Agency should have proper procedures in place to determine whether costs incurred for a certain project are capitalizable costs.

Condition

During our review of the construction in progress project listing as of June 30, 2015, we noted a few items that were incorrectly included as "capital projects".

Cause

The Agency does not have controls in place to properly determine whether costs incurred are capitalizable costs.

Effect

We requested the Agency's staff review additional items reported as capital projects, and based on a more thorough review of the actual project costs incurred, staff determined some of the projects did not result in a specific capital asset, and therefore would be more appropriately recognized as an operating expense. Some of the projects were multi-year projects that were finally completed and closed out at the end of the current fiscal year. For these multi-year projects, costs incurred in a prior fiscal year resulted in a prior year adjustment with the reclassification from construction in progress to operating expense.

Recommendation

There is considerable diversity in how costs are capitalized in practice. However, we recommend that the Agency continue to apply the following guidelines in capitalization of costs. First, a cost should only be capitalized only if it is directly identifiable with a specific asset. Therefore, a study undertaken to determine the best location of a building would be capitalized. Second, a cost should only be capitalized if incurred after acquisition of the capital asset has come to be probable. Thus, the cost of a feasibility study should not be capitalized. We recommend the Agency continue to monitor these transactions and revise its capitalization policy as needed to incorporate the above guidelines in the application of categorizing projects.

INLAND EMPIRE UTILITIES AGENCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2015

2. Findings Relating to Financial Statements (Continued):

Finding 2015-001 (Continued)

Management's Response

We have taken corrective action which has resulted in the reclassification of costs for projects initially set up as capital projects but for which specific assets were not constructed. This effort, to a large extent, was been successful in significantly reducing total Jobs in Process (assets under construction). Between fiscal years 2010/11 through 2014/15, total Jobs in Process have been reduced by over 330 percent; from \$153 million reported at the end of fiscal year 2011 to \$45 million as June 30, 2015. Pursuant to the external auditors' recommendation, a comprehensive review process has been put in place to ensure new project request forms are appropriately defined prior to the creation and start of the project. Beginning in fiscal year 2015/16, Finance and Accounting staff has also begun to monitor the costs charged to Jobs in Process more frequently. Additionally, Finance and Accounting staff is facilitating mandatory training for all project managers and their support staff to further their understanding of the difference between capital and operation projects and the importance of timely completion of project closures. This overall proactive approach should help to minimize project reclassification issues in the future, with the exception of a few items that may result from unforeseen changes in project scope or cancellation of projects.

3. Findings and Questioned Costs Relating to Major Federal Awards:

None.

INLAND EMPIRE UTILITIES AGENCY  
SUMMARY OF PRIOR YEAR FINDINGS  
For the year ended June 30, 2015

There were no findings or questioned costs for the year ended June 30, 2014.

Preliminary Draft

**INFORMATION**  
**ITEM**  
**2A**

Date: December 16, 2015

To: The Honorable Board of Directors

Through: Audit Committee (12/9/2015)

From: Teresa V. Velarde   
Manager of Internal Audit

Subject: Updates for the Audit Committee and the Internal Audit Department (IAD) Charters

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### **RECOMMENDATION**

This is an informational item for the Board of Directors to review.

### **BACKGROUND**

The IAD Charter states that the department is responsible for performing periodic reviews of both the Audit Committee Charter and the IAD Charter, and making recommendations for any necessary updates and revisions. Attached are the charters presented in draft form with proposed changes for your review, discussion, and further direction.

The Audit Committee Charter defines and documents the Audit Committee's purpose, composition, authority, and responsibilities. The purpose of the Audit Committee is to assist the Board in fulfilling their oversight responsibilities over financial reporting, internal controls, and compliance with legal and regulatory requirements related to the operations of the Agency. The responsibilities of the Audit Committee include inquiring of Agency management, the Manager of Internal Audit, the external auditors, and legal counsel about the Agency's internal controls, financial reporting, organizational risks, legal compliance matters, results of internal audits, organizational goals, and other matters as they relate to the Agency.

The IAD Charter defines and documents the Internal Audit (IA) purpose, mission, authority, and responsibilities. The purpose of IA is to assist the Board and Audit Committee in fulfilling their oversight responsibilities for financial reporting, internal controls, and compliance with legal and regulatory requirements applicable to Agency operations. The purpose of IA is also to provide objective, independent assurance evaluations about the operations of the Agency, as well as recommendations to improve efficiencies, establish compliance with policies and procedures, protect Agency assets, and mitigate risks. The responsibilities of IA include performing reviews to evaluate internal controls, report findings, and recommendations to management, the Audit Committee and the Board.

The Charters are reviewed annually; however, were last amended in December 2013. This review proposes several changes and updates as summarized in the bullet points below:

- Proposes changing all references made to the Internal Auditor to reflect the actual title of Manager of Internal Audit.
- Other, miscellaneous grammatical edits.

IA staff evaluated updates proposed by the Institute of Internal Auditors and worked with the Audit Committee's independent advisor to ensure both charters incorporate leading practices.

At this time, IA invites comments, changes, or additional proposed edits and updates from senior management, the Audit Committee Advisor, the Audit Committee and the Board, as well as direction to finalize.

The attachments include the Audit Committee Charter and the IA Charter with the proposed updates.

The updates for the Audit Committee and the IAD Charters is consistent with the Agency's Business Goals of *Fiscal Responsibility, Workplace Environment and Business Practices* by providing direction and guidance for the Audit Committee and the IAD.

#### **PRIOR BOARD ACTION**

On December 18, 2013, the Board of Directors approved the revised Audit Committee Charter.

On December 18, 2013, the Board of Directors approved the revised IAD Charter.

#### **IMPACT ON BUDGET**

None.



**INLAND EMPIRE UTILITIES AGENCY**  
**Audit Committee Charter**  
**Amended on ~~December~~ March 18<sup>6</sup>, 2013<sup>6</sup>**

**PURPOSE**

The Audit Committee (Committee) is established under the authority of the Inland Empire Utilities Agency (IEUA or Agency) Board of Directors (Board) and reports directly to the Board. The primary purpose of the Committee is to assist the Board in fulfilling their oversight responsibilities for financial reporting, internal controls, and compliance with legal and regulatory requirements applicable to Agency operations.

While assisting the Board with these fiduciary duties, the Committee also provides an open avenue of communication between the Board, IEUA Management, the Internal Audit Department, and the external auditors. This advisory and oversight link ~~can~~ provides the following benefits to the organization and stakeholders:

- Increased objectivity and credibility of financial reports.
- Increased management accountability.
- Support for measures to improve management performance and internal controls.
- Increased employee awareness of unethical, questionable, or illegal activities.
- Enhanced independence and effectiveness of the Internal Audit Department.
- Assurance that appropriate management action plans are implemented for audit findings and recommendations.

**COMPOSITION, COMPENSATION & TERM OF SERVICE**

The Committee shall consist of two members from the Board of Directors, each with equal voting rights, with one selected as the Committee Chairperson. The members will be appointed by the Board President.

The Audit Committee shall ~~also~~ have access to at least one financial expert, an outside party, with no voting rights, who will provide advisory and consulting duties and shall be compensated as agreed upon, in writing with the audit committee, the Board, Agency management and its designees.

All members of the Audit Committee shall possess or obtain a basic understanding of governmental financial reporting, accounting and auditing and shall have a requisite interest in financial reporting issues of the Agency. The financial expert shall be an individual with sufficient financial experience and interest to provide guidance and assistance to the Audit Committee. The financial expert should through both education and experience, and in a manner specifically relevant to the government sector, possess: 1) an understanding of generally accepted accounting principles and financial statements; 2) experience in preparing or auditing

**INLAND EMPIRE UTILITIES AGENCY**  
**Audit Committee Charter**  
**Amended on December 18, 2013**

financial statements of comparable entities; 3) experience in applying such principles in connection with the accounting for estimates, accruals, and reserves; 4) experience with internal accounting controls; and 5) an understanding of Audit Committee functions.

The members of the Board serving on the Audit Committee shall be compensated in accordance with the guidelines established for the IEUA Board of Directors in Ordinance No. ~~9873~~ adopted ~~Ma~~February 721, 200114, and as amended from time to time, entitled:

"Ordinance of the ~~Board of Directors of~~ Inland Empire Utilities Agency, a Municipal Water District, San Bernardino County, California, establishing compensation/benefits and authorizing reimbursement of expenses for the Board of Directors and their appointed representatives to the Metropolitan Water District of Southern California Board of Directors and outside Committee Members."

The service term for each Committee member will be two years. Prior to term expiration, the Board President or their designee will conduct a review of Board Committee members' eligibility and the Board of Directors will conduct a review of the external/outside Committee member's eligibility. The Board President will then reconfirm the Committee members or select and confirm new members as needed. All activities and actions pertaining to selection or reconfirmation of Committee members will be documented by the Board, or their designee, and recorded in the next regularly scheduled IEUA Board of Directors' meeting minutes.

#### **AUTHORITY**

The Audit Committee has unrestricted access to all information and records, including IEUA personnel and documents. The Committee will have adequate resources to fulfill its oversight responsibilities, including the right to seek independent professional advice and counsel. The Committee is empowered to:

- Meet, as deemed appropriate and necessary, with IEUA Management and employees, the Manager of Internal Audit and audit staff, external auditors and legal counsel.
- Recommend to the Board the approval of the Internal Audit Department's Annual Audit Plan and any changes to the Plan or the Manager of Internal Audit duties.
- Authorize special audits and investigations into any matters within its scope of responsibility.
- Authorize an internal audit or review of any department or function under the control of the Board of Directors, or within the scope of influence of the IEUA.
- Recommend to the Board the appointment, compensation and scope of work of any public accounting firm employed by the IEUA.
- Recommend to the Board the approval of any auditing and consulting services.

**INLAND EMPIRE UTILITIES AGENCY**  
**Audit Committee Charter**  
**Amended on December 18, 2013**

- Review and recommend to the Board the external auditor's audit scope and approach, ensuring that the scope:
  1. Is in compliance with Generally Accepted Auditing Standards (issued by the American Institute of Certified Public Accountants).
  2. Is in compliance with Government Auditing Standards (issued by the Government Accountability Office).
  3. Will include a Single Audit that will be performed, if required, subject to the Office of Management and Budget (OMB) Circular A-133.
  4. Will include an opinion on each major fund presented in the Agency's financial statements.
- Review and recommend to the Board the approval of external auditors' reports, along with Management's written responses, when appropriate.
- Resolve any disagreements between Management, the Internal Audit Department, and the external auditors regarding financial or operational controls and reporting.
- Ensure corrective action is taken on internal accounting control weaknesses identified by the internal and external auditors.

**RESPONSIBILITIES**

The Audit Committee is chartered with ~~significant duties while~~ performing oversight for the Board of Directors. In addition to reviewing this Charter annually and updating it as needed, the Committee has ~~several~~ responsibilities in the areas of Financial Reporting, Internal Controls, the Internal Audit Department, the External Audit and external auditors, Compliance requirements, and Other Matters as provided ~~in the bullets~~ in the following sections. The Committee has the overall responsibility to ensure the general requirements underlying these items are carried out. However, the Audit Committee has the flexibility and authority to determine and choose the best course of action and the best method for carrying out its responsibilities. The following items are best practice guidelines that may be employed:

Financial Reporting:

- Review annual financial statements and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles.
- Advise the Board and management of any situations that would cause the Committee to believe the audited financial statements may contain material misstatements or omissions.
- Inquire of the General Manager and Chief Financial Officer (CFO) regarding the fiscal health of the Agency as well as the financial status of the Agency in relation to its adopted budget.
- Inquire of management, the Manager of Internal Audit, and the external auditors about whether significant financial, managerial, and operational information is accurate, reliable, complete, and timely.

**INLAND EMPIRE UTILITIES AGENCY**  
**Audit Committee Charter**  
**Amended on December 18, 2013**

- Inquire of Agency management, the Manager of Internal Audit, and the external auditors about significant risks or exposures facing the Agency; assess the steps management has taken or proposes to take to minimize such risks to the Agency; and periodically review compliance with such steps.

Internal Controls:

- Discuss with Agency management, the Manager of Internal Audit, and the external auditors the reliability and effectiveness of the Agency's internal control environment to mitigate risk, including information technology security and control.
- Discuss with Agency management, the effectiveness of the Agency's process for identifying and assessing significant risks and exposures, and the steps Agency management has taken to communicate, monitor and mitigate these risks.
- Understand the scope of the internal and external auditors' reviews of internal controls, and obtain and review reports of significant findings, recommendations, and Agency management's action plans to mitigate risks.
- Review all significant accounting policy changes submitted by Agency management, with the Internal Audit Department, and/or the external auditors, and provide recommendations to the Board and Agency management.
- Periodically review Agency policies and procedures governing Board of Director and employee conduct, including conflict of interest, misconduct, fraud and other sensitive issues, or non-compliance and recommend changes to the Board and Agency management as appropriate.
- Discuss with Agency management, the Manager of Internal Audit, and the external auditors management, Internal Audit, and the external auditors whether adequate policies have been established and the Agency complies with policies, standards and applicable laws and regulations.
- Discuss with Agency management, the Manager of Internal Audit, and the external auditors management, Internal Audit, and external auditors whether significant legislative or regulatory issues impacting Agency operations are identified, recognized, communicated and appropriately addressed.
- Review with Agency management, the Manager of Internal Audit, and the external auditors the external auditor, management, and the Manager of Internal Audit, the audit scope and plan of the Internal Audit Departmenters and the external auditors. Address the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
- Review with Agency management and the Manager of Internal Audit:
  - Significant findings, recommendations, and management's responses thereto.
  - Any difficulties the Internal Audit Department encountered in the course of their audits, including any restrictions on the scope of their work or access to required information.
  - Any changes required in the scope of their internal audits.

**INLAND EMPIRE UTILITIES AGENCY**  
**Audit Committee Charter**  
**Amended on December 18, 2013**

- The Internal Audit Department budget and staffing.
- The Internal Audit Department Charter.
- The Internal Audit Department's compliance with applicable standards (for example, Governmental Auditing Standards, or the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing).
- Periodically review the Agency's Code of Conduct/Ethics Policy to ensure that it is adequate and up to date.
- Review with the Manager of Internal Audit and the Agency's general counsel the results of their reviews of compliance monitoring with the Code of Conduct/Ethics Policy.
- Review the procedures for the receipt, retention, and treatment of complaints received by the Agency regarding accounting, internal accounting controls, auditing matters, or suspected fraud that may be submitted by any party internal or external to the organization. Review any complaints that might have been received, the current status, and resolution if one has been reached.
- Review procedures for the confidential, anonymous submission by Agency employees of concerns regarding questionable accounting or auditing matters, or suspected fraud. Review any submissions that have been received, the current status, and the resolution if one has been reached.
- Inquire of Agency management, the Manager of Internal Audit, and the external auditors management, the Internal Auditor, and the external auditors about significant risks or exposures facing the Agency. Assess the steps management has taken or proposes to take to communicate, manage, and minimize such risks to the Agency; and periodically review compliance with such steps.
- Review with ~~the Manager of Internal Audit, and the external auditors~~ she external auditors and the Internal Audit Department:
  - The adequacy of the Agency's internal controls including computerized information system controls and security.
  - Any ~~related~~ significant findings and recommendations of the Manager of Internal Audit, and the external auditors the external auditors and Internal Audit Department together with management's responses thereto.

Internal Audit Department:

- Request that the Agency's Manager of Internal Audit prepare the Audit Committee's meeting agendas designed to ensure that all of the responsibilities of the Audit Committee as described herein are addressed at least once a year.
- Ensure there are no unjustified restrictions or limitations placed on the Internal Audit Department.
- Review with the Board, General Manager, and the Manager of Internal Audit the Internal Audit Department Charter, Annual Audit Plan, staffing, budget, and organizational reporting structure to ensure they meet the Committee's goals, objectives, and responsibilities to the Board and Agency management.

