

Chino, California



Inland Empire Utilities Agency

Comprehensive Annual

Financial Report

A Municipal Water District



Fiscal Year Ended

June 30, 2011

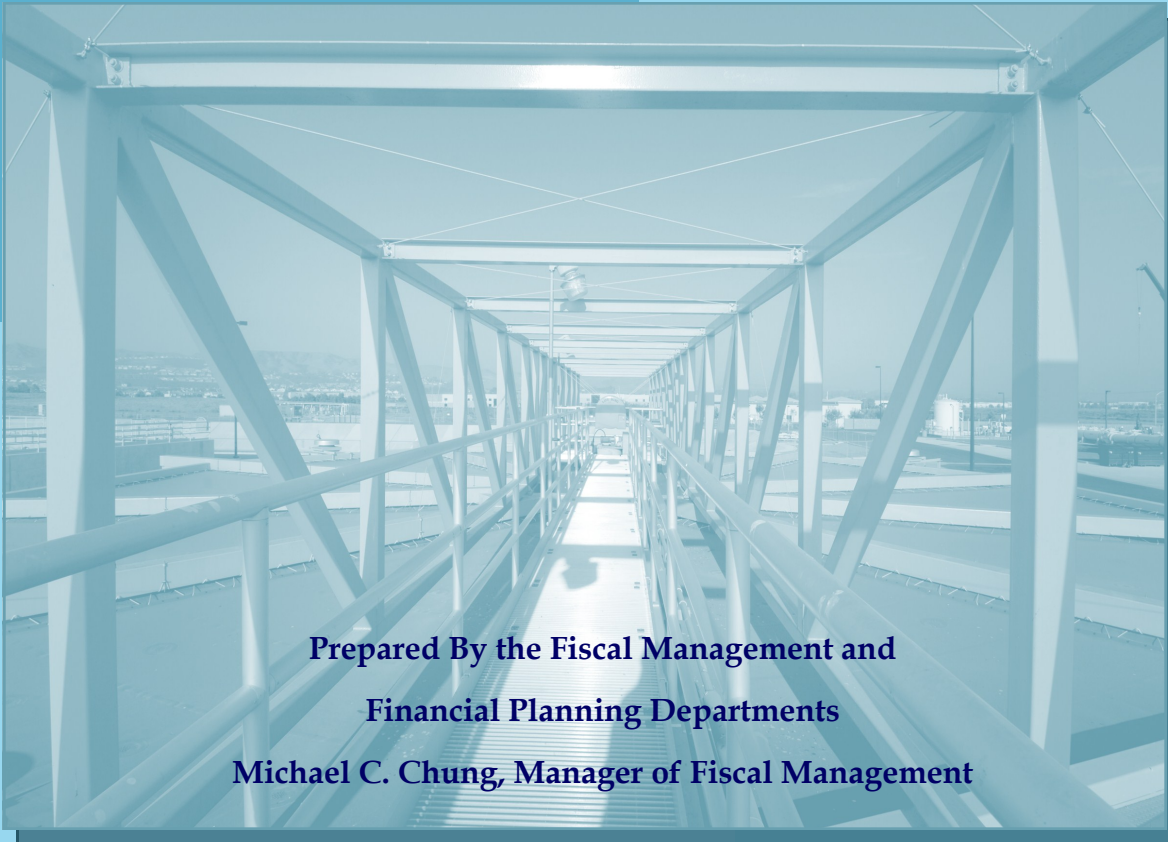


Artist: Kevin Nguyen, Tenth Grade

Don Antonio Lugo School - Chino

Second Place Winner - Ninth - Twelfth Grade Category

Inland Empire Utilities Water District



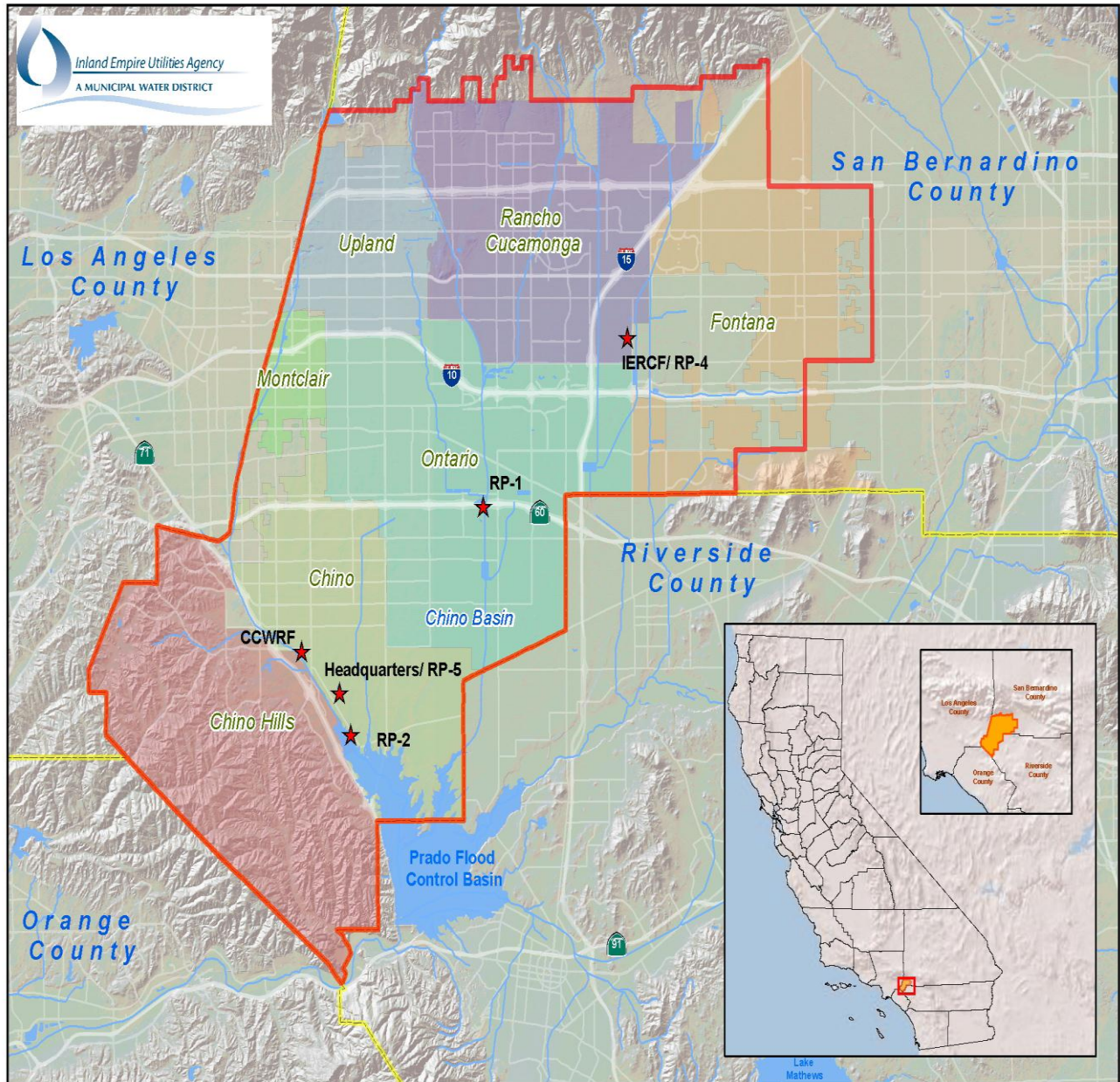
**Prepared By the Fiscal Management and
Financial Planning Departments
Michael C. Chung, Manager of Fiscal Management**

**Inland Empire Utilities Agency
Comprehensive Annual
Financial Report**



**Fiscal Year Ended
June 30, 2011**

Inland Empire Utilities Agency Service Area



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

Agency Vision

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

Agency Mission

The mission of the Agency is:

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

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

Agency Value

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

INLAND EMPIRE UTILITIES AGENCY

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2011

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December 21, 2011

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

State law and local ordinances require the Agency to annually publish a comprehensive report of its financial condition and activities, audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, it is with pleasure that we present The Comprehensive Annual Financial Report of the Inland Empire Utilities Agency (referred to as the Agency) for the fiscal year ended June 30, 2011.

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

The Agency's financial statements have been audited by White Nelson Diehl Evans LLP., a firm of certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Agency for the fiscal year ended June 30, 2011, are free from any material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used, and significant estimates made by management; and evaluating the overall financial statement presentation.

The independent audit concluded, based upon the audit, that there was reasonable basis for rendering an unqualified ("clean") opinion that the Inland Empire Utilities Agency's financial statements for the year ended June 30, 2011 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

Water Smart - Thinking in Terms of Tomorrow

Terry Catlin
President

Michael Camacho
Vice President

Steven J. Elie
Secretary/Treasurer

Gene Koopman
Director

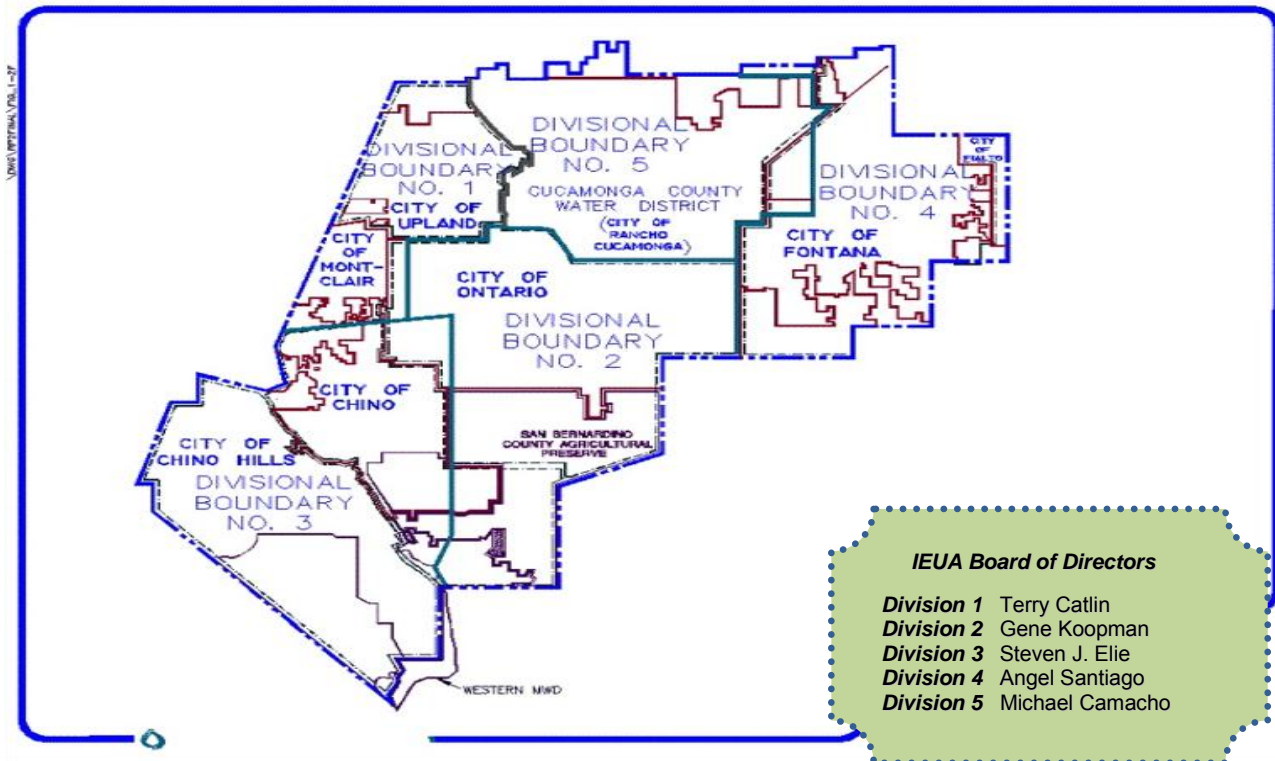
Angel Santiago
Director

Thomas A. Love
General Manager

INLAND EMPIRE UTILITIES AGENCY PROFILE

Up to the Present

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



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

INLAND EMPIRE UTILITIES AGENCY PROFILE (continued):

Up to the Present (continued):