**INLAND EMPIRE UTILITIES AGENCY**  
**Audit Committee Charter**  
**Amended on December 18, 2013**

- Review and recommend to the Board the approval of the Internal Audit Department's Annual Audit Plan and any significant changes that may occur during the year.
- Review, as needed, all internal audit reports, findings, and recommendations.
- Review and recommend to the Board the appointment, replacement, dismissal, or change in duties of the Manager of Internal Audit.
- Review the effectiveness of the Internal Audit Department's function, including compliance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (Standards)*.
- Conduct the Manager of Internal Audit performance appraisals and recommend Manager of Internal Audit merit increases and incentive compensation to the Board.
- Hold management accountable for the appropriate resolution of Internal Audit Department's recommendations and ensure that disposition has been determined for Audit Department recommendations from the prior year. If management has determined that Internal Audit Department recommendations need not be implemented because of adequate compensating controls, based upon a cost/benefit analysis or because the risks are at an acceptable level in accordance with the Agency's goals and objectives, evaluate the reasonableness of such determinations and advise the Board of Directors accordingly.

External Audit:

- Review the external accounting firm's proposals and fee structure, and provide recommendations and external audit plan approval to the Board.
- Review the external auditors' proposed audit scope and approach to ensure emphasis is placed on areas the Committee, Board, Management and external auditors believe special attention is warranted and that efforts are coordinated with the Internal Audit Department.
- Evaluate the external auditor's independence, and if needed, recommend the Board take the appropriate action to satisfy the Agency with the external auditor's independence.
- Review the effectiveness of the external auditor's work and provide the Board with the final approval to continue or discharge the current firm.
- Communicate to the external auditors areas of internal control with a heightened risk of fraud or error, any known or suspected employee fraud, management fraud, pressures or incentives for management to distort reported financial results, or any known or suspected accounting errors or misstatements.
- Communicate to the external auditors any areas of concern applicable to the external auditors' scope of responsibility (fraud, errors, or misstatements involving amounts significant to the financial statements taken as a whole).
- Review all significant written communications between the external auditors and management, such as any management letter comments or schedule of unadjusted differences (i.e. management letter, schedule of audit, or significant unusual or non-routine items, etc.)

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**Audit Committee Charter**  
**Amended on December 18, 2013**

- Hold management accountable for the appropriate resolution of external auditor recommendations, ensure that disposition has been determined for auditor recommendations from the prior year, and where management has determined that auditor recommendations need not be implemented because of adequate compensating controls or based upon a cost/benefit analysis, evaluate the reasonableness of such determinations and advise the Board of Directors accordingly.
- Review with the external auditor that performs the financial statement audit:
  - All critical accounting policies and practices used by the Agency.
  - All alternative treatments of financial information within generally accepted accounting principles that have been discussed with the Agency's management, the ramifications of each alternative, and the treatment preferred by the Agency.
- Review with management and the external auditors:
  - The Agency's annual financial statements, related ~~foot~~notes, and management's discussion and analysis.
  - The external auditors' audit of the financial statements and their report thereon.
  - The external auditors' judgments about the quality, not just the acceptability, of the Agency's accounting principles as applied in its financial reporting.
  - The external auditors' single audit of the federal awards administered by the Agency and their reports thereon.
  - Any significant changes required in the external auditors' audit plan.
  - Any serious difficulties or disputes with management encountered during the audit.
  - Matters required by Statement on Auditing Standards (SAS) No. 114, The Auditor's Communication With Those Charged With Governance; U.S. Government Accountability Office's (GAO) Government Auditing Standards; and the U.S. Office of Management and Budget's Circular A-133 related to the conduct of the audits.
- ~~E~~For any extra work or special projects requested of the Agency's external audit firm, evaluate whether or not the performance of any extra work or special projects requested of the Agency's external audit firm ~~that work~~ violates the independence standards of the GAO.
- ~~The Audit Committee shall r~~Recommend that the Board of Directors approve the Agency's annual financial report, if ~~it~~the Committee believes that they are fairly presented, to the extent such a determination can be made ~~solely~~ on the basis of reading the financial statements and discussions with Agency management and the external auditors.

Compliance:

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**Amended on December 18, 2013**

- Review with management and the external auditors the Agency's internal controls for identifying laws and regulations affecting operations, risks for non-compliance including litigation and fines, and implementing controls to prevent recurrence.
- Review the reports, findings and recommendations ~~offer~~ any audits or examinations performed by external agencies.
- Review with Agency counsel any legal, tax, or regulatory matters that may have a material impact on the Agency's operations and its financial statements.

Other Matters:

- The Audit Committee shall engage consultants, specialists, or other audit firms as necessary to assist the committee in the discharging of its responsibilities.
- The Audit Committee shall direct the Manager of Internal Audit to review the ~~Agency's~~ Agency's Audit Committee Charter annually in order to advise the Audit Committee as to needed or recommended changes.
- The Audit Committee shall report to the Board of Directors issues discussed in the Audit Committee meeting that, in the judgment of the committee, warrant communication to the Board to help the Board fulfill its oversight responsibility.

**ETHICAL CONDUCT**

Audit Committee members are prohibited from participating in any event or matter that would create, or appear to create, a conflict of interest. These activities may include having a significant financial interest or operational influence in vendors, contractors, customers or competitors of ~~the~~ IEUA. Any activity creating an actual or apparent conflict should be immediately reported to the Audit Committee Chair and the Board of Directors for resolution.

**MEETINGS**

The Audit Committee shall meet no less than quarterly.

The Manager of Internal Audit will schedule and coordinate all quarterly Committee meetings, and will call additional meetings if requested to do so by any Committee member, the Board, the General Manager or the external auditors. The Manager of Internal Audit will provide all Committee members with written notification and an agenda at least 72 hours before the scheduled quarterly meetings or as soon as reasonably possible for any special meetings, ~~all of which will be~~ in accordance with the requirements of the Brown Act ~~rules~~.

The General Manager and Manager of Internal Audit will be provided written notification and an agenda at least 72 hours before quarterly and special Committee meetings. These parties will be

**INLAND EMPIRE UTILITIES AGENCY**  
**Audit Committee Charter**  
**Amended on December 18, 2013**

provided an opportunity to attend and speak at all Committee meetings but are not considered members of the Committee and have no voting rights.

The Board or the General Manager will provide administrative support to the Audit Committee and its meetings, including agenda preparation, participant notification, and documentation of meeting minutes.



**INLAND EMPIRE UTILITIES AGENCY**  
**Internal Audit Department Charter**  
**Amended on ~~March~~December 18~~6~~, 201~~6~~3**

**PURPOSE**

This Charter establishes the authority and responsibilities of the Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department.

The purpose of the Internal Audit Department (Internal Audit or IA) is to assist the Board of Directors (Board) and the Audit Committee (Committee) in fulfilling their oversight responsibilities for financial reporting, internal controls, and compliance with legal and regulatory requirements applicable to Agency operations and to provide objective assurance about the Agency's operations. The purpose of the Internal Audit Department is also to provide as a service to management and as a way of adding value to improve the operations of the Agency, consulting services, analyses, recommendations, and information concerning ~~their~~ operations.

The Internal Audit Department reports to the Board through the Committee and is an independent function from management. The responsibilities of the Internal Audit Department are defined in this Charter.

**MISSION**

The Internal Audit Department seeks to improve the operations of the Agency by providing unbiased and objective assessments and recommendations to ensure Agency resources are efficiently and effectively managed in order to achieve Agency goals and objectives. The Internal Audit Department will help the Agency achieve its goals and objectives, improve operations, and instill confidence among its employees and the citizens it serves by providing independent, objective assurance and consulting services and provide management and the Board of Directors with recommendations to:

- Promote and strengthen a sound control environment.
- Improve Agency risk management, control and governance.
- Promote the Agency's vision and mission ~~through~~with a high degree of professionalism.
- Establish adequate policies and procedures and to comply with them.
- Encourage efficient use of Agency resources.
- Protect and safeguard Agency assets.
- Mitigate risks related to fraud, waste and abuse.
- Hold staff accountable for the resolution of audit recommendations.



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**VALUES**

The Internal Audit Department has adopted the following value statements that form the foundation for the Internal Audit Department.

**Independence**

As documented in this Charter, the Internal Audit Department is an independent function of the Agency for the purpose of providing independent, objective, unbiased opinions.

**Integrity**

The Internal Audit Department staff is required to maintain the highest degree of integrity in conducting its audit work.

**Professionalism**

The Internal Audit Department will perform its work with due professionalism care at all times.

**Collaboration**

The Internal Audit Department will foster collaboration with all Agency personnel to promote teamwork within the various business units.

**ACCOUNTABILITY**

The Internal Auditor is the Manager of the Internal Audit Department. The Internal Auditor is accountable and reports to the Board of Directors, through the Audit Committee appointed by the Board. The intent of this reporting relationship is to establish the Internal Audit Department's independence to function effectively and in accordance with best practices.

Annually, the Internal Auditor will submit an Audit Plan for the following fiscal year to the Committee for review and approval by the Board. Quarterly status reports of significant Internal Audit activities shall be presented at Committee meetings and shall include a status of major activities and any changes or deviations from the approved audit plan. The Internal Auditor has the authority to deviate from the approved annual Audit Plan, when necessary and if warranted by unforeseen issues that require immediate attention. Significant changes to the annual Audit Plan shall be reported to the Committee and to the Board.

Annually, a listing of audit recommendations provided by the Internal Audit Department and the corresponding corrective actions taken by Agency management will be presented to the Committee.

The Internal Auditor shall inform the Committee on the sufficiency of department staffing and resources.



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**Amended on ~~March~~December 18~~6~~6, 201~~6~~3**

Annually, the Internal Audit Department must also ensure the Committee fulfills their responsibilities as required under the Audit Committee Charter. Additionally, IA must ensure the Internal Audit Department Charter and the Audit Committee Charter are reviewed annually and updated as necessary.

**INDEPENDENCE**

Independence is essential to the effectiveness of internal auditing and is strongly emphasized by the Institute of Internal Auditors (IIA), the American Institute of Certified Public Accountants (AICPA), and the U. S. General Accountability Office (GAO). The Internal Audit Department should be free, both in fact and appearance, from impairments to independence.

The Internal Auditor and the Internal Audit Department shall have no direct responsibility or authority over the day-to-day operations of the Agency or any activities they would audit. The Internal Audit Department shall not engage in any activities that would compromise their independence or would appear to be a conflict of interest.

To ensure independence is maintained, the Internal Audit Department shall report administratively to the Agency's General Manager or his designee and functionally to the Board through the Audit Committee, as stated under "Accountability".

**AUTHORITY**

The Internal Audit Department's authority is derived from the direction of management and the Agency's Board through the Committee as set forth in this Charter. Specifically, the Internal Audit Department is authorized to:

- Audit all areas of the Agency's operations. Perform audits of the Regional Sewage Service Contract agreement between the Agency and the Regional Contracting Agencies (RCA), including performing necessary audit field work and review of required supporting information and documents of the RCA's.
- Have unrestricted access to all Agency functions, records, information, property, and personnel.
- Have full and free access to Agency management, the Board of Directors and the Audit Committee.
- Allocate resources, set frequencies, select subjects and set objectives, determine the scope of work, and apply the techniques required to accomplish audit objectives, without interference from management.
- Obtain the necessary assistance of Agency staff where Internal Auditthey performs audits, as well as other specialized services from within or outside the organization.
- Obtain regular updates from management and Agency legal counsel regarding compliance matters affecting operations.



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- Establish procedures for the receipt, retention, and treatment of comments or complaints received regarding Agency accounting, operations, or internal controls, including those matters received through Ethics Point or other channels.
- Investigate and make recommendations to the Board, Audit Committee, Executive Management and/or Human Resources, as appropriate about~~handle accordingly~~ reported instances of inappropriate activities, misappropriation of funds or fraud, including those matters received through Ethics Point or other channels.
- Obtain additional internal or external resources w~~hen~~ the Internal Audit Department does not possess all the necessary skills or experience to complete an audit or review, additional internal or external resources may be used, subject to the approval of the Audit Committee and when necessary from the Board.

The Internal Auditor and the Internal Audit Department staff are **not** authorized to:

- Have any responsibilities or authority for any of the activities they audit or perform any operational duties for the Agency or its affiliates.
- Initiate or approve accounting transactions external to the Internal Audit Department.
- Direct the activities of any organization employee not employed by the Internal Audit Department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the I~~n~~ternal A~~u~~ditors in audit activities.
- Participate in any activities that would compromise their objectivity and independence or any activities that would appear to be a conflict of interest.
- Draft or write any Agency Policies and Procedures, or Standard Operating Procedures outside the Internal Audit Department.

### **RESPONSIBILITIES**

The responsibilities of the Internal Audit Department consist of the examination, review and evaluation of the reliability and effectiveness of the Agency's governance, risk management, internal controls, and the quality of operations and systems utilized in carrying out the Agency's goals and objectives. The Internal Audit Department has the responsibility to perform its work with due professional care.

The Internal Auditor and audit staff shall be responsible for, but not limited to, incorporating periodically, as deemed necessary and/or in agreement with the annual audit plan, ~~the~~ activities in the following key areas:

#### Internal Controls

- Assess the adequacy of internal controls in place and determine if they are operating effectively.

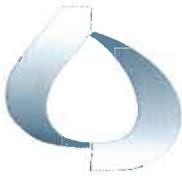


**INLAND EMPIRE UTILITIES AGENCY**  
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- Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- Review compliance with Agency policies and procedures, and with applicable laws and regulations which could have a significant impact on the operations of the Agency.
- Evaluate the means implemented and the extent Agency assets are identified, tracked, and safeguarded against misuse, unauthorized use, theft and loss.
- Review operations, programs or projects to determine if results are consistent with established objectives and goals.
- Assess the efficient and effective use of Agency resources and the controls over those resources.
- Provide consulting services on current and proposed policies, procedures, and systems to ensure adequate internal controls are considered and maintained.
- Provide consulting services to evaluate contractual agreements and determine if compliance exists.
- Use/Handle documents and information obtained from Departments in the same prudent manner as by those employees who are normally accountable for them.
- Perform “Follow-up Procedures” on all management responses to audit findings and recommendations to determine if internal control improvements and/or corrective actions have been implemented.
- Perform “Follow-up Procedures” on known external auditor’s or regulatory agency’s reported findings and recommendations to determine if internal control improvements and/or corrective actions have been implemented.
- Conduct special projects, studies, or audits as requested by management, the Audit Committee and the Board of Directors.
- Ensure known or suspected acts of fraud or improprieties involving Agency funds, property and employees are investigated in coordination with the Agency’s legal counsel, Human Resources and senior management.

Audit

- Conduct work in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards) and Code of Ethics as required by the Institute of Internal Auditors (IIA).
- Develop a comprehensive and flexible annual audit plan using an appropriate risk-based methodology, including consideration of any risks or control concerns identified by management, the Audit Committee, the Board or the external auditor and submit that plan, as well as any periodic updates, to the Audit Committee and the Board for review and approval.
- Implement the annual audit plan, as approved, including as appropriate, any special tasks or projects requested by management, the Audit Committee, or the Board.



## INLAND EMPIRE UTILITIES AGENCY

### Internal Audit Department Charter

Amended on ~~March~~December 18<sup>6</sup>, 2016~~3~~

- Provide Agency management with reasonable notice of intent to audit and with information about the audit process, except in those situations that warrant an unannounced audit.
- Consider the scope of work of the external auditors for the purpose of providing optimal audit coverage, at a reasonable cost, without redundancy or omission.
- Perform advisory services to assist the Agency in achieving its objectives; for example, reviewing controls, systems or process designs prior to implementation and providing recommendations to improve and enhance the effectiveness of controls and operations.
- ~~Conduct work in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards) and Code of Ethics as required by the Institute of Internal Auditors (IIA).~~
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Maintain technical competence through continuing education supported by Department goals and budgets.
- Maintain a quality assurance program whereby the Internal Auditor assures the operations of the Internal Audit Department.
- Perform a periodic review of the Internal Audit Department Charter and the Audit Committee Charter. Additions, deletions, or other changes to the Charters are subject to the approval of the Board of Directors.