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

The Agency currently operates five wastewater treatment plants.

◆ ***Regional Plant No. 1***

Regional Plant No. 1 (RP-1) is located south of the 60 freeway at Archibald in the City of Ontario. This facility was originally commissioned in 1948 and has undergone several expansions to increase the design wastewater treatment, and biosolids treatment, capacity. RP-1 currently processes approximately 28 million gallons per day (mgd) of wastewater.



◆ ***Regional Plant No. 2***



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

◆ ***Carbon Canyon Wastewater Recycling Facility***

Carbon Canyon Wastewater Facility (CCWRF) is located near the intersection of Central Avenue and Chino Hills Parkway in the City of Chino, and has been in operation since May 1992. Liquids are treated at CCWRF, while the solids removed from the waste flow are treated at RP-2. CCWRF treats an average flow of approximately 7 mgd.



INLAND EMPIRE UTILITIES AGENCY PROFILE (continued):

Up to the Present (continued):

◆ **Regional Plant No. 4**

Regional Plant No. 4 (RP-4) is located in the northeastern section of the service area in the City of Rancho Cucamonga, and has been in operation and producing recycled water since 1997. RP-4 is operated in conjunction with RP-1 to provide recycled water to users. In late FY 2008/09 the plant's capacity was expanded to 14 mgd, and it currently processes flow of approximately 10 mgd.



◆ **Regional Plant No. 5**



Regional Plant No. 5 (RP-5) is located in the Southwestern area of the Agency's boundary in the City of Chino. This facility was originally commissioned in 2000. Currently RP-5 processes approximately 7.8 mgd. RP-5 includes several treatment processes that contribute to providing a quality recycle water pursuant to the State of California Title 22 regulations.

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

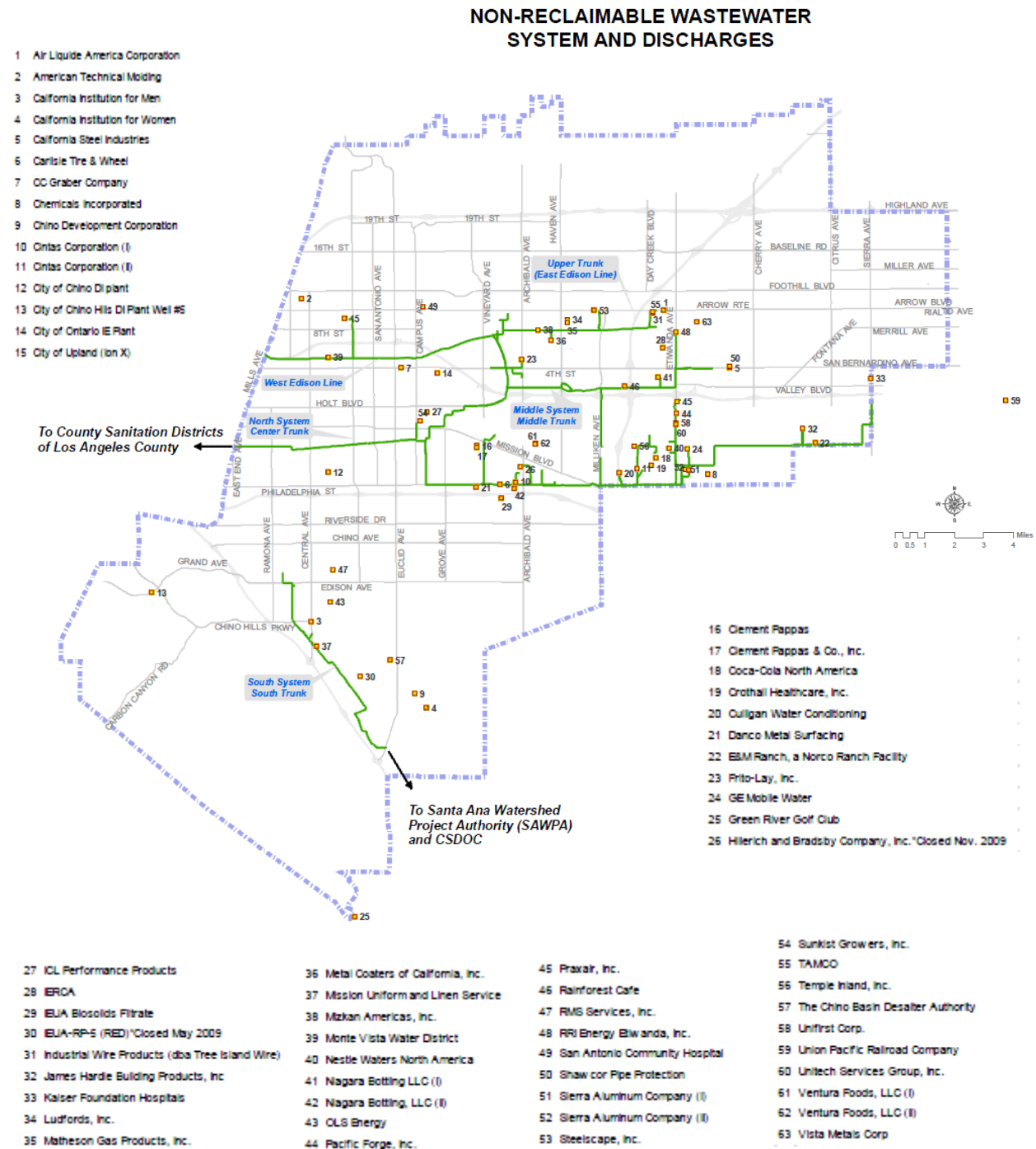
The Agency operates the Nonreclaimable Wastewater System (NRWS) that provides for the treatment and disposal of industrial waste, which is too high in salts for discharge into the Agency's treatment plants. The NRWS transports non-reclaimable, salt-laden, industrial strength wastewater out of the Agency's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

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

INLAND EMPIRE UTILITIES AGENCY PROFILE (continued):

Up to the Present (continued):

As of June 30, 2011, approximately 61 industries discharged the brine wastewater generated from their process. Some of the largest industries are California Steel Industries, Frito Lay Inc., Temple Inland Paperboard and Packaging Inc., James Hardie Building Products, Mission Uniform and Linen Services, Crothall Sunkist Growers, Ecolochem/GE Mobil, Clement Pappas, Cintas #1 and Cintas #2, Chino Desalter I, Nestle (Arrowhead) Water, Unifirst, Sierra Aluminum, and Niagara Bottling. These industries are directly connected to the Agency's NRWS. The NRWS also serves approximately 16 industrial customers that truck their wastewater to the Agency's dump discharge stations.



INLAND EMPIRE UTILITIES AGENCY PROFILE (continued):

Up to the Present (continued):

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

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

The Agency's regional water and wastewater services are essentially wholesale services provided to the Agency's Contracting Agencies. In contrast, the Agency's NRWS provides retail services that are billed directly to the industrial customers of the Agency.

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

◆ **RP-5 – 3.5 MW Solar Power Field**

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



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

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

INLAND EMPIRE UTILITIES AGENCY PROFILE (continued):

Up to the Present (continued):



Chino Basin Desalter Authority, (CDA), a joint power authority (JPA), was formed in September 2001. The purpose of the JPA was to acquire all assets and liabilities of the Chino Basin Desalter and its operations from the Santa Ana Watershed Project Authority (SAWPA).



The JPA is comprised of the cities of Chino, Chino Hills, Ontario, Norco, the Jurupa Community Services District (JCSD) and the Santa Ana River Water Company, Western Municipal Water District and Inland Empire Utilities Agency as an ex-officio member.



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

The Agency has replaced the existing facility with the nation's largest indoor biosolids composting facility, constructed by the IERCA. The new facility started operation in March of 2007, and produces a wood based, nutrient rich, compost made from recycled green waste, biosolids and horse stable bedding. The previous composting site was sold to a local developer.

ECONOMIC CONDITION AND OUTLOOK¹

Fiscal Year 2010/11 continued to be another challenging year for the Agency due to the ongoing global economic recession. The challenge has been particularly difficult for the Inland Empire (IE) region, wherein the Agency's service area resides, which has been especially hard-hit with housing starts declining from a peak of more than 5,000 units per month in July 2006 to an estimated 500 units in December 2010. This drastic drop in construction has resulted in double digit unemployment rates that have exceeded both the national and California unemployment rates. Flat-line growth in the housing market prevailed throughout the IE region in FY 2010/2011. Based on recent economic studies, most local economists agree the IE region will continue to lag both the State and U.S. recovery by at least two or three years, (CMC-ULC Inland Empire Forecast, September 2011). These adverse conditions have had a detrimental impact on some of the Agency's primary revenue sources, including new connection (development) fees, property tax receipts, and user charges.

ECONOMIC CONDITION AND OUTLOOK¹ (continued):

Moreover, these unyielding economic conditions have only worsened the California state budget crisis, heightening the risk for a potential shift of local revenues by the State legislature to fund the budget shortfall. One example is Governor Jerry Brown's attempt to dissolve the States' 400-plus Redevelopment Agencies (RDA's) in order to shift approximately \$1.7 billion to schools and fire districts in their jurisdictions, (Trailer bills AB1X 26 and AB1X 27 approved in mid July 2011).

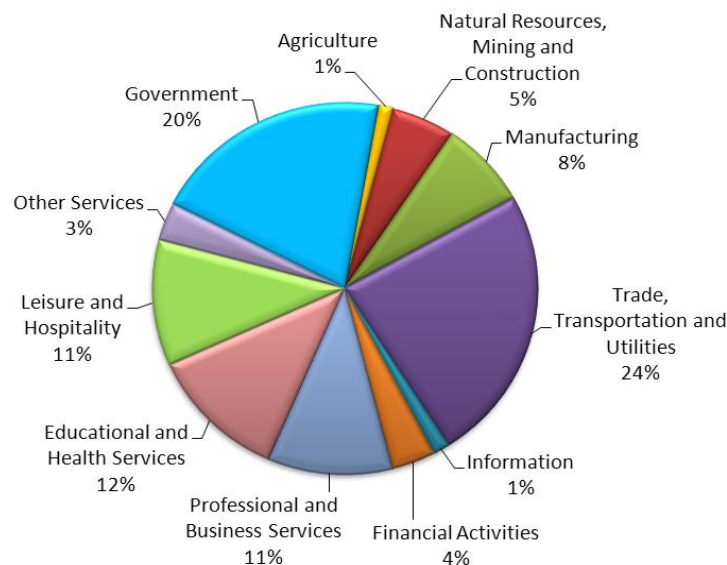
The Agency has been diligent in its continual effort to contain and reduce costs, even before the economic downturn in 2008. Some of the most significant cost cutting measures achieved in FY 2010/2011 include: the permanent reduction of 13 full time equivalent (FTE) authorized positions from 308 authorized FTEs to 295, maintaining an average vacancy factor of 5% equivalent to 15 FTE's, and cutting operating expenses by \$2.0 million. In addition to the economic challenges, the Agency is also facing the Agency regulatory and environmental challenges, some of which include:

- ◆ **Conservation and Alternative Energy** – California Assembly Bill 32 – the California Global Warming Solutions Act – requires implementation of programs starting in 2012 to achieve a 20% reduction in greenhouse gas emissions by the year 2020. Energy costs represent nearly 14% of our total operating costs. Consistent with the 2008 Energy Management Strategy, the Agency's "Go Gridless by 2020" initiative focuses on energy independences from Southern California Edison's grid during the peak energy use/pricing periods by the year 2020 or sooner. This will be achieved through optimization of energy consumption and by maximizing on-site energy generation; effective energy demand response, implementation of new technologies such as solar, wind, biogas generation and fuel cells.
- ◆ **Water Reliability** – A goal of the Agency continues to be to work collaboratively with its member agencies to meet the current and future water needs of its customers. Major efforts and funding have been shifted to focus on building recycled water infrastructure to attain the projected 50,000 AFY (acre fee per year) by FY2015/16. Working in concert with Chino Basin Watermaster, the Agency continues to support groundwater recharge programs within its service area, including recharge of recycled and imported water and the capture of storm water supplies.
- ◆ **Housing Market** – Despite a slight improvement in the Inland Empire home markets, 48.9% of inland homes are still worth less than what the owners owe. The housing market has a long way to go before it recovers from the economic downturn of 2008. This is a major economic challenge facing the region. Until foreclosures and short sales fall dramatically, and residential construction improves, the region will continue to face a slow recovery. There are 853,076 inland empire homes with mortgages, with 417,266 of those upside down (48.9%), meaning they are worth less than what homeowners owe. Many families will continue making payments hoping prices will increase enough to break even. However many will give up, sending a continuing flow of foreclosures or short sales into the market. These conditions will cause home prices to remain too low for new homes to compete. Since construction was 21.6% of the growth in the Inland Empire's job base during the 2000-2007 upturn, the area's recession is likely continue for some time.
- ◆ **Employment** – In November 2011, the Los Angeles Times reported unemployment rates for the IE region at 13.3%, higher than the nation's 9% and overall State rate of 11.7%, and the highest among 49 metropolitan areas (population of over one million people). By the end 2011, the IE economy is forecasted to gain approximately 5,200 jobs. This represents only 0.5% of the 161,300 jobs lost during 2008-2010 and wiping out the jobs gained during the 2004-2007 housing boom. The turnaround will be very modest because the area's traditional competitive advantages (undeveloped land, and modestly priced labor) that have powered its blue collar sectors, have been overcome by the deep mortgage crisis affecting construction and California's lack of manufacturing competitiveness.

¹ Source: John Housing Quarterly Economic Report, April 2011

ECONOMIC CONDITION AND OUTLOOK¹ (continued):

**San Bernardino County
Jobs by Industry**



¹Sources: [http://www.labormarketinfo.edd.ca.gov/Bureau of Labor Statistics](http://www.labormarketinfo.edd.ca.gov/Bureau%20of%20Labor%20Statistics)

MAJOR INITIATIVES AND ACCOMPLISHMENTS

In response to the economic downturn of 2008 and the negative impact it has had on some of the Agency's property tax receipts, user charge revenues, and connection (development) fees, the Agency has drastically cut capital expenditures as part of the cost containment plan. A major portion of the cuts were deferral of expansion of existing facilities to accommodate future growth in the Agency's service area, as well as non-critical capital replacement and refurbishment projects. One exception is the Agency's construction of the Regional Recycled Water Distribution System. As part of the Agency's Recycled Water Business Plan adopted by the Board of Directors in December 2007, the Agency continues to focus on the recycled water expansion projects in order to attain its projected delivery of 50,000 AFY of recycled water.

Major Initiatives for FY 2010/2011

Total capital expenditures came to \$45 million, about 52% of the total amended budget. Some of the major projects in 2010/2011 were as follows:

Operation and Maintenance:

◆ ***Salinity Management and Reduction Program***

Revise the existing Regional Wastewater Ordinance to include a prohibition for the installation of residential Self-Regenerating Water Softeners (SRWS). Collaborate with the contracting agencies to develop a model ordinance that can be used by the contracting agencies prohibiting commercial SRWS.

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Initiatives for FY 2010/2011 (continued):

◆ ***Ground Water Recharge Program Support***

Proactively support GWR and Operations through enhanced source control activities including public education programs, such as No Drugs Down the Drain, Fats, Oil, and Greased, and Don't Flush Trouble (items such as wipes, etc.)

◆ ***RP-1 – Aeration Basin Clean and Air Panel Membrane Replacement;***



Clean all 6 aerations trains at the RP-1 facility and replace all panel membranes.



◆ ***RP-1 – Odor Control, Phase 1B and Solids Bypass;***

Extension of the Headworks Building at RP-1



This project includes the design and construction of odor control facilities in the most odorous areas of RP-1.



***Construction & Operation of the
Odor Control Bio Filter***

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Initiatives for FY 2010/2011 (continued):

The RP-1 project also includes the dewatering building, biosolids loading area, side stream treatment process, gravity thickeners, dissolved air flotation thickeners, manure handling area, circular and rectangular primary clarifiers, influent channels and scum boxes, primary effluent diversion structure and primary effluent intermediate pump station.