#### Reporting

- Issue quarterly reports to and meet with the Audit Committee and management to summarize results of audit activities and status of findings and recommendations.
- ~~Provide w~~Written status reports of Audit ~~Committee-Department~~ activity to the Audit Committee~~will be produced quarterly by the Internal Audit Department.~~ The Quarterly Audit Committee Status Report will include a summary of significant internal and external audit activities for the reporting period. The Status Report will be submitted for approval by the Committee and the approved Status Report will be presented at the next regularly scheduled IEUA Board of Directors meeting.
- ~~Annually, the Internal Audit Department will p~~Provide a written report listing all outstanding recommendations with expected resolution dates annually. The report of all outstanding recommendations will be submitted for approval by the Audit Committee and provided at the next regularly scheduled IEUA Board of Directors meeting.
- Keep the Audit Committee informed of emerging trends and successful practices in internal auditing, as well as new audit requirements, when applicable.
- Immediately report any reservations concerning control risks, accounting or disclosure practices to the Audit Committee.
- If during the scope and progress of its reviews and audits, the Internal Audit Department identifies opportunities for improving the Agency's control environment, processes and procedures to ensure an environment where assets are safeguarded, internal controls are



## INLAND EMPIRE UTILITIES AGENCY Internal Audit Department Charter Amended on ~~March~~December 18, 2016~~3~~

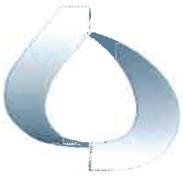
in place and risk is mitigated, these recommendations will be communicated to the appropriate level of management and the Audit Committee as timely as necessary and in the written report.

- When deemed appropriate and necessary, provide responsible unit management with a preliminary written report of the results and recommendations of each audit, analysis, review, or investigation performed and sufficient time to respond in writing with a plan of corrective actions. Sufficient time to reply would be 30 to 60 days from the date of the final report.
- Provide ~~a~~ final reports of results and recommendations for each review and audit performed, including the responsible management's responses to the Audit Committee, Executive management and responsible management. All final reports with ~~any~~the responses ~~go through~~will be submitted to the Committee for discussion and to the Board for approval. However, in cases where the auditee does not provide a response that is timely or deemed responsive, the final report will not be held up pending a response and will be submitted for discussion during the next scheduled Audit Committee meeting.

### STANDARDS OF ETHICAL CONDUCT

The Internal Audit Department staff have a responsibility to govern themselves so that their independence is not open to question. To this end, adherence to the Institute of Internal Auditor's "Code of Ethics" will ensure integrity, objectivity, confidentiality and competency in Internal Audit work performed on behalf of the Agency's Board and Audit Committee. These principles include:

- Performing internal auditing services in accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*.
- Exercising honesty, diligence, and responsibility in performing duties.
- Observing the law and making disclosures expected by the law and the profession.
- Not knowingly being a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the Agency.
- Respect and contribute to the legitimate and ethical objectives of the Agency.
- Not participating in any activity or relationship that may impair, or be presumed to impair, unbiased assessments, including activities or relationships that may be in conflict with the interests of the Agency.
- Not accepting anything that may impair or be presumed to impair professional judgment.
- Disclosing all material facts known that, if not disclosed, may distort the reporting of activities under review.
- Being prudent in the use and protection of information acquired in the course of duties.
- Not using information for personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the Agency.



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- Engaging in only those services or audit activities for which Internal Audit staff~~they~~ have the necessary knowledge, skills, and experience.
- ~~Performing internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards).~~
- Continually improving staff~~their~~ proficiency, and the effectiveness and quality of ~~their~~ services.

**MANAGEMENT RESPONSIBILITIES**

It is the responsibility of the Board of Directors and senior management to foster a control environment that supports the Internal Audit Department's objectives and independence within the Inland Empire Utilities Agency. The existence of the Internal Audit Department does not diminish Agency management's financial and operational responsibilities for prudent execution and control of activities, including their responsibilities for the periodic evaluation of risk, control, and governance systems.

Management's responsibilities include:

- Providing Internal Audit with its full support and cooperation at all operating levels, including full and complete access to all records, property, and staff relative to their assigned areas of responsibility, and active participation in the audit process.
- Immediately notifying the Manager of Internal Audit and the Audit Committee of any known or suspected cases of illegal, criminal or unethical activity involving Agency funds, property, employees, or any activity which appears to present a conflict of interest.
- Timely notification to Internal Audit of any new or proposed modifications to Agency systems, procedures, operations or services, ensuring controls are built into the new or modified processes.
- Providing the Internal Audit Department with written responses to all audit findings and recommendations, including action plans, responsible employees, and targeted resolution dates or the acceptance of the risks identified.
- Providing the Internal Audit Department with adequate budget, staffing, assistance from staff of audited Departments, and the tools needed for the Internal Audit Department to execute its~~their~~ duties as defined in this Charter.

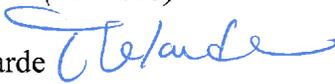
**INFORMATION  
ITEM  
2B**

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Date: December 16, 2015

To: The Honorable Board of Directors

Through: Audit Committee (12/09/15)

From: Teresa V. Velarde   
Manager of Internal Audit

Subject: Regional Contract Review Final Report

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### **RECOMMENDATION**

This is an information item for the Board of Directors (Board) to review.

### **BACKGROUND**

At the request of the Board and Executive Management, Internal Audit (IA) has been performing a review of the Agency's Regional Sewage Service Contract (Regional Contract Review) as implemented with the seven regional contracting agencies. The objectives of the Regional Contract Review include:

- Evaluate of how each of the seven contracting agencies apply the Regional Contract provisions.
- Determine whether processes are in compliance with the Regional Contract requirements.
- Determine opportunities to improve processes and procedures.
- Identify opportunities and make recommendations for consideration as part of the Regional Contract renegotiation.

The Regional Contract Review Final Report is consistent with the Agency's Business Goals of *Fiscal Responsibility, Workplace Environment and Business Practices* by providing independent evaluations of the financial and operational activities of IEUA's contracting agencies' implementation of the Regional Contract and suggesting recommendations for improvements.

### **RECOMMENDATIONS AND FINDINGS**

The final report presents recommendations in the form of potential new business models for the Agency to consider implementing:

- Best Practices – Actions/activities that could/should already be occurring
- Minor Changes – Revisions to Exhibit J and the 1997 sewer billing formula

- Moderate Changes – Oversight, information, and recourse
- Major Changes – Develop a new way of doing business (centralize the collection of all fees at IEUA)
- Total regional restructuring

The recommended business models address the findings noted consistently through the review:

- Exhibit J of the Regional Contract should be revised and approved regularly. The review identified over \$160,000 in potential under-collections from just five businesses where there was a difference in the interpretation of the category type.
- Contracting agencies do not generally collect connection fees from public schools (K-12) since schools are permitted by the State. The review found 16 public school campuses with recent construction. In ten instances no connection fees were paid. IA conservatively estimates that at a minimum, connection fees of approximately \$230,000, and possibly as much as \$687,000, should have been collected.
- The region's main community college campus and one satellite campus did not pay connection fees for multiple new buildings, but the Fontana satellite campus paid approximately \$53,000, in connection fees for one new building. IA conservatively estimates that at a minimum, connection fees of approximately \$55,000, for the satellite campus and over \$180,000, for the main campus should have been collected, and possibly at least as much as \$530,000, should have been collected.
- The review found one hospital (Kaiser – Fontana) where no connection fees were collected. Two other hospitals with recent expansion each paid approximately \$1,400,000, in connection fees. IA conservatively estimates that at a minimum, connection fees of approximately \$1,300,000, should have been collected, but the amount could possibly be much higher.
- No difference is defined in the Regional Contract between public service facilities that are considered “publicly owned” vs. “publicly used.” The review tested eight governmental facilities that were charged connection fees at the commercial category rate rather than the public service rate, resulting in potential under-collections of approximately \$64,000, for all buildings.
- The calculation worksheet should be standardized at all contracting agencies to ensure the fixture types and counts are consistent with Exhibit J. The review found that at one contracting agency the calculation worksheet is missing 15 categories from Exhibit J, yet includes three category types that are not part of Exhibit J. This created a potential extrapolated under-collection of approximately \$80,000 in connection fees in just one fiscal year.

- A contracting agency gave an Industrial entity a credit of over \$500K for connection fees, with no documentation to support the credit.
- There is a need for clear guidance and detailed instructions for the assessment and collection of connection fees for Industrial entities. In evaluating the connection fees and monthly sewerage charges collected among various industrial entities, there appears to be no correlation or justification for some of the low rates currently paid.
- The EDU defined in the Regional Contract as 270 gallons per day (GPD) is no longer representative of modern water usage.
- IEUA should require contracting agencies to itemize monthly sewerage amounts for non-residential customers. Currently, the agencies provide total EDUs each month and IEUA issues an invoice for the self-reported amount without requiring additional support or verification.
- The 1997 Procedures for monthly sewer billing memorandum should be revised and approved regularly. The review found contracting agencies where approximately 25 percent of accounts tested for monthly sewer fees had errors. Errors/mistakes in monthly sewer billing act like an annuity, growing exponentially over time unless or until they are corrected.

IA would like to extend our appreciation to all seven contracting agencies, the IEUA Planning and Environmental Resources and Finance and Accounting Departments for their cooperation and assistance during this review. IA appreciates the opportunity to perform this review and stands ready to assist in any way possible as necessary and as requested.

To-date, IA has submitted as information items the following reports:

- Interim Audit Report for the City of Ontario (September 2015)
- “Draft” Interim Audit Report for the City of Ontario (June 2015)
- Interim Audit Report for the City of Chino Hills (June 2015)
- Interim Audit Report for the Cucamonga Valley Water District (March 2015)
- Interim Audit Report for the City of Chino (December 2014)
- Interim Audit Report for the City of Fontana (December 2014)
- Interim Audit Report for the City of Montclair (September 2014)
- Interim Audit Report for the City of Upland (September 2014)
- Survey of Comparative Information of the Seven Contracting Agencies (September 2014)
- Regional Contract Review – Review of the Ten Year Forecast (June 2014)
- Regional Contract Review – Survey of Comparable Agencies (June 2014)

#### ATTACHMENTS

The Regional Contract Review Final Report is attached.

**PRIOR BOARD ACTION**

On September 17, 2014, the Board approved the Fiscal Year 2014/15 Annual Audit Plan.

On December 18, 2013, the Board reconfirmed the approved Internal Audit Department Charter.

**IMPACT ON BUDGET**

The impact on the budget may be significant depending on additional revenues potentially collected, investment income potentially earned and the related staffing and other costs of potentially implementing a new business model or aspects thereof.



*Inland Empire Utilities Agency*  
A MUNICIPAL WATER DISTRICT

# Regional Contract Review

## Final Report

*The Regional Contract review is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by providing an independent evaluation of the Regional Contract and suggesting recommendations for improvements.*

Prepared by:  
Internal Audit Department  
October 7, 2015

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## EXECUTIVE REPORT

The objectives of the Regional Contract Review were to evaluate how each of the Contracting Agencies apply the Chino Basin Regional Sewerage Service Contract (Regional Contract) provisions, determine whether processes are in compliance with Regional Contract requirements, identify opportunities to improve procedures and make recommendations to consider as part of the Regional Contract renegotiation. The review covered the period from July 1, 2012 through December 31, 2013 and where possible considered events subsequent to that period. The audit included a review of the seven Contracting Agencies: Cities of Chino, Chino Hills, Fontana, Montclair, Ontario, Upland and the Cucamonga Valley Water District.

The Regional Contract is a 50-year contract that expires in 2022. *This Executive Report provides a summary of the findings identified and a description of potential new Business Models with recommendations to address the findings and with suggestions for potential next steps.*

### Findings & Observations

In conducting the review, Internal Audit (IA) judgmentally selected between **40** and **75** businesses and Public Service Facilities (PSF) from a variety of different sources at each of the Contracting Agencies to test whether Connection Fees and Monthly Sewer Fees were accurately calculated, assessed, collected, and reported to IEUA in accordance with Regional Contract provisions. During this review, IA completed ten separate interim audit reports documenting the specifics of the observations, findings and recommendations identified. Information about the observations and findings is included in the attachments and summarized below:

- Exhibit J of the Regional Contract should be revised and approved regularly to include additional category types and provide users with clarification and detailed definitions to ensure consistency in its application. The review found there are many inconsistencies in the way Contracting Agencies interpret the category types provided in Exhibit J of the Regional Contract. This creates differences in interpretation and application among Contracting Agencies and differences in Connection Fees assessed and collected. This review identified over **\$160,000** in potential under-collections from just five entities where there was a difference in the interpretation of the category type.
- The review found that Contracting Agencies do not generally collect Connection Fees from public schools (K-12) because there is no established process in place to identify and collect fees since schools are permitted by the State. The review found 16 public school campuses with recent construction. In 10 cases no Connection Fees were paid or collected. It is not possible to quantify the loss in Connection Fees without performing a physical survey to physically count the fixture units. Connection Fees ranged from \$23,000 to over \$270,000 per

campus for the other six campuses that paid fees. Therefore, at a minimum, using the lowest estimate, the Contracting Agencies should have collected a very conservative **\$230,000** in Connection Fees (10 campuses x \$23k – lowest estimate); however, based on the comparable information for the six schools that did collect fees, **\$687,000** is a closer estimate of Connection Fees that should at least have been collected.

- The review found that the region's main community college campus and one satellite campus, had not paid Connection Fees for multiple new buildings, but the Fontana satellite campus paid approximately \$53,000 in Connection Fees for one new building. It is not possible to quantify the loss in Connection Fees without performing a physical survey to physically count the fixture units. Internal Audit attempted to perform a physical survey of the accessible areas of the three buildings at the Chino Campus (not including science laboratories or the banquet facility) and determined that Connection Fees would have exceeded **\$55,000**. At the main campus facility in Rancho Cucamonga, Internal Audit noted that ten new buildings have been added since 2008. Internal Audit was not able to perform a physical survey, however, using the conservative approach of approximately \$18,000 per building (\$55k / 3) noted at the Chino Campus, at a minimum **\$180,000** in Connection Fees should have been collected (10 campuses x \$18k); but the amount is possibly much higher, possibly **\$530,000** if we use the comparable information for the one building where fees were collected.
- As with most Public Service Facilities, the Contracting Agencies did not always collect for hospital construction because hospitals are also permitted by the State. The review found one hospital where no Connection Fees were collected. Internal Audit calculated the minimum possible Connection Fees based on the number of patient rooms (and not including cafeterias, surgical facilities, etc.). At a minimum a very conservative estimate of **\$1,300,000** in Connection Fees should have been collected. In comparison, two other hospitals in the Region with recent expansions each paid approximately \$1,400,000 in Connection Fees.
- The review noted differences in interpretation between Public Service Facilities that are considered "publicly owned" and/or "publicly used." There is no difference defined in the current Regional Contract. The review tested eight governmental facilities that were charged Connection Fees at the commercial category rate rather than the public service rate, resulting in potential under-collections of approximately **\$64,000** for all buildings.
- There is a need to standardize the calculation worksheet for all Contracting Agencies to ensure the fixture types and counts are consistent with Exhibit J. This would eliminate the inconsistencies and differences in fixture unit values assigned by the Contracting Agencies, creating differences in the Connection Fees assessed. The review found that in one agency, the Calculation Worksheet

is missing 15 categories from Exhibit J, yet includes three category types that are not part of Exhibit J. This created a potential extrapolated under-collection of approximately **\$80,000** in Connection Fees in only one fiscal year.

- The review also noted a questionable credit of approximately **\$560,000** given by the Contracting Agency to Evolution Fresh, an Industrial entity located in Rancho Cucamonga, with no documentation to support the credit.
- There is a need for clear guidance and detailed instructions for the assessment and collection of Connection Fees for Industrial entities. During the review, Contracting Agencies commented that they believe that new businesses find Connection Fees for Industrial activities to be both confusing and high, particularly the portion of the fee based on a wastewater analysis and that there are trade-offs between this cost and the ongoing costs of alternatively connecting to the NRWS lines. The review found differences in the interpretation and application of the Regional Contract for both Connection Fees and Monthly Sewer Fees for Industrial users, creating inconsistencies among customers that may appear to be inequitable among the industrial customers.
- The 1997 Procedures for Monthly Sewer Billing memorandum should be revised and approved regularly to include additional category types and provide users with clarification and detailed definitions to ensure consistency in its application. The review found a variety of errors in the Contracting Agencies' billing systems ranging from data entry input errors, to categorization errors from unclear guidance in the 1997 document. The review found Contracting Agencies where approximately **25%** of accounts tested for Monthly Sewer Fees had errors. It is difficult to extrapolate the error rate to total revenue because each error/mistake can be unique and it is difficult to determine how long the error has existed. It is important to note that errors/mistakes in Monthly Sewer Fees act like an annuity, growing exponentially over time unless or until they are corrected.
- There is a need to reevaluate the EDU definition of 270 gallons per day (GPD) set forth in the Regional Contract. Our survey of comparable agencies showed that other similar agencies define their EDU equivalent between 235 and 310 GPD. Additionally, with water conservation efforts, more water efficient appliances and increased urban density, water usage has declined since the EDU was initially defined in the Regional Contract and 270 GPD is no longer representative of modern water usage.
- IEUA should require the Contracting Agencies to itemize Monthly Sewer Fees amounts for non-residential customers. Currently, the only information provided to IEUA by each Contracting Agency is total EDUs. No additional information is required. The review found that Contracting Agencies derive the total EDU number in various ways: One Contracting Agency calculates the EDU number based on the number of EDUs purchased by their customers. The other

Contracting Agencies calculate nonresidential EDUs from their water readings according to the "draft" 1997 billing memorandum, but some use differing methods: one backs into the total number of EDUs by dividing revenue billed in that month by the EDU rate, another reports EDUs only where monthly fees have been collected (not accounting for those still outstanding) and another does not report usage from their own governmental facilities.

The summary below shows findings related to uncollected Connection Fees, both minimum estimated fees and the fees based on comparable information:

**SUMMARY OF UNCOLLECTED CONNECTION FEES**

**CONNECTION FEES (Minimum Potential)**

	CHINO	CHINO HILLS	CVWD	FONTANA	MONTCLAIR	ONTARIO	UPLAND
HOSPITAL	\$ -	\$ -	\$ -	\$ 1,300,000	\$ -	\$ -	\$ -
COLLEGE	55,000	-	180,000	-	-	-	-
SCHOOLS	23,000	23,000	69,000	-	46,000	69,000	-
GOVT FACILITIES	-	-	-	32,448	8,942	-	22,977
OTHER	141,006	7,641	586,687	-	(3,527)	16,550	5,246
<b>MINIMUM</b>	<b>\$ 219,006</b>	<b>\$ 30,641</b>	<b>\$ 835,687</b>	<b>\$ 1,332,448</b>	<b>\$ 50,965</b>	<b>\$ 85,550</b>	<b>\$ 28,223</b>

**TOTAL MINIMUM \$ 2,582,520**

**CONNECTION FEES (Comparable Basis)**

	CHINO	CHINO HILLS	CVWD	FONTANA	MONTCLAIR	ONTARIO	UPLAND
HOSPITAL	\$ -	\$ -	\$ -	\$ 1,300,000	\$ -	\$ -	\$ -
COLLEGE	55,000	-	530,000	-	-	-	-
SCHOOL	43,000	43,000	153,000	-	236,000	212,000	-
GOVT FACILITIES	-	-	-	32,448	8,492	-	22,977
OTHER	141,006	7,641	586,687	-	(3,527)	16,550	5,246
<b>COMPARABLE</b>	<b>\$ 239,006</b>	<b>\$ 50,641</b>	<b>\$ 1,269,687</b>	<b>\$ 1,332,448</b>	<b>\$ 240,965</b>	<b>\$ 228,550</b>	<b>\$ 28,223</b>

**TOTAL COMPARABLE \$ 3,389,520**

*IEUA and the Contracting Agencies are trapped in a spiral where the Contracting Agencies are not charging enough of the Connection and Monthly Fees that the Regional Contract requires leading to higher IEUA fees and an uneven playing field from Contracting Agency to Contracting Agency and from Regional Business to Regional Business.*

The renegotiation of the Regional Contract provides an opportunity for IEUA and the seven Contracting Agencies to consider a new way of doing business, hence a new business model for the Region. The following pages propose different business models to consider as part of moving forward with renegotiating/amending the Regional Contract and changing the way IEUA does business with the Contracting Agencies.

**Recommendations**

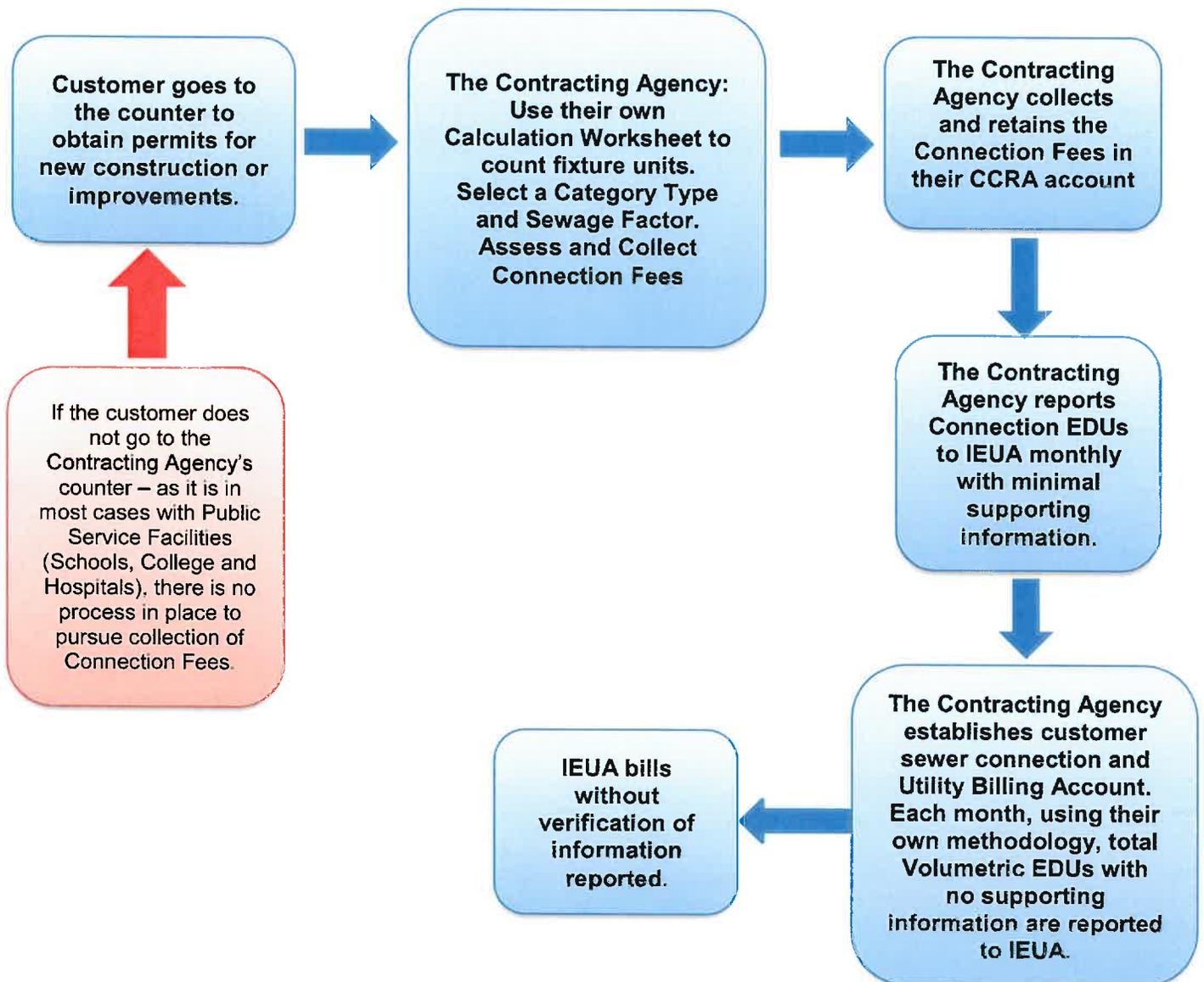
To address the findings identified by Internal Audit, prevent additional similar findings and to ensure the requirements of the Regional Contract are implemented consistently and equitably across all customers, Internal Audit developed a number of recommendations while performing the individual Regional Contract Reviews. These audit findings and resulting recommendations came up consistently at multiple Contracting Agencies (**Attachments 3 through 11**). Internal Audit has sorted the recommendations to create several possible business models as IEUA looks to the future of the Regional Contract and changing the business approach. The following pages provide additional details for each.

Each business model groups the audit recommendations by the magnitude of changes necessary to the way business is conducted. The table below provides highlights of each of the business models; additional details are also included in the **Attachments**:

<p>Current Business Model/Practice</p>	<ul style="list-style-type: none"> <li>• Connection Fees collected by Contracting Agencies at Building Department/Payments Counter</li> <li>• Connection Fees held by Contracting Agencies until “called” by IEUA</li> <li>• Schools, Hospitals construction administered by State with no process in place to ensure Connection Fees are collected by Contracting Agencies</li> <li>• Monthly Sewer Fees collected by Contracting Agencies and lump-sums remitted to IEUA without any detail or support</li> <li>• Proposition 218 is the responsibility of each Contracting Agency</li> </ul>
<p><u>Business Model #1</u> Minor Changes</p>	<ul style="list-style-type: none"> <li>• Frequent/Regular and consistent revisions and updates to Exhibit J for Connection Fees and to the 1997 Monthly Sewerage Billing Formulas memorandum</li> </ul>
<p><u>Business Model #2</u> Moderate Changes</p>	<ul style="list-style-type: none"> <li>• Additional oversight, information and recourse provisions as part of a revised Regional Contract             <ul style="list-style-type: none"> <li>○ On-going Monitoring and Inspections by IEUA staff</li> <li>○ Recourse rights incorporated into the Contract</li> <li>○ Right to audit and access to records incorporated in Contract</li> </ul> </li> </ul>
<p><u>Business Model #3</u> Major Changes</p>	<ul style="list-style-type: none"> <li>• <b>Centralize Connection Fees and Monthly Sewer Fees Billing at IEUA</b></li> <li>• <b>Evaluate and implement Variable vs. Fixed Cost Billing Models</b></li> <li>• <b>Utilize County Property Tax System to collect Monthly Sewer Fees</b></li> <li>• <b>Centralize Proposition 218 reporting of fee increases Region-wide</b></li> </ul>
<p>The Future</p>	<p>IEUA has responsibility for and management of supply chain for all water and sewer related activities for the entire region, both locally and regionally.</p>

### **Current Business Model/Practice**

The current Regional Contract business process/model is illustrated below and in **Attachment 2**. The current process centralizes responsibility for direct contact with customers with the individual Contracting Agencies, including the Proposition 218 notification of fee increases. IEUA's contractual relationship is only with the Contracting Agencies. Each individual Contracting Agency's relationship is with the customers in their service area. Theoretically, therefore, it is irrelevant to IEUA whether the individual Contracting Agencies collect Connection Fees and Monthly Sewer Fees from their individual customers as long as the Contracting Agencies remit those fees to IEUA from their own accounts. Unfortunately, the way the current contract is structured IEUA generally does not have enough information to reconcile or dispute the information provided by the Contracting Agencies and the Regional Contract does not include provisions to obtain that information. Therefore, the recommendations and potential next steps shown in each of the following Business Models consider ways for IEUA to enhance its relationship with the individual Contracting Agencies.



### **Business Model 1: Minor Changes**

This Business Model includes only recommendations for Regional Contract amendments and revisions that leave current business practices in place, but provide more clarity and consistency to those practices across the region, to ensure all Contracting Agencies apply the Contract consistently.

#### **MINOR CHANGES TO BUSINESS MODEL**

##### **Summary:**

- Regional Contract is updated, clarified and modernized, but is left largely unchanged as to the way the Region conducts business.
- Centralized responsibility for direct contact with customers remains with the individual Contracting Agencies.
- Contracting Agencies are responsible for the Proposition 218 notification of fee increases.
- IEUA's contractual relationship is only with the Contracting Agencies not the customers.

##### **Recommendations:**

- Frequent/Regular and consistent approved revisions to Exhibit J
- Frequent/Regular and consistent approved revisions to Monthly Sewerage Formula

##### **Next Steps:**

Regional Committees regularly provide:

- Revisions to Exhibit J and Monthly Sewerage Formulas for Board approval
- Standardization for Calculation Worksheet
- Guidelines for supporting documentation provided to IEUA for both EDU Building Activity Reports and Monthly Sewer Fees Reports

## **Business Model 2: Moderate Changes**

This Business Model includes recommendations for Regional Contract amendments that enhance IEUA's oversight over the way the region conducts business and provides the tools that are needed for IEUA to take responsibility for inspection, reconciliation and recourse.

### **MODERATE CHANGES TO BUSINESS MODEL**

#### **Summary:**

- Regional Contract is updated, clarified and modernized.
- Assigns additional roles and responsibilities to IEUA staff to ensure additional monitoring and oversight and regular inspections if necessary.
- IEUA staff would ensure the Regional Contract is administered consistently throughout the region with a "level playing field" among the Contracting Agencies and from one local business to another through-out the region.
- Centralized responsibility for direct contact with customers remains with the individual Contracting Agencies.
- The Proposition 218 notifications remains with the Contracting Agency.
- IEUA's contractual relationship is only with the Contracting Agencies.

#### **Recommendations:**

- Oversight, information & recourse over Connection Fees and Monthly Sewerage billing
- Monitoring program to inspect facilities randomly and when discrepancies are suspected and as necessary to ensure Fees are assessed accurately
- Inspection, verification and recourse rights in Regional Contract
- Right to audit, full cooperation and access to records and documents

#### **Next Steps:**

IEUA and Contracting Agencies renegotiate provisions of Regional Contract:

- Require some expertise in-house (IEUA staff)
- Monitoring and inspection program
- Inspection, verification and recourse rights
- Right to audit, cooperation and access to records
- Regional Committees establish contract for monthly sewerage billing to eliminate invoicing process.

### **Business Model 3: Major Changes**

This Business Model includes recommendations to create a new paradigm for administering the business activities of the Regional Contract with IEUA taking over responsibility for fee calculation methods and collections.

#### **MAJOR CHANGES TO BUSINESS MODEL**

##### **Summary:**

- IEUA assumes primary responsibility for implementing Contract requirements.
- IEUA takes over collecting Connection Fees and Monthly Sewer Fees.
- IEUA determines billing methodologies.
- IEUA is in direct contact with all sewer customers in the region.
- IEUA assumes responsibility for Proposition 218 process for the region.

##### **Recommendations:**

- Consider legal, political and financial impacts of governing by ordinance vs. the Regional Contract.
- Resolve the under-collection findings noted through this audit process.
- Centralize Connection Fees and Monthly Sewer Fees Billing at IEUA.
- Consider County Property Tax collection method for Monthly Sewer Fees billing.
- Review and revise EDU formula.
- Evaluate methodologies/calculations:
  - Variable Cost Models: Water consumption models – water usage, other
  - Fixed Cost Models: EDUs purchased, dwelling or business size, other

##### **Next Steps:**

- Consider legal, political and financial impacts of:
  - governing by ordinance vs. the Regional Contract
  - revising EDU formula, and
  - resolving audit findings noted in this report
- Evaluate methodology for billing Connection Fees and Monthly Sewer Fees:
  - Fixed Cost: EDU, size/square feet or other
  - Variable Cost: Water consumption or other
- Develop and implement business plan for centralization of Connection Fees and Monthly Sewer Fees Billing.
- Consider alternatives to how collections are made for Public Service Facilities.
- Assume responsibility for the Proposition 218 process.