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

◆ ***Recycled Water Projects:***

1630 W. Pipeline Phase 3 – City of Rancho Cucamonga

This project consists of the 1630 Baseline Pipeline-West. The 1630 Pipeline-West is 28,450 feet of 30-inch diameter recycled water pipeline on Baseline Roland between Carnelian Avenue and Etiwanda Avenue all within the City of Rancho Cucamonga. The pipeline will provide service to central and west Rancho Cucamonga along the pipeline and through the Archibald Milliken lateral system. This project will make provide 1,320 AFY of recycled water to customers.



***1430 West Reservoir & 1630 W Pump Station –
City of Rancho Cucamonga***



***36" Recycled Water Pipeline
Performing Camera Survey***

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

IEUA and its member agencies are committed to the recycled water program, and have been working diligently to implement new customer connections.

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Initiatives for FY 2010/2011 (continued):

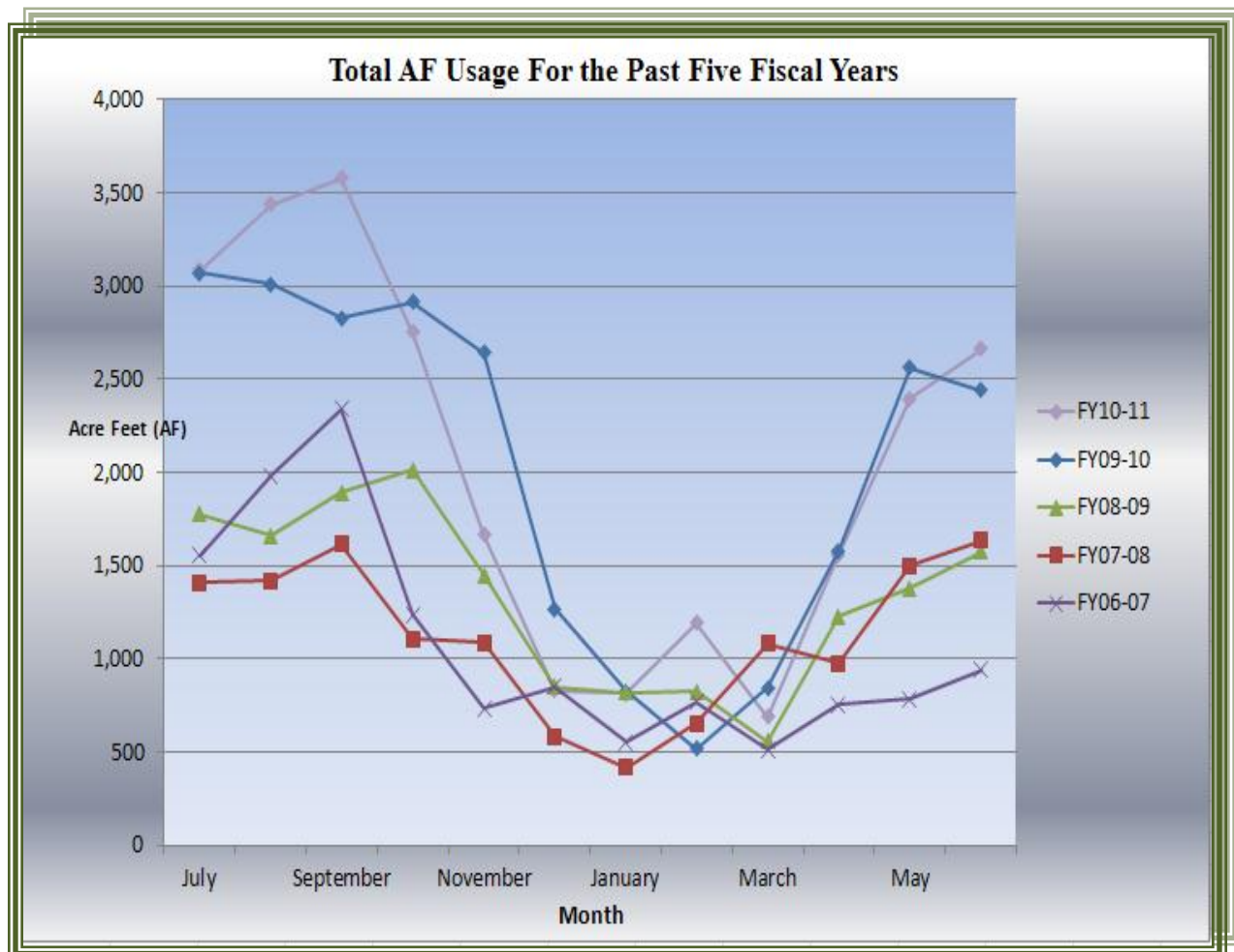
◆ ***Recycled Water Projects (continued):***

As of June 30, 2011 the Agency has completed a significant portion of the Recycled Water Three Year Business Plan and increased recycled water connections by 50 during fiscal year 2010/11.

- Total Member Agency Connected Meters to-date – 593
- Total Member Agency Recycled Water Demand to-date – 43,424 AF

Annual Recycled Water Connected Capacity Summary (AFY)

Type	Existing				Projected		
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Direct Use	13,100	19,864	25,264	28,120	29,620	31,120	32,620
GW Recharge	4,500	7,170	7,170	16,880	17,880	18,880	19,880
Total	17,600	27,034	32,434	45,000	47,500	50,000	52,500



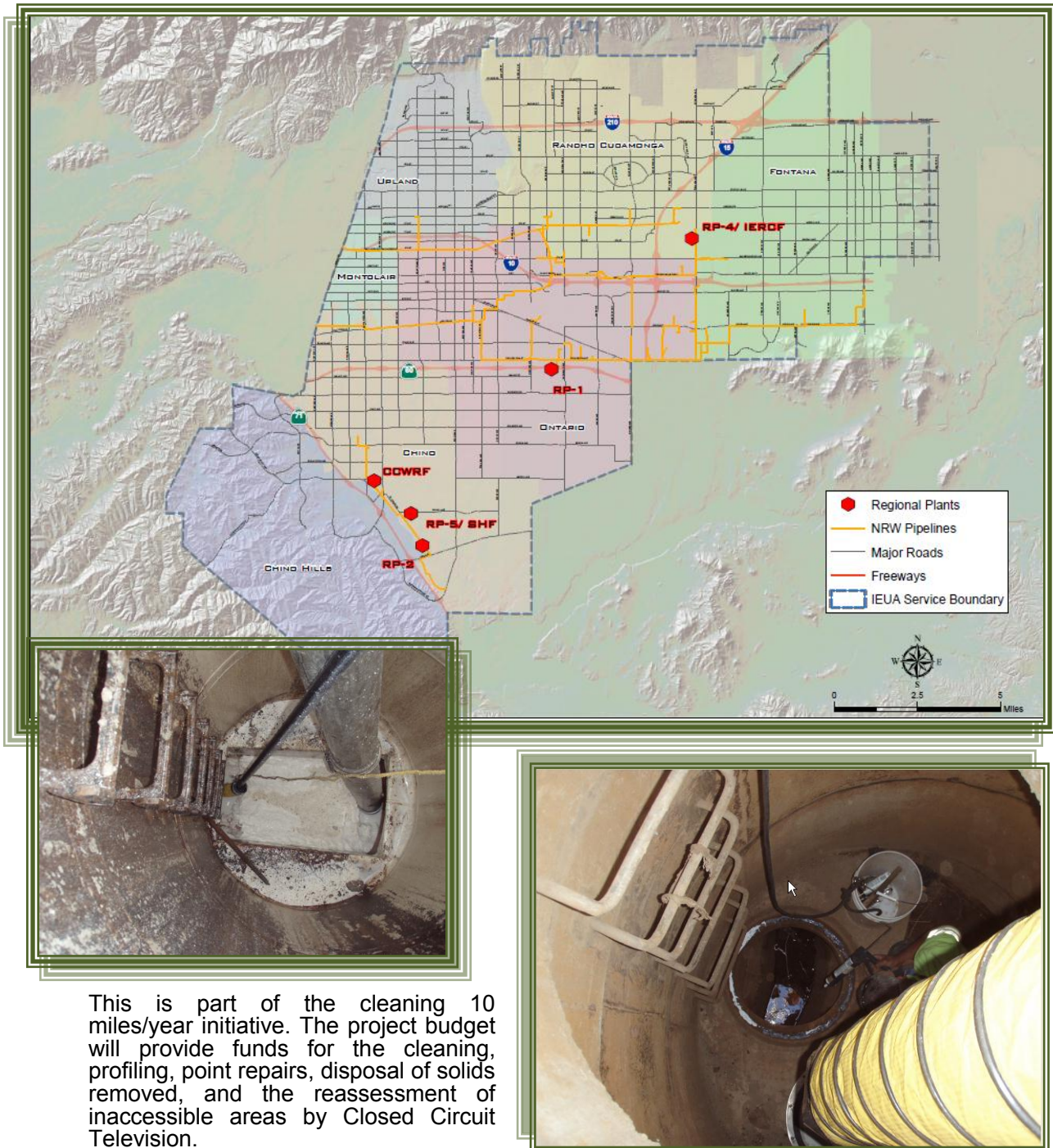
MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Initiatives for FY 2010/2011 (continued):

◆ **NRW System Upgrades:**

NRW Pipeline Cleaning

The project encompasses the cleaning of the Northern NRWS pipelines.



MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Accomplishments for FY 2010/2011

The highlights of major activities and accomplishments are as follows:

Funding Developments:

2010A Revenue Bonds

On July 15, 2010 Chino Basin Regional Financing issued the Inland Empire Utilities Agency Refunding Revenue Bonds, Series 2010A in the total amount of \$45,570,000. The Bonds were issued 1) to refund the outstanding Chino Basin Regional Financing Authority Revenue Bonds, series 1994 (Chino Basin Municipal Water District Sewer System Project), and 2) to pay the costs of issuing the bonds.

The Bonds maturing through 2022 are payable in annual installments ranging from \$3,510,000 to \$5,075,000 with an interest rate from 1.35% to 5.00% per annum, payable semi-annually. The present value of the savings over the life of the bond is \$8,022,916.35.

The significant impact of Agency Grants and Loans on the funding of projects:

- ◆ **Federal Grants:** The United States Department of Interior, Bureau of Reclamation (USBR) executed contracts in the amount of \$14,000,000 for Title XVI projects funded by American Recovery and Reinvestment Act (ARRA.) The ARRA grants funded the Northeast and Northwest Area recycled water facilities.

During FY 2010/2011, the construction of the Northeast projects was completed. The Agency successfully utilized 100% of the \$5,900,000 federal grant funding. As a contract requirement, the USBR performed a financial assistance closeout review. Upon completion of the Northeast financial review, the USBR determined that there were no exceptions and that the Agency has complied with the Agreement's terms and conditions for appropriate project costs under ARRA.

The Northwest Area projects have completed the design phase and are continuing with construction progress. Grant staff has invoiced \$2,741,061 on the Northwest Project this Fiscal year.

- ◆ **State and Local Grants:** The Agency received two State Water Resources Control Board (SWRCB) grants for the Recycled Water Projects.

During this fiscal year, the Northeast state projects were completed with a total grant collection of \$4,241,631.