### **Business Model 4: Total Restructuring**

The Regional Contract is a 50-year contract set to expire in 2022. In renegotiating the Regional Contract, Internal Audit recommends planning for the long-term future of the region. The State of California recently provided the first possibility for radical change and consolidation in the water industry by passing Senate Bill 88. Although this Bill is limited in scope and intended primarily to ensure safe drinking water to disadvantaged communities, it presents the possibility of consolidations to eliminate divisions among government entities. As IEUA and the Contracting Agencies consider the best scenario and business model possible for the future of the region, it is time to consider alternative ways to manage water supplies and water/wastewater/sewer services.

#### **Total Restructuring**

IEUA takes full responsibility for managing the entire water and sewer related activities for the IEUA region:

- Manage, distribute & account for all local, Metropolitan and other potable and recycled water.
- Manage, collect, treat and account for all wastewater.
- Construction & maintenance of all infrastructure and capital projects

### **Moving Forward**

The renegotiation of the Regional Contract provides an opportunity to consider how the different Business Models align with IEUA's Strategic Plan in achieving the Agency's Mission, Vision, Values and Business Goals. Board direction is needed to move forward:

1. Direct Staff to coordinate with legal counsel and the Contracting Agencies to resolve the findings identified through this audit and collect fees as appropriate.
2. Direct Staff to begin Contract negotiations, consistent with Major Changes to Business Model, including direct billing of Connection and Monthly Sewer Fees.

TV: ps/sn

## ATTACHMENTS

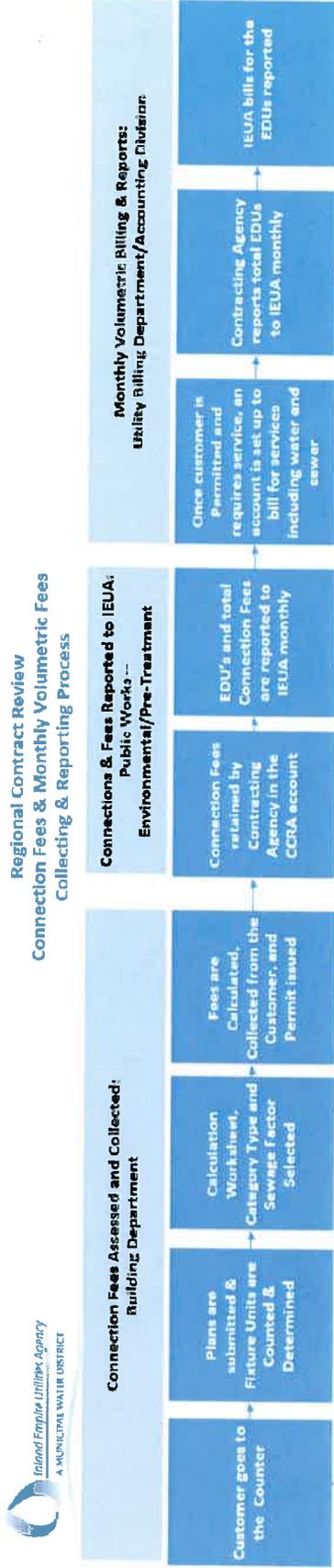
### Attachment 1 - Audit Risk Matrix

Based on the results of the Regional Contract Review, Internal Audit has developed an Audit Risk Matrix. This is a diagram that **identifies the major events or situations that can result in IEUA not achieving the intent of the Regional Contract, ranked by the likelihood and impact to the Agency.** Greater risks are noted in red, while moderate or minor risks are shown in yellow and green. Likelihood refers to the possibility for error, mistake or deficiency. **Impact, refers to the magnitude of the potential error, mistake or deficiency in terms of financial losses.**

This Risk Matrix highlights the areas IEUA should focus on and prioritize as part of re-evaluating and renegotiating the Regional Contract.

		LIKELIHOOD		
		LOW	MEDIUM	HIGH
IMPACT	HIGH	<b>Monthly Sewerage Fees</b> <ul style="list-style-type: none"> <li>Not Collected from Governmental Facilities</li> </ul>	<b>Connection Fees</b> <ul style="list-style-type: none"> <li>Not Collected from Hospitals</li> <li>Industrial Entity Undercollections</li> </ul>	<b>Connection Fees</b> <ul style="list-style-type: none"> <li>Not Collected from Schools</li> <li>Not Collected from Community College</li> <li>Commercial Categorization Errors</li> </ul>
	MEDIUM	<b>Residential Monthly Billing</b> <ul style="list-style-type: none"> <li>Not Collected or Recorded</li> </ul>	<b>Commercial Monthly Sewerage</b> <ul style="list-style-type: none"> <li>Missing Accounts</li> <li>Rate errors</li> </ul>	<b>Commercial Monthly Sewerage</b> <ul style="list-style-type: none"> <li>Categorization Errors</li> </ul>
	LOW	<b>Residential Connection Fees</b> <ul style="list-style-type: none"> <li>Not collected</li> </ul>	<b>Connection Fees</b> <ul style="list-style-type: none"> <li>Calculation Worksheets do not align with Exhibit J</li> </ul>	<b>Connection Fees</b> <ul style="list-style-type: none"> <li>Fixture Count Errors</li> </ul>

**Attachment 2 - Current Business Model/Process**



If customer does not go to the counter, (i.e. example with remodels and expansions or in the case of Public Service Facilities), there is a risk that EDUs are never reported and Connection Fees are not collected.

Preventing this risk requires the Contracting Agency actively be aware of the businesses and development in their service area and staying informed through New Businesses license reports, physically observing commercial activity, researching various sources, etc. and establishing a coordinated process with other departments to identify new PSF construction.

The current Regional Contract centralizes responsibility for direct contact with customers with the individual Contracting Agencies. IEUA's contractual relationship is only with the Contracting Agencies. Each individual Contracting Agency's relationship is with the customers in their service area.

**Attachment 3 - Results: Connection Fees (Commercial Businesses)**

For the commercial businesses selected for review, IA noted instances of varying interpretation and application of Exhibit J of the Regional Sewerage Service Contract. This created differences in categorization; therefore, differences in the Connection Fees collected. For the five entities where there was a difference in the interpretation of the category type, IA identified over \$160,000 in potential under-collections, as follows:

Contracting Agency	Category Used	Fees Collected	Alternative Category	Possible Fees	Difference/ Shortage
<b>Residential Community Center</b>					
Chino	I: Retail, Office, Motel/Hotel, Fast Food, etc.	\$30,732	III: Hospital, Health Spa with Pool, full service restaurant	\$123,206	\$92,474
Chino	I: Retail, Office, Motel/Hotel, Fast Food, etc.	\$16,129	III: Hospital, Health Spa with Pool, full service restaurant	\$64,661	\$48,532
Ontario	I: Retail, Office, Motel/Hotel, Fast Food, etc.	\$112,297	-	-	-
<b>Restaurant</b>					
Montclair (Dragon 99 Restaurant)	I: Retail, Office, Motel/Hotel, Fast Food, etc.	\$1,308	III: Hospital, Health Spa with Pool, full service restaurant	\$5,243	\$3,935
<b>Veterinary Hospitals/Facilities</b>					
Chino Hills (Pets N Vet Animal Hospital)	I: Retail, Office, Motel/Hotel, Fast Food, etc.	\$2,539	III: Hospital, Health Spa with Pool, full service restaurant	\$10,180	\$7,641
Upland (Caremore Medical Enterprises)	I: Retail, Office, Motel/Hotel, Fast Food, etc.	\$1,744	III: Hospital, Health Spa with Pool, full service restaurant	\$6,990	\$5,246

**Attachment 4 - Results: Connection Fees (Schools – K-12)**

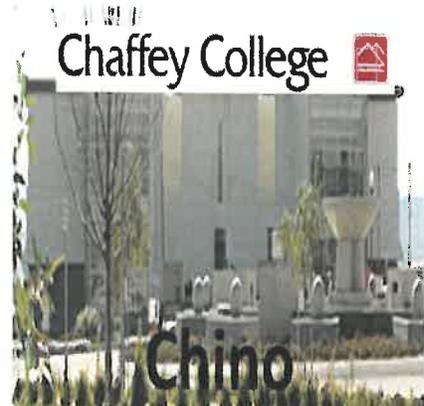
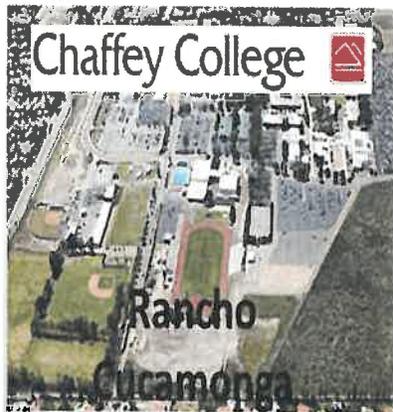
According to the requirements of Exhibit J of the Regional Contract, any Public Service Facilities that have new construction or expansions are required to pay Connection Fees. The review found that Contracting Agencies do not have a process in place to identify and collect from schools because these are permitted through the State. IA identified 16 school sites that had construction and 10 did not pay Connection Fees. It is not possible to quantify the loss in Connection Fees without performing a physical survey to physically count the fixture units. Using the lowest amount that was collected, IA conservatively estimates that at a minimum \$230,000 in Connection Fees should have been collected (10 x \$23,000); however, using the comparable information for those six schools that did pay fees, it is likely that fees approximated at least \$687,000.

Contracting Agency	School Name	Type of Construction	Year	Connection Fees Collected	Possible "conservative" Estimate fees	Possible "comparable" Estimate Fees
City of Chino	Howard Cattle Elementary School	New classroom wing with restrooms	Summer 2012	0	\$23,000	\$43,000
City of Chino Hills	Chino Hills High School	Pool, Showers, and Locker rooms	Within the last 3 years	0	\$23,000	\$43,000
CVWD	Los Amigos Elementary School	New 14 classroom building	2013	0	\$23,000	\$67,000
CVWD	Bear Gulch Elementary School	New 14 classroom and bathroom building	2010	\$66,957	Collected	Collected
CVWD	Alta Loma High School	Classroom wing/building, Gymnasium Expansion, & Athletic Field Complex	Under Construction	\$42,792	Collected	Collected
CVWD	Etiwanda High School	Classroom wing/building, Food Service Building & Athletic Field Complex	Under Construction	0	\$23,000	\$43,000
CVWD	Rancho Cucamonga H.S	New Auditorium Building & Athletic Field Complex	Under Construction	0	\$23,000	\$43,000
City of Fontana	Jurupa Hills H.S	New High School	2009	\$272,182	Collected	Collected
City of Fontana	Citrus High School	New High School	2009	\$149,228	Collected	Collected
City of Montclair	Howard Elementary School	Multipurpose room with kitchen	2011	\$102,338	Collected	Collected
City of Montclair	Moreno Elementary School	Multipurpose room with restrooms	2013	\$0	\$23,000	\$102,000
City of Montclair	Montclair High School	New 32 Classroom building	2012	\$0	\$23,000	\$134,000
City of Ontario	Richard Haynes Elementary School	Multipurpose room with restrooms, warming kitchen, etc.	Summer 2012	\$0	\$23,000	\$102,000
City of Ontario	Ray Wiltsey Middle School	13 classroom modular facility with multiple restrooms, warming, etc.	Summer 2013	\$0	\$23,000	\$67,000
City of Ontario	Ontario High School	New classroom building, restrooms, football stadium & pool	Under construction	\$0	\$23,000	\$43,000
City of Upland	Upland H.S	New Gymnasium	2013	\$22,506	Collected	Collected
<b>Estimated Connection Fees: Conservative vs. Comparable</b>					<b>\$230,000</b>	<b>\$643,000</b>

**Attachment 5 - Results: Connection Fees (Community College)**

Exhibit J of the Regional Contract requires that Connection Fees be assessed to any Public Service Facilities that have new construction or expansions. Chaffey College, a two-year public Community College, has three campuses located within IEUA's service area. Based on IA's review, there were construction projects that resulted in new buildings and facilities being added at each of the campuses. Of the three with construction, only one Contracting Agency assessed and collected Connection Fees. It is not possible to quantify the loss in Connection Fees without performing a physical survey to physically count the fixture units. IA attempted to perform a physical survey of the accessible areas of the three buildings at the Chino Campus (not including science laboratories or the banquet facility) and determined that Connection Fees would have exceeded \$55,000. At the main campus facility in Rancho Cucamonga, IA noted that ten new buildings have been added since 2008. IA was not able to perform a physical survey, however, using the approximately \$18,000 per building (\$55k / 3) at the Chino Campus, IA conservatively estimates that at a minimum \$180,000 in Connection Fees should have been collected (10 x \$18,000), but it is likely that it is much higher.

Contracting Agency	Location	Year Place in Operation	Minimum Estimated Connection Fees	Connection Fees Collected
CVWD	Rancho Cucamonga ~ Main Campus (10 buildings)	Various since 2007	Unable to estimate	\$ 0
City of Chino	Chino ~ Satellite/Off-site Campus (3 Buildings: Main Instructional, Health Sciences, and Community Center )	2008	\$ 55,000	\$ 0
City of Fontana	Fontana ~ Satellite/Off-site Campus (1 Building: Academic Center, two-story and approximately 30,000 square feet)	2011	N/A	\$ 52,845



**Attachment 6 - Results: Connection Fees (Hospitals)**

IA identified the large scale hospitals and medical facilities that had new construction or expansions and reside within IEUA’s service area. Connection Fees were collected for two of the three hospitals. For the City of Fontana Kaiser Hospital expansion, IA calculated the minimum possible Connection Fees based on the number of patient rooms (and not including cafeterias, surgical facilities, etc.). IA conservatively estimates that at a minimum \$1,300,000 in Connection Fees should have been collected, but it is likely that it is much higher.

Contracting Agency	Hospital	Year Fees Collected	Connection Fees collected
City of Upland	San Antonio Community Hospital – Addition	2011	\$ 1,370,197
City of Ontario	Kaiser Permanente – New Facility	2012	\$1,409,106
City of Fontana	Kaiser Permanente – Hospital and Inpatient Tower	N/A (Replacement Hospital Opened: 2013)	\$ 0



**Attachment 7 - Results: Connection Fees (Categorization Differences)**

IA identified the following governmental entities classified as commercial rather than public by Contracting Agencies. In some cases the rationale was used that although the buildings are publicly owned they are not publicly used, but rather offices and administrative spaces. The varying interpretations create differences in categorization and Connection Fees collected from Public Service Facilities:

Contracting Agency	Description	Category Used	Fees Collected	Alternative Category	Possible Fees	Difference/ Shortage
Fontana	Caltrans Facility (SRL Building)	I: Retail, Office, Motel/Hotel, Fast Food, etc.	\$ 46,343	VI: Public Facility	\$ 65,756	\$ 19,413
Fontana	Caltrans Facility (Independent Assurance Building)	I: Retail, Office, Motel/Hotel, Fast Food, etc.	\$ 14,178	VI: Public Facility	\$ 20,117	\$ 5,939
Fontana	Police Department	I: Retail, Office, Motel/Hotel, Fast Food, etc.	\$ 14,183	VI: Public Facility	\$ 21,018	\$ 6,835
Fontana	Police Department	I: Retail, Office, Motel/Hotel, Fast Food, etc.	\$ 622	VI: Public Facility	\$ 883	\$ 261
Montclair	Community Center (Bathrooms)	I: Retail, Office, Motel/Hotel, Fast Food, etc.	\$ 18,962	VI: Public Facility	\$ 26,906	\$ 7,944
Montclair	Splash Pad	I: Retail, Office, Motel/Hotel, Fast Food, etc.	\$ 1,308	VI: Public Facility	\$ 1,856	\$ 548
Upland	Animal Shelter	I: Retail, Office, Motel/Hotel, Fast Food, etc.	\$ 36,761	VI: Public Facility	\$ 52,108	\$ 15,347
Upland	Fire Station	I: Retail, Office, Motel/Hotel, Fast Food, etc.	\$ 18,277	VI: Public Facility	\$ 25,907	\$ 7,630
<b>TOTALS FOR ITEMS TESTED</b>			<b>\$ 150,634</b>		<b>\$ 214,551</b>	<b>\$63,917</b>

For each instance above, Connection Fees were collected and at the time of assessment, they were classified as a Commercial Category I according to Exhibit J; however, they could have been classified as Category VI Public Facility and this would have resulted in greater Connection Fees collected.

**Attachment 8 - Results: Connection Fees (Commercial Fixture Unit Differences)**

IA identified that the fixture unit values utilized by the Contracting Agency may not always coincide with the descriptions and/or fixture unit values as outlined in Table 1 of Exhibit J of the Regional Contract. This issue was noted at least at two Contracting Agencies. The Connection Fees that have been over/under collected amounted to the following:

**Fixture Unit Value Differences**

<b>Contracting Agency</b>	<b>Description</b>	<b>Fees Collected</b>	<b>Fee per Audit Results</b>	<b>(Over)/Under Collected</b>
Montclair	Fixture Unit Value Differences: 4 businesses identified with different values	\$187,865	\$180,403	(\$7,462)
Ontario	Fixture Unit Value Differences - 2013/14: 10 businesses tested with different values	\$88,006	\$104,556	\$16,550

Additionally, the city of Ontario Calculation Worksheet is missing 15 categories from Exhibit J, yet includes three category types that are not part of Exhibit J. IA extrapolated the \$16,550 under-collection above to determine an impact of approximately \$80,000 in Connection Fees in only one fiscal year.

**Attachment 9 - Results: Connection Fees (Industrial Businesses)**

According to Exhibit J of the Regional Sewerage Service Contract, Industrial businesses that engage in production, manufacturing or processing of material are required to pay Connections Fees and those fees are assessed differently than Commercial businesses enterprises. In addition to the Connection Fees calculated based on fixture units, Industrial entities pay a variable component based on a wastewater analysis that includes: type of wastewater (domestic or non-domestic), sewage flow, Biochemical Oxygen Demand (BOD), and Total Suspended Solids (TSS).

**Existing Fixtures Units**

For any commercial and industrial businesses that have expansions or additions, a credit is given for any demolished existing fixtures that were already located within the facility, and fees are only assessed on the net new fixture units added to the facility. This provision applies for all enterprises, regardless whether commercial or industrial.

IA noted that Contracting Agencies usually have supporting documentation to validate that there are existing fixtures and a credit should be applied. Evolution Fresh, an Industrial Entity in IEUA's service area received a credit for existing fixture units; however the Contracting Agency could provide no supporting documentation to validate that the credit was appropriately applied:

**Unsupported Credit for Existing Fixture Units**

<b>Contracting Agency</b>	<b>Description</b>	<b>Fees Collected</b>	<b>Fee per Audit Results</b>	<b>(Over)/Under Collected</b>
CVWD	Evolution Fresh – Juice Manufacturer	\$561,643	\$1,148,510	(\$586,687)

**Industrial Fees**

During the Regional Contract Review, IA received feedback from the Contracting Agencies regarding Connection fees for Industrial Users. They included the following:

- Cost of Industrial Connection fees “deter businesses” from coming to the region
- Cost and proximity of the NRWS lines can impact costs to a business about deciding where to connect.
- Connection Fees based on BOD and TSS are not related to Fixture Units and guidance about transferability is unclear, and IEUA does not verify BOD and TSS reports.
- Value of Capacity Rights is unclear if an SIU is declassified.

**Attachment 10 - Results: Industrial (Connection and Monthly Sewer Fees)**

City of Ontario evaluation of Connection Fees and Sewer Fees:

Business	Description	Connection Fees Noted	Monthly Billing Example	April 2014	Ontario Comment
Niagara Bottling(a)	Water bottling company	Commercial from 3/2006 to 6/2013: \$33,331	April 2014: Fixed 66 EDUs rate	\$883.74	Fixed EDU determined by permit, measurement and inspection. If use the NRW, then usually use a fixed factor.
New-Indy Ontario llc(a)	Paperboard Mill	In existence for extended period	April 2014: Fixed 47 EDUs rate	\$629.33	Same as above.
Greif	Packaging supply	In existence for extended period	No April 2014 billing for water or wastewater.	\$0.00	Part of a master meter.
Zurn Industries	Liquid waste disposal systems supplier	Per building permit fixtures established in 2001	April 2014: 2 meters: one with 5 HCF @ .0401 Factor & other with 0.	\$2.68	Use landscape factor (55%). Recently converted to recycled water.
Jogue, Inc.	Flavoring Syrups & Concentrates	June 2013: Domestic Industrial- \$10,313 Industrial-\$63,884	April 2014: 88 HCF @ .0202 Factor	\$23.80	Monthly based on 68% flow to sewer, 2,100 BOD and 31 TSS per lab data.
Wing Hing Foods	manufacturer of Chinese foods & noodles	March 2007: \$5,967 (originally purchased by Haliburton) April 2013: Industrial \$31,518	April 2014: 221 HCF @ .0087 Factor	\$25.74	Monthly based on lab data showing BOD=530mg/l, TSS=50mg/l and water to waste factor of 8.25%.
Haliburton	Manufacturer of soups & sauces	Commercial and Domestic industrial purchased from 2011 – 2013 \$69,043	April 2014: Fixed 186 EDU rate	\$2,490.54	Fixed industrial EDU was determined for monthly billing.
Tropicale Foods	Manufacturer of fresh fruit & ice cream bars	Commercial connections from 2007 – 2010: \$6,177	April 2014: 2,651 HCF @ .5902 factor (August 2014: 3,984 HCF @ .0411 factor reducing bill to \$2,356.25)	\$20,950.26	Industrial assessment was conducted between April and August to reassess based on new pretreatment activities and "SOPs" regarding discharge.
American Jerky	Manufacturer of chicken based pet treats.	2014: Domestic industrial and industrial: \$168,070.72	May 2014: First month billed for 91 HCF at office/commercial factor of .0729	\$88.78 (May – 1st month available)	New industrial not in production yet.

### **Attachment 11 - Results: Monthly Sewer Fees**

The Contracting Agencies assess and collect recurring fees from users (residential, commercial and industrial) that discharge into the IEUA's Regional Sewage System. The methodology used for assessing the Monthly Sewer Fees is based on a memorandum, which outlines the monthly/bi-monthly billing processes.

IA tested all items sampled to determine whether sewer billing is occurring and to ensure the appropriate business categories and rates are applied for the Monthly Sewer Fees. Based on IA's review, the following was noted:

- 1997 Memorandum entitled "Procedures for Establishing a Regional Sewer Billing Formula" was adopted by Regional Technical Committee. No evidence of IEUA's Board approval.
- Categories are inconsistent with those used in Exhibit J for Connection Fees.
- No guidance for "Master Meters".
- No minimum billing threshold established for commercial businesses (minimum 1 EDU).
- Billing classification differences that can result in under collected Monthly Sewer Fees paid to IEUA.
- Sampled Commercial businesses could not always be identified in the Utility Billing System .
- One Contracting Agency's EDUs for their own facilities were not included in the monthly EDUs reported to IEUA.
- One Contracting Agency relies on flow information provided by another agency and completeness of the information is questionable.
- Monthly Sewer Fees can be collected through the County's Property Tax Roll. One Contracting Agency uses this approach for residential properties.
- Monthly Sewer Fees can be assessed and collected based on Connection EDUs, rather than water consumption. One Contracting Agency uses this approach.
- EDUs reported to IEUA are generally based on the Monthly Sewer Fees billed. One Contracting Agency reports EDUs based on fees collected.

**Attachment 11 - Sewer Service Fees - continued**

Contracting Agency	Business	Billing Factor Applied	Billing Factor Should have been (Monthly/Bimonthly)	Actually Billed Amount	Estimated Sewer Fees Should Have Been	Estimated Amount (under-collected) and (under-paid) to IEUA for 12 months
Chino	Canabru Coffee			\$ 28.05	\$ 41.02	(\$ 155)
Chino	Min's Dumpling House			\$ 48.78	\$ 55.79	(\$ 84)
Chino	McDonald's			\$ 54.88	\$ 78.75	(\$ 286)
Chino	Subway			\$ 14.63	\$ 21.33	(\$ 80)
Chino	Mountain Mike's Pizza		<b>Restaurant: 0.1042</b>	\$ 19.51	\$ 27.90	(\$ 101)
Ontario	Fast 5 Pizza			\$ 16.60	\$ 23.72	(\$ 86)
Ontario	Home Pie Bakery/Cafe		<b>Commercial: 0.0729</b>	\$ 256.69	\$ 366.95	(\$ 1,323)
Ontario	Miguel's Jr.			\$ 132.69	\$ 189.75	(\$ 685)
Ontario	J & R Deli			\$ 43.92	\$ 62.79	(\$ 226)
Ontario	Continental Funeral Home			\$ 74.18	\$ 107.06	(\$ 395)
Ontario	Office/Medical Building			\$ 125.91	\$ 115.87	\$ 121
Ontario	Camacho's Bakery			\$ 113.95	\$ 189.75	(\$ 910)
Upland	ARCO AM/PM			\$ 0.00	\$ 375.00	(\$ 2,089)
Upland	Crossfit Saber			\$ 50.11	\$ 250.00	(\$ 1,199)
Upland	Choice Market			\$ 63.14	\$ 253.00	(\$ 1,139)
Upland	Body Rituals			\$ 66.24	\$ 147.00	(\$ 485)
<b>Total Amount of Sewer Service Fees Under Collected for a selection of Sample items (only 16 items and only 1 year)</b>						<b>(\$9,122)</b>

**Attachment 12 - Recommendations by Process**

**REGIONAL CONTRACT REVIEW  
 CONNECTION FEES  
 RECOMMENDATIONS**

<b>OVERALL RECOMMENDATIONS</b>	
Consider legal, political and financial impacts of governing by ordinance vs. contract	Major
Review and revise EDU formula	Major
Resolve identified differences of over/under collected amounts of Connection Fees and identified differences of over/under collected amounts of unreported monthly sewerage fees	Major

<b>CONNECTION FEES RECOMMENDATIONS</b>	
1. Centralize the permitting process OR IEUA provides final sign-off and plumbing permit approval for all nonresidential entities	Major
2. IEUA should establish monitoring program to inspect random facilities and those where there is a suspected discrepancy	Moderate
3. Contract should include IEUA inspection, verification and recourse rights for under-collected/under-reported Connection Fees	Moderate
4. Contract should include IEUA right to audit, full cooperation and access to records and documents upon request	Moderate
5. IEUA should require copies of calculation worksheets for all nonresidential customers along with the monthly Building Activity Reports.	Moderate
6. Two tier connection fees process that distinguishes between common features and unique features (ie., a toilet always costs the same regardless of type of business)	Minor
7. Update Exhibit J regularly to include new/evolving business types	Minor
8. Update & clarify Fixture Unit descriptions of Exhibit J regularly	Minor
9. Standardize calculation worksheet to ensure it is consistent with Exhibit J and consistent region-wide	Minor
10. IEUA should require copies of calculation worksheets for all nonresidential customers along with the monthly Building Activity Reports.	Minor
11. Regular workshops, meetings, plant tours, etc. with staff in Building, Plan Check and Utility Billing/Financial Departments	Other
12. IEUA develop fixture count expertise and provide regular/ongoing training for Contracting Agencies - Building Departments	Other
13. Contracting Agency internal review of Connection Fees as part of preparing the Building Activity Report.	Other

**Attachment 12 - continued  
 Recommendations by Process**

**REGIONAL CONTRACT REVIEW  
 MONTHLY SEWER SERVICE FEES  
 RECOMMENDATIONS**

<b>OVERALL RECOMMENDATIONS</b>	
Consider legal, political and financial impacts of governing by ordinance vs. contract	Major
Review and revise EDU formula	Major
Resolve identified differences of over/under collected amounts of Connection Fees and identified differences of over/under collected amounts of unreported monthly sewerage fees	Major

<b>MONTHLY SEWERAGE BILLING RECOMMENDATIONS</b>	
1. Collect monthly sewerage fees for the entire region through County's property tax roll.	Major
2. Evaluate methodology used for billing monthly sewerage fees (residential and commercial) and consider alternatives by water consumption, EDUs purchased or other methodology	Major
3. Standardize monthly report to provide IEUA automated, itemized listings of non-residential monthly sewerage charges	Moderate
4. Establish contract for monthly sewerage payments from Contracting Agencies rather than IEUA issuing monthly invoices	Moderate
5. IEUA exercise inspection, verification and recourse rights for under-collected/under-reported monthly sewerage fees	Moderate
6. Contract should include IEUA right to audit, full cooperation and access to records and documents upon request	Moderate
7. Update 1997 billing memorandum regularly for new business types to provide detailed definitions and descriptions	Minor
8. Create a correlation between monthly sewerage fees and Connection Fees	Minor
9. Add billing guidance for locations with multiple types of businesses serviced by a master meter	Minor
10. Bill commercial businesses at least a minimum of one EDU per month	Minor

**Attachment 12 - continued  
 Recommendations by Process**

**REGIONAL CONTRACT REVIEW  
 PUBLIC SERVICE FACILITIES  
 RECOMMENDATIONS**

<b>OVERALL RECOMMENDATIONS</b>	
Consider legal, political and financial impacts of governing by ordinance vs. contract	Major
Review and revise EDU formula	Major
Resolve identified differences of over/under collected amounts of Connection Fees and identified differences of over/under collected amounts of unreported monthly sewerage fees	Major

<b>PUBLIC SERVICE FACILITY RECOMMENDATIONS</b>	
1 Consider legal, political and financial impacts of excluding Public Service Facilities from Connection Fees and monthly sewerage charges.	Major
2 Consider legal, political and financial impacts of IEUA assuming responsibility for Connection Fees calculations, collections and CCRA accounts	Major
3 Contract should include IEUA inspection, verification and recourse rights for under-collected/under-reported Connection Fees	Moderate
4 Contract should include IEUA right to audit, full cooperation and access to records and documents upon request	Moderate
5 Address difference between "Publicly Owned" vs. "Publicly Used"	Minor
6 Consider cross-departmental approach to the development review process as a regional model	PSF

**Attachment 13 - Recommendations by Business Model**

**MAJOR CHANGES TO BUSINESS MODEL:**

<p>Consider legal, political and financial impacts of governing by ordinance vs. contract Review and revise EDU formula          Resolve identified differences of over/under collected amounts of Connection Fees and unreported monthly sewerage fees          Centralize the permitting process OR IEUA provide final sign-off and plumbing permit approval for all nonresidential entities          Collect monthly sewerage fees for the entire region through County's property tax roll.          Evaluate methodology used for billing monthly sewerage fees (residential and commercial) and consider alternatives by water consumption, EDUs purchased or other methodology          Consider legal, political and financial impacts of excluding Public Service Facilities from Connection Fees and monthly sewerage charges.</p>	<p>All          All          All          Connections Monthly          Monthly          PSF</p>
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**MODERATE CHANGES TO BUSINESS MODEL:**

<p>IEUA should establish monitoring program to inspect random facilities and those where there is a suspected discrepancy          Contract should include IEUA inspection, verification and recourse rights for under-collected/under-reported Fees          Contract should include IEUA right to audit, full cooperation and access to records and documents upon request          IEUA should require copies of calculation worksheets for all nonresidential customers along with the monthly BAR          Standardize monthly report to provide IEUA automated, itemized listings of non-residential monthly sewerage charges          Establish contract for monthly sewerage payments from Contracting Agencies rather than IEUA issuing monthly invoices          IEUA exercise inspection, verification and recourse rights for under-collected/under-reported monthly sewerage fees          Contract should include IEUA right to audit, full cooperation and access to records and documents upon request</p>	<p>Connections          Connections          Connections          Connections          Monthly          Monthly          Monthly          Monthly</p>
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**MINOR CHANGES TO BUSINESS MODEL:**

<p>Two tier connection fees process that distinguishes between common features and unique features (ie., a toilet always costs the same regardless of type of business)          Update Exhibit J regularly to include new/evolving business types          Update &amp; clarify Fixture Unit descriptions of Exhibit J regularly          Standardize calculation worksheet to ensure it is consistent with Exhibit J and consistent region-wide          Update 1997 billing memorandum regularly for new business types to provide detailed definitions and descriptions          Create a correlation between monthly sewerage fees and Connection Fees          Add billing guidance for locations with multiple types of businesses serviced by a master meter          Bill commercial businesses at least a minimum of one EDU per month          Address difference between "Publicly Owned" vs. "Publicly Used"</p>	<p>Connections          Connections          Connections          Connections          Monthly          Monthly          Monthly          Monthly          PSF</p>
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**Attachment 14 - Background Financial Information**

**IEUA's Board-Approved Rates  
 Fiscal Year**

Rate	2014/15	2013/14	2012/13	2011/12
Connection Fee	\$5,107	\$5,007	\$4,909	\$4,766
Sewer Service Fee	\$14.39	\$13.39	\$12.39	\$11.14

**Connection Fees collected by Contracting and Deposits Held in CCRA <sup>(1)</sup> account**

Contracting Agency	CCRA <sup>(1)</sup> Balance	Connection Fees		
	As of June 30, 2015	FY 2014/15	FY 2013/14	FY 2012/13
Chino	\$ 11,588,998	\$ 4,968,822	\$ 2,620,202	\$ 5,170,311
Chino Hills	2,994,978	587,139	1,985,132	207,452
CVWD	7,155,091	860,230	1,901,701	4,054,981
Fontana	6,756,345	2,527,708	830,226	1,675,004
Montclair	2,641,382	300,819	262,500	2,066,303
Ontario	8,759,593	4,824,272	1,674,395	770,709
Upland	2,493,009	1,001,277	514,478	600,987
<b>TOTAL</b>	<b>\$ 42, 839,396</b>	<b>\$ 15,070,267</b>	<b>\$ 9,788,634</b>	<b>\$ 14,545,747</b>

(1) = from the Building Activity Reports.

**Sewer Service Fees and EDU's Reported By Contracting Agency**

Contracting Agency	Fiscal Year					
	2014/15		2013/14		2012/13	
	EDU's	Fees	EDU's	Fees	EDU's	Fees
Chino	344,326	\$ 4,954,854	343,012	\$ 4,592,930	338,269	\$ 4,191,152
Chino Hills	290,117	4,174,785	290,726	3,892,815	288,891	3,579,355
CVWD	819,522	11,792,929	768,353	10,288,244	769,392	9,532,767
Fontana	626,168	9,010,561	612,143	8,196,601	605,834	7,506,286
Montclair	145,037	2,087,075	147,955	1,981,117	144,095	1,785,337
Ontario	705,341	10,149,854	711,899	9,532,321	707,904	8,770,935
Upland	324,329	4,667,090	320,752	4,294,863	320,624	3,972,526
<b>TOTAL</b>	<b>3,254,840</b>	<b>\$46,837,148</b>	<b>3,194,840</b>	<b>\$42,778,891</b>	<b>3,175,009</b>	<b>\$39,338,358</b>

**Percentage of IEUA's Regional Wastewater Program to Total Revenue:**

	FY 2014/15	FY 2013/14	FY 2012/13
Total of Connection and Sewer Service Fees:	\$61,907,415	\$52,567,525	\$53,884,105
Total Revenues, including Grants and Subsidies:	\$145,819,497	\$124,841,232	\$134,287,194
Percentage to Total Agency Revenue:	46%	42%	40%

Attachment 15 - Excerpts from Comparable Survey Report  
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**Attachment 15  
 Excerpts from the Internal Audit Report: Regional Contract Review - External Comparable Survey**

	IEUA	SRCSD	LACSD	OCSD	EMWD
Number of agencies/ cities served:	7	4	23 independent special districts	23 cities, unincorporated areas and related special districts	8
Member agencies/cities served:	Chino, Chino Hills, Fontana, Montclair, Ontario, Upland, and Cucamonga Valley Water District	Sacramento Area Sewer District, City of Folsom, City of Sacramento, and City of West Sacramento	78 cities and unincorporated territory within the County, excluding majority of the City of Los Angeles.	(Northern and Central Section of Orange County) 1 Consolidated District – 2 Revenue Areas	Hemet, Menifee, Moreno Valley, Murrieta, Perris, San Jacinto, Temecula, Wildomar, and unincorporated areas in Riverside County.
Service area:	242 square miles	375 square miles	800 square miles	479 square miles	555 square miles
Population served:	850,000	1.45 million	5.5 million	2.5 million	777,000
Average domestic household flow rate (Based on a Single-Family Residential)	270 gallons-per-day per EDU	310 gallons-per-day per ESD <small>Note: SFC is currently conducting a Class Study to update the flow and waste strength of an ESD.</small>	260 gallons-per-day	253 gallons-per-day <small>Note: Flow factors are assumed for each land use and the model was calibrated using flow data collected over a five year period.</small>	235 gallons-per-day per EDU
Unit of Measure Connection Fees Single-Family Residential	1 EDU	1 ESD	One single family home is 1 Dwelling Unit	Number of bedrooms per unit Single Family Residential is 3- bedroom unit with base unit of 1.0.	1 EDU
Collection of Fees	<b>Contracting Agency Collects</b>	<b>District Collects</b> The District's PSU or County of Sacramento Building Department collects the fees directly ( <i>Commercial and Residential Subdivision</i> ), and Internal Services Department records the payment.	<b>District Collects</b> LACSD will verify all the data submitted, process the application forms, and collect all payments. <i>Residential, Commercial, Institutional, and Industrial</i> applicants can pay for connection fees by mail or on-site at the District's Connection Fee counter.	<b>Member Agencies Collect</b> Member agencies remit fees (from <i>Residential, Commercial, and Industrial</i> ) on a monthly basis.	<b>District Collects</b> EMWD holds the connection fee funds. An applicant pays the fees upon occupancy or when service commences.

Attachment 15 - continued

	IEUA	SRCSD	LACSD	OCSD	EMWD
Collection of fees from PSF	<p>Connection Fees are collected when the contracting agency becomes aware of a new facility or improvements that have been made.</p>	<p>The intent is to charge them if the District knows about them. There are several commercial categories, such as office buildings, schools, parks, that cover public service buildings.</p>	<p>They are exempt from Connection Fees as long as meet exemption requirements in Ordinance. Schools, City Administration Offices, Courthouses, Libraries, etc. are all exempt. But, a City Power Plant or Water Treatment Facility would have to pay industrial surcharge and connection fees.</p>	<p>The fee is collected by the member agency.</p>	<p>Yes</p>
Collection of Sewer Service Fees	<p>Each contracting agency collects the fees directly from Residential, Commercial, and Industrial users. Billing for the fees varies by each contracting agency:</p>	<p><b>Residential and Commercial:</b>            Each member agency has a billing department that is responsible for the billing and collecting of the charges.             For <b>industrial users</b>, the District's Waste Source Control Section monitors the flow and load from each user and determines the charges and bills the industrial users accordingly.</p>	<p>Majority of the service charges (Residential and Commercial) are collected through the Los Angeles County Property Tax Billing system. The County provides payment to the District's Accounting department upon receipt of payment, usually twice per year.             For <b>Industrial users</b> the Wastewater Surcharges are collected quarterly as described in the Ordinance.</p>	<p>The sewer service fees for <b>Residential, Commercial, and Industrial</b> are collected annually on the property tax bill for each parcel.             Note: Industrial Waste Discharges who require a discharge permit are invoiced separately.</p>	<p>If <b>EMWD bills</b> residential, commercial, and industrial users for potable water use, sewer fees are also billed to these customers on a monthly basis.             If <b>member agencies</b> provide the billing for potable water and are also connected to EMWD's sewer system, the member agency bills for sewer and remits the collected fees to EMWD on a monthly basis.</p>
Remittance of Sewer Service Fees	<p>Contracting Agencies provide the EDU information during the first 15 days after the close of the month. An</p>	<p>Depends on the contributing agencies - payment is made monthly, but some are</p>	<p><b>Residential:</b> Service charges are collected through the Los Angeles County Property Tax Billing system.</p>	<p>OCSD Regional sewer service fees are placed on the Secured Property Tax Roll each year by the Orange</p>	<p>Sewer fees (non-connection fees) are remitted by our member agencies within the 2nd or 3rd week following the end</p>

Attachment 15 - continued

	IEUA	SRCSD	LACSD	OCSD	EMWD
	<p>invoice is generated to bill each contracting agency on an EDU volumetric basis. Payment is due 45 days from the invoice date to the Agency.</p>	<p>bimonthly. City of Roseville, a contracting agency, makes payment annually, but the revenue from Roseville is very small.</p>	<p><b>Commercial:</b> Service charges are collected through the Los Angeles County Property Tax Billing system. <b>Industrial:</b> charges are quarterly based on the August statement.</p>	<p>County Auditor/Controller's office and are apportioned to OCSD throughout the fiscal year. The Auditor/Controller's office charges a fee based upon the amount apportioned.</p>	<p>of the month.</p>
<p>Program structure – Advantages</p>		<p>The new rate and fee structure that the District adopted recently provides a more sustainable and equitable structure. <b>The rate and fee structure is based on cost of service.</b> Regional San is one of the few utilities that adopt a structure with costs linked to pathogen and total kjeldahl nitrogen.</p>	<p>The Joint Outfall System (which handles about 90% of customer base) is large with shared expenses and good economies of scale. The billing of most of these customers through property taxes is very cost effective.</p>	<p>By placing our fee on the property tax bill, this program saves time and money. We do not have to spend staff time invoicing our customers or on collections.</p>	<p>Direct bill/payment to beneficiary and control over collections.</p>
<p>Program structure – Disadvantages</p>		<p>The commercial user billing structure has 43 categories and a simpler structure with less categories is desired. There are billing inconsistencies that require reconciliation between District's staff and contributing agencies.</p>	<p>The service charge program uses assumed loadings rather than actual usage and there are inherent winners and losers. The simplicity of having a flat fee added to the property tax and maintaining rates well below national averages has always outweighed those concerns.</p>	<p>Our fees are based upon averages and not actual water consumption. We have a program for non-residential customers to submit their actual consumption for a rebate.</p>	<p>Administrative charges are higher due to tracking and collection efforts.</p>

**Attachment 16 - Exhibit A**

**Recommendations provided with Interim Reports**

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Attachment 16 - continued  
 Exhibit A

No	Recommendations	Upland	Montclair	Fontana	Chino	CVWD	Chino Hills	Ontario
<b>OVERALL RECOMMENDATIONS</b>								
•	Consider legal, political and financial implications of governing by ordinance vs. contract	X	X	X	X	X	X	X
•	Review and revise EDU formula from current 270 gallons per day	X	X	X	X	X	X	X
•	Resolve identified differences of over/under collected amounts of Connection Fees and unreported service fees discovered during the Regional Contract Reviews and determine/establish working relationship with Contracting Agencies. IA identified businesses that are not reported to IEUA and fees not paid for the services provided by IEUA as well as classification errors and formula mistakes.	X	X	X	X	X	X	X
		\$505,462	\$262,500	\$830,226	\$2,620,202	\$1,901,701	\$1,985,132	\$1,738,501
1.	<b>CONNECTION FEES RECOMMENDATIONS and FEES: 2013/2014</b> IEUA and the Contracting Agencies should consider centralizing the Connection Fee and wastewater permitting process or, as part of the permitting and plan check process, establishing a requirement that an IEUA representative provide final sign-off and approval prior to the Contracting Agency issuing a permit to a nonresidential entity and allowing a connection to the regional system. This added approval step will ensure IEUA agrees with the interpretation of the contract and the appropriate category type and sewage factor have been applied so correct connection fees are assessed and collected.	X	X	X	X	X	X	X
2.	IEUA Planning and Pretreatment groups should take the lead to exercise the authority provided under Regional Contract Section 26 Inspection of Facilities, and establish an on-going monitoring program to inspect random facilities or those where there is a suspected discrepancy in order to ensure the intent of the Regional Contract is applied and ensure the integrity of the Regional Program.	n/a	n/a	X	n/a	X	n/a	X
3.	IEUA and the Contracting Agencies should add language to the Regional Contract regarding IEUA's inspection and verification rights for connection fees and the recourse IEUA has when IEUA believes a Contracting Agency has under-collected and/or under-reported connection fees.	n/a	X	X	X	X	X	X
4.	Regional Contract should be updated to include IEUA right to audit, full cooperation and access to records and documents upon request	X	X	X	X	X	X	X
5.	IEUA should consider a two tier process of determining connection fees as part of Exhibit J that distinguishes between common features that are part of any commercial facility such as restroom toilets and sinks and those features that are unique to a specific site, such as a fire hub drain, butcher shop drain, a restaurant dishwasher or washing sink, etc. This would create consistency in the treatment of same-type and same-use fixture units.	X	n/a	n/a	X	X	X	X

Attachment 16- continued  
 Exhibit A

No	Recommendations	Upland	Montclair	Fontana	Chino	CVWD	Chino Hills	Ontario
6.	Exhibit J was recently updated and now provides detailed definitions for many business types, yet there is still room for varying interpretation and application. Businesses continue to evolve and new types of businesses emerge. Exhibit J should be updated regularly to provide additional language, definitions and guidance to ensure all types of commercial businesses are classified consistently. IEUA should consider documenting additional definitions and descriptions to the classification of businesses in Exhibit J. This would reduce the risk of misclassification of businesses and the potential under-collection of IEUA fees. Examples include fast-casual restaurants (where orders are placed at a register near the entrance but the restaurant provides table service for the food and beverage service), animal hospitals or shelters, community centers at newer residential communities and facilities that provide rehabilitative services.	X	X	X	X	n/a	X	X
7.	IEUA and the Contracting Agencies should develop and provide additional clarification and descriptive information for the various types of appliances, appurtenances or fixtures in the descriptions included in Exhibit J. Examples include defining the nature of an emergency drain, classification of a hub drain, clarifying differences between lavatories, wash fountains, receptors, sinks and mop basins and whether a drinking fountain that includes a separate basin for handicapped access consists of one or two fountains. The review revealed differences in interpretation.	X	n/a	X	X	X	X	X
8.	IEUA and the Contracting Agencies should consider developing a standardized calculation worksheet to assist Contracting Agencies in the connection fee calculations. Currently, each Contracting Agency has its own unique calculation worksheet and it is not always consistent with the Regional Contract Exhibit J. A standardized calculation worksheet should mirror the fixture unit types in Exhibit J and provide additional clarification and uniformity to the fixture count process. The worksheet should be flexible enough to allow for multiple components of a business to be calculated at different commercial categories when there is more than one type of business at the same location (for example, a gas station/minimart with a car wash). A standardized calculation worksheet would provide assistance in computing the connection fees so that Contracting Agencies would not each need to develop their own tools, creating a lack of consistency and uniformity. IA noted varying application of fixture counts because the Contracting Agencies' calculation worksheets are not consistent.	X	X	(Calculation worksheet follows Exhibit J)	X / ✓ (Calculation worksheet now follows Exhibit J)	✓ (Calculation worksheet follows Exhibit J)	X / ✓ (Calculation worksheet now follows Exhibit J)	X
9.	IEUA should require that Contracting Agencies provide copies of the connection calculation worksheets for all nonresidential entities included on their monthly Building Activity Reports. Calculation worksheets would provide additional support for the connections reported and the connection fees collected. This would provide IEUA staff greater visibility and documented support for the application of the category types and fixture counts utilized. IEUA staff would have the necessary information to contact the Contracting Agency if any questions or discrepancies are noted at the time that connections are reported	X	X	✓ Calculation worksheets provided with the BAR	X	X	X	X

Attachment 16- continued  
 Exhibit A

No	Recommendations	Upland	Montclair	Fontana	Chino	CVWD	Chino Hills	Ontario
10.	rather than identifying these later on. In addition to the regular meetings of the Regional Technical and Regional Policy Committees, IEUA has already begun to provide ad-hoc meetings and training as needed for things such as the updated excel Building Activity Report and the Exhibit J subcommittee. IA noted that great variability and understanding of IEUA, the Regional Contract and Exhibit J exists amongst Contracting Agencies' staff in departments such as Building, Plan Check and Utility Billing. In order to develop greater consistency and uniformity throughout the region, IEUA should consider taking the lead in holding quarterly or more regular workshops, meetings, plant tours and similar activities as an avenue where Contracting Agencies' staff in departments such as Building, Plan Check and Utility Billing and/or others as well can discuss and ask questions about the application of the Regional Contract and Program. The workshops would provide a forum to discuss questions about category types to apply, definitions, other questionable items and individual situations, and foster cooperation and collaboration among all. A Contracting Agency may encounter questions or situations that could apply to other Contracting Agencies. Frequent and on-going dialogue about the application of the Regional Contract would benefit all Contracting Agencies and the Regional Program to ensure consistent application of the Regional Contract and that issues are addressed on a timely basis.	X	X	X	X	X	X	X
11.	IEUA should consider developing expertise in fixture count techniques and providing regular and ongoing training at the Building Departments of Contracting Agencies to develop consistency in the IEUA fixture count process across the region, including obtaining IEUA's guidance on the treatment of commercial businesses whose type is unique or does not fall into categories established in Exhibit J.	X	n/a	X	X	n/a	X	X
12.	Contracting Agencies should consider adopting an internal review process for Connection Fees as part of preparing the Building Activity Report	n/a	n/a	✓ (Use I/R)	n/a	✓ (Use I/R)	n/a	n/a



Attachment 16- continued  
 Exhibit A

No	Recommendations	Upland	Montclair	Fontana	Chino	CVWD	Chino Hills	Ontario
8.	all types of commercial businesses are classified consistently. Examples include pet related businesses such as pet shops, pet rescue locations, veterinarians and pet hospitals and clinics and spa related businesses such as spas, massage parlors, salons, foot spas and waxing businesses. Evaluate and consider the relationship between monthly sewer fees and Connection Fees and determine the need to create a correlation between the two. For example, fast-food restaurants and full-service restaurants are both included in Category 8 for monthly sewerage billing purposes and pay at the same rate. However, for purposes of Connection Fees fast-food restaurants are grouped with office, retail and similar uses (which are Category 1 for monthly sewerage billing). Therefore, fast-food restaurants incur lower Connection Fees, but pay monthly sewer fees at the higher rates charged to full-service restaurants.	X	X	X	X	X	X	X
9.	IEUA and the Contracting Agencies should consider the need for additional billing guidance for locations with multiple business types serviced by master meter, either blended, highest applicable or other methodology.	n/a	n/a	n/a	n/a	n/a	X	
10.	IEUA and the Contracting Agencies should consider billing commercial businesses that do not consume or discharge a minimum of one EDU at least that amount under the rationale that no business should pay less than the amount charged to a single family residence	X	✓	X	X	✓	X	X

Attachment 16 - continued  
 Exhibit A

No	Recommendations	Upland	Montclair	Fontana	Chino	CWWD	Chino Hills	Ontario
	<b>PUBLIC SERVICE FACILITIES RECOMMENDATIONS</b>							
	<i>Examples of recent Public Service Facilities with NO Connection Fees collected</i>	None noted, per audit sample	Moreno Elem. classroom building (OMSD) Montclair H. S. classroom building (CJUHSD)	None noted, per audit sample (City made conscious choice not to charge Kaiser Fontana)	Howard Cattle Elem. classroom building (CVUSD) Chaffey College - Chino Campus - multiple buildings	Los Amigos classrooms, Etowanda HS classrooms, perf. arts complex, athletic field Rancho Cerrano HS auditorium, athletic field Chaffey College - buildings	Chino Hills H. S. Swimming Facility Showers and Locker Room (CVUSD)	Richard Haynes Elem Multipurpose (OMSD) Ray Wiltsay classroom building (OMSD) Ontario H. S. Classroom building, football stadium, pool (CJUHSD)
1.	IEUA and the Contracting Agencies should consider the exclusion of Public Service Facilities from the charge for Connection Fees and Monthly Sewerage Charges. As documented under the audit report "Comparison of the Regional Sewerage Service Contract and Program with similar contracts and programs", IA found that some Agencies (for example, the Los Angeles County Sanitation Districts) exclude local governmental agencies such as public K - 14 schools and City governments from both Connection Fees and Monthly Sewerage Charges	n/a	x	n/a	x	x	x	x
2.	IEUA and the Contracting Agencies should consider the legal, political and financial impacts of centralizing the Connection Fee calculation, connection, CCRA account and wastewater permitting process for Public Service Facilities	x	x	x	x	x	x	x
3.	IEUA should add language to the Regional Contract regarding IEUA's inspection and verification rights for Public Service Facilities as to connection and monthly sewer fees and the recourse IEUA has when IEUA believes a Contracting Agency has under-collected and/or under-reported such fees.	n/a	x	n/a	x	x	x	x
4.	Regional Contract should be updated to include IEUA right to audit full cooperation and access to records and documents upon request	x	x	x	x	x	x	x
5.	Exhibit J was recently updated and now provides detailed definitions, yet there is still room for varying interpretation and application. Exhibit J should be updated regularly to provide additional language, definitions and guidance to consider clarification and descriptive information for categorizing public service facilities to expand and address the differences between publicly owned and publicly used.	x	x	x	x	x	x	x
6.	Consider the City of Upland's cross-departmental approach to the development review process as a regional model for Contracting Agencies to follow. The City of Upland has formed an inclusive group from all city departments that meets regularly to review new development. The group includes representatives from the Planning, Building, Public Works, and Police and Fire departments. Since planning for fire safety is required for new construction to ensure access and egress, Fire department representatives are often the first to know about new PSF construction. This will trigger Public Works and Building department representatives to be involved resulting in the assessment of connection fees, including those for IEUA in accordance with Exhibit J	✓ (Uses cross-departmental approach)	x	n/a	x	n/a (Not a city, water agency only)	x	x

## **Attachment 17 - Current and Prior Audit Reports Completed**

The following reports have been submitted as information items to the IEUA Board of Directors:

### Current Review

2014-2015:

- Interim Audit Report for the City of Ontario (September 2015)
- Interim Audit Report for the City of Chino Hills (June 2015)
- Interim Audit Report for the Cucamonga Valley Water District (March 2015)
- Interim Audit Report for the City of Chino (December 2014)
- Interim Audit Report for the City of Fontana (December 2014)
- Interim Audit Report for the City of Montclair (September 2014)
- Interim Audit Report for the City of Upland (September 2014)
- "Survey of Comparative Information of the Seven Contracting Agencies" (September 2014)
- "Regional Contract Review – Comparable Survey" (June 2014)
- "Regional Contract Review – Ten Year Capacity Demand Forecast" (June 2014)

### Previous Reviews

IEUA's Internal Audit Department and other external auditors have performed previous evaluations of the application and administration of the Regional Contract by the Contracting Agencies to ensure the contract provisions and requirements are being applied in a consistent manner:

- 2009 and 2010 Chino Basin Regional Sewage Service Contract Audit (Interim and Final)
- 2007 Sewage and Connection Fee Audit
- 2006 Independent Accountant's Report on Agree-Upon Procedures Performed
- 1999 Review of the Procedures on computing Equivalent Dwelling Units
- 1998 Agreed Upon Procedures Engagement: Equivalent Dwelling Unit Reporting and Compliance
- 1995 Agreed Upon Procedures Engagement pertaining to the Monthly Equivalent Dwelling Unit Computation and Reporting

**INFORMATION  
ITEM  
2C**

Date: December 16, 2015

To: The Honorable Board of Directors

Through: Audit Committee (12/09/15)

From: Teresa V. Velarde   
Manager of Internal Audit

Subject: Internal Audit Department (IAD) Status Report for December 2015

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### **RECOMMENDATION**

This is an information item for the Board of Directors to review.

### **BACKGROUND**

The Audit Committee Charter requires that a written status report be prepared and submitted each quarter. The IAD status report includes a summary of significant internal and external audit activities for the reporting period. Attached is the status report for December 2015.

The status report is consistent with the Agency's Business Goals of *Fiscal Responsibility*, *Workplace Environment* and *Business Practices* by describing IA's progress in providing independent evaluations of Agency financial and operational activities and suggesting recommendations for improvements.

### **PRIOR BOARD ACTION**

On September 16, 2015, the Board of Directors approved the Annual Audit Plan for Fiscal Year 2014/15.

On December 18, 2013, the Board of Directors reconfirmed the approved Audit Committee Charter.

### **IMPACT ON BUDGET**

None.

## Internal Audit Department Status Report for December 2015

### Projects Completed This Period

**Audit:      Regional Contract Review**

**Scope:**

The objectives of the Regional Contract review include:

- Evaluate how each of the seven Contracting Agencies apply the Regional Contract provisions
- Determine if the seven Contracting Agencies comply with the Regional Contract requirements
- Determine opportunities to improve processes and procedures
- Identify opportunities and make recommendations for consideration as part of the Regional Contract renegotiation

**Final Report                      COMPLETE**

Internal Audit staff has documented the recommendations resulting from the comprehensive review and completed a comprehensive Final Report. The comprehensive Final Report provides recommendations to IEUA's Executive Management for moving forward. It provides several scenarios for management to consider in determining the best alternatives and methods for implementing the intent of the Regional Contract and the potential renegotiation of its terms. The scenarios range from current "Best Practices" that should already be taking place to a potential Total Restructuring of the Agency's business model.

**Additional Audit Reports related to the Regional Contract Review include:**

City of Chino Hills	Complete	June 2015
Cucamonga Valley Water District	Complete	March 2015
City of Chino	Complete	December 2014
City of Fontana	Complete	December 2014
City of Montclair	Complete	September 2014
City of Upland	Complete	September 2014
City of Ontario	Complete	September 2015
Review of the Ten-year Forecast	Complete	June 2014
Comparable Agency Survey Report	Complete	June 2014
Survey of Comparative Information	Complete	September 2014

**Project:      Review of Internal Audit Department Charter and Audit Committee Charter**

**Scope:**      As required by the Internal Audit Department Charter and the IIA Standards, IA must review both Charters annually and recommend any necessary updates to ensure the Charters meet the objectives of the Agency and the Board and address best practices as recommended by the Institute of Internal Auditors according to the *Standards*.

**Status:                      COMPLETE**

The Audit Committee Charter defines and documents the Audit Committee's purpose, composition, authority, and responsibilities. The Internal Audit Department Charter defines and documents the Internal Audit Department's (IA) purpose, mission, authority, and responsibilities. IA staff researched the IIA guidelines for any changes to best practices and also requested input from the Audit Committee Advisor and the External Auditors. The charters are presented in draft form in a separate item with this Agenda, with proposed changes for Audit Committee and Board review, discussion and further direction.

## Internal Audit Department Status Report for December 2015

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### On-going Projects

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**Audit:        Master and Rotating Contracts Audit**

**Scope:**     To evaluate the Agency's Master and Rotating Contracts to ensure these follow the required Agency policies and procedures and ensure controls exist that enforce proper contracting and procurement for transactions are in place.

**Status:                    IN PROGRESS**

IA has obtained listings of all Master Service contracts managed by the Engineering and Construction Management Department and all Master Contracts administered by the Contracts and Programs Department. IA has also obtained a listing of all 43 contractors prequalified by the Engineering and Construction Management Department for Capital Projects less than \$2,000,000. And, IA has obtained example contracts for each of the trade and service categories.

IA has begun reviewing and selecting information in SAP to examine contract activity and will coordinate an audit kick-off meeting in the next month with responsible managers/supervisors. IA will perform surveys, additional planning, interviewing and inquiries of Agency personal in relation to the areas of the audit as part of the anticipated fieldwork, as well as testing transactions to verify their compliance with contract terms and Agency policies and procedures. The anticipated date for completion is March 2016

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**Audit:        Follow up of Outstanding Recommendations: Information Technology Equipment**

**Scope:**  
IA is in the progress of performing a follow-up evaluation to determine the status of the 18 outstanding recommendations provided in the Information Technology (IT) Equipment audit reports dated August 21, 2012 and November 14, 2012.

**Status:                    IN PROGRESS**

There are 18 recommendations that require follow-up evaluation with various Agency departments. IA is currently in the fieldwork phase of this project and follow-up procedures will be performed to verify if corrective actions have been implemented. IA met with Integrated Systems Services (ISS), Human Resources (HR), and Contracts and Procurement (CAP) to discuss the outstanding recommendations with the assigned representatives. Any recommendations related to the Finance and Accounting Department (FAD) will be postponed until the Agency's Comprehensive Annual Financial Report (CAFR) has been completed finalized.

IA will report on the status of each outstanding recommendation and the anticipated date for completion is March 2016.

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**Project:        Management Requests**

**Scope:**  
Assist Agency Management with requests for analysis, evaluations and verification of information, assist with the interpretation of policies and procedures, or providing review and feedback on new policies or procedures. These services are provided according to the IA Charter, the Annual Audit Plan, and best practices.

The management request projects are short-term projects, typically lasting no more than 60 – 75 hours each where IAD determines it has the necessary staff, skills and resources to provide assistance without

## Internal Audit Department Status Report for December 2015

having to delay/defer scheduled audits and priority projects. The scope of each review is agreed upon between the department manager requesting the evaluation/review/analysis/assistance and the Manager of IA and when deemed appropriate by Executive Management.

During this quarter, IA was working on the following "Management Requests":

- Provided workshops and closed session reports to Executive Management and the Board on options for moving forward with the Regional Contract Review recommendations. Continue to be involved with possible collection of the identified uncollected Connection Fees.
- Currently assisting and working with the Environmental Planning and Resources Department on the Water Connection process as well as the Waste Water process for centralizing billing at IEUA. Prepared flowchart and analysis documenting the Water Fee Connection process highlighting potential risk areas.

**Project:** Request for Proposal for External Financial Audit Services

**Scope:**

To secure a professional services accounting firm to perform the annual financial audit and single audit of IEUA to ensure compliance with all regulatory requirements and the Agency's Financial Ordinance.

**Status:** IN PROGRESS

The current contract for External Financial Audit Services will expire on December 31, 2015. In accordance with preferred practices and good internal controls it is in the best interests of the Agency to request proposals from capable certified public accounting firms for the external financial audit services contract. The current financial auditors, White Nelson Diehl Evans, have been the Agency's external auditors since 2011. The Internal Audit Department will work closely with the Contracts and Procurement Department to ensure the RFP is issued to qualified firms and will coordinate the RFP process, including ensuring there is a knowledgeable evaluation panel. The new audit firm should be established by Spring 2016 to ensure that preliminary audit work begins on a timely basis, shortly thereafter.

### ***Internal Audit Department***

**Internal Audit Department Staffing:**

The Internal Audit Department is staffed as follows:

- 1 Manager of Internal Audit
- 2 Full-time Senior Internal Auditors

**Internal Audit Staff Professional Development Activities:**

As required by the *International Standards for the Professional Practice of Internal Auditing*, auditors should continue to enhance their knowledge, skills, and other competencies through continuing professional development.

During the past quarter, IA staff has continued to stay abreast of industry developments through review of industry periodicals. All Staff attended a seminar on the CIA Review Course. Manager of IA attended a 2-day conference on Business Acumen and Critical Thinking. Three IA members are preparing for the third exam of the 3-part Certified Internal Auditor (CIA) certification examination. The CIA is the only globally-recognized certification for internal audit professionals and is the highest certification that can be attained by an internal auditor. One Senior Auditor is a Certified Public Accountant (CPA). One Senior Auditor is a Certified Government Audit Professional (CGAP).

**Future Audit Committee Meetings:**

- Wednesday, March 9, 2016 – Regularly Scheduled Audit Committee Meeting
- Wednesday, June 8, 2016 – Regularly Scheduled Audit Committee Meeting