A new award of \$4,000,000 was approved for the Southern Area Recycled Water Projects.

The SWRCB also provided ARRA funds in the amount of \$2,542,780 to restart several grant projects that had been placed on hold during the State financial crisis.

- ◆ **State Revolving Fund (SRF) Loans:** IEUA was awarded two SRF Loans for IEUA projects this year.

The SRF Loan for the construction of the new Laboratory Facilities was executed for the amount of \$14,830,000.

IEUA received SRF Loan approval for the Southern Area Recycled Water Facilities in May 2011 in the amount of \$20,608,638.

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Accomplishments for FY 2010/2011 (continued)

Funding Developments (continued):

The ARRA funded Northeast SRF Loan was completed and closed with the total amount received being \$15,061,170.

The RP-1 Dewatering Facility Expansion Project received a substantial amount of ARRA funding. IEUA has collected \$19,389,754 in loan reimbursements to date for this project.

**Inland Empire Utilities Agency
 Grant/Loan Summary
 As of June 30, 2011**

Funding Agency	Project Name	Award Amount	Award Balance	Percent Claimed	Cumulative Invoiced (Through 06/30/11)
Active Federal Grants					
USBR (Grants)	North East Area Recycled Water	\$ 5,942,000	\$ 3,546	100%	\$ 5,938,454
	North West Area Recycled Water	\$ 7,910,000	\$ 5,004,666	37%	\$ 2,905,334
	California Water Wise Landscape	\$ 30,000	\$ -	100%	\$ 30,000
* FEMA/Cal-EMA (Grant)	FEMA Winter Storm 2010 Disaster	\$ 614,410	\$ 614,410	0%	\$ -
Total Active Federal Grants		\$ 14,496,410	\$ 5,622,622	61%	\$ 8,873,788
Active State & Local Grants					
DWR (Grants)	Multi-Family ULF Toilet Program	\$ 1,650,133	\$ 408,560	75%	\$ 1,241,573
	Landscape Water Audit Program	\$ 194,476	\$ 5,340	97%	\$ 189,136
Department of Parks & Recreation (Grants)	Water Discovery Field Trip & Bus	\$ 207,900	\$ 196,800	5%	\$ 11,100
	Earth Day program	\$ 38,500	\$ 27,161	29%	\$ 11,339
MWD (Grant)	Water Softener Salinity Reduction	\$ 95,000	\$ -	100%	\$ 95,000
WaterReuse Foundation (Grant)	Research for Potable Reuse and Aquifer Storage Projects	\$ 479,995	\$ 54,379	89%	\$ 425,616
SWRCB (Grants)	North East Area Recycled Water	\$ 4,241,635	\$ 4	100%	\$ 4,241,631
	* Southern Area Recycled Water	\$ 4,000,000	\$ 4,000,000	0%	\$ -
	Chino Creek Integrated Plan and Cleanup (ARRA)	\$ 1,471,491	\$ 793,243	46%	\$ 678,248
	Greater Prado Clean-up (ARRA)	\$ 298,244	\$ 226,968	24%	\$ 71,276
	Magnolia Channel Restart (ARRA)	\$ 773,045	\$ 0	100%	\$ 773,045
Total Active State & Local Grants		\$ 13,450,419	\$ 5,712,455	58%	\$ 7,737,964
Active SRF Loans					
SWRCB (SRF Loans)	North East Area Recycled Water	\$ 16,630,166	\$ 1,568,996	91%	\$ 15,061,170
	RW Wells and Lysimeters	\$ 1,285,987	\$ 287,656	78%	\$ 998,331
	RP-1 Dewatering Facility	\$ 27,434,811	\$ 8,045,057	71%	\$ 19,389,754
	* Southern Area Recycled Water	\$ 20,608,638	\$ 20,608,638	0%	\$ -
	New Main Operations Laboratory	\$ 14,830,000	\$ 14,830,000	0%	\$ -
Total Active SRF Loans		\$ 80,789,602	\$ 45,340,347	44%	\$ 35,449,255
Grand Total Active Grants and SRF Loans		\$ 108,736,431	\$ 56,675,424	48%	\$ 52,061,007
* Application Submitted in FY10/11, Contract Awarded in FY 11/12.					

*Includes FY 2010/2011 Accrued Grant/Loan Revenue

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Accomplishments for FY 2010/2011 (continued):

Funding Developments (continued):

Representatives from the U.S. Bureau of Reclamation (USBR) and the State Water Resources Control Board (SWRCB) visited project sites of the North East Recycled Water Project for their quarterly visits in January and April 2011.

North East Projects

January 24, 2011 –

Site interviews of the North East Area Projects, by the State Water Resources Control Board (SWRCB) and the United States Bureau of Reclamation (USBR).



From L to R: Scott Johnson IEUA, Robert Pontureri SWRCB, Dennis Wolfe USBR, Jamie Banales USBR, James Wilbur IEUA, and Jason Gu IEUA



From L to R: Jamie Banales USBR, Dennis Wolfe USBR, Scott Johnson IEUA, Jason Gu IEUA, and Robert Pontureri with SWRCB

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

Major Accomplishments for FY 2010/2011 (continued):

Funding Developments (continued):

Sites visited in January and April 2011 included: East Pipeline Segment A, East Reservoir, and East Pump Station.

North East Projects



L to R: Jason Gu IEUA, Sylvie Lee IEUA, Jamie Banales USBR, Dennis Wolfe USBR, and Scott Johnson IEUA

April 7, 2011 –

Site condition review of the North East Area Projects, by the United States Bureau of Reclamation (USBR).



L to R: Dennis Wolfe USBR, Jason Gu IEUA, Scott Johnson IEUA, and Jamie Banales USBR

MAJOR INITIATIVES AND ACCOMPLISHMENTS (continued):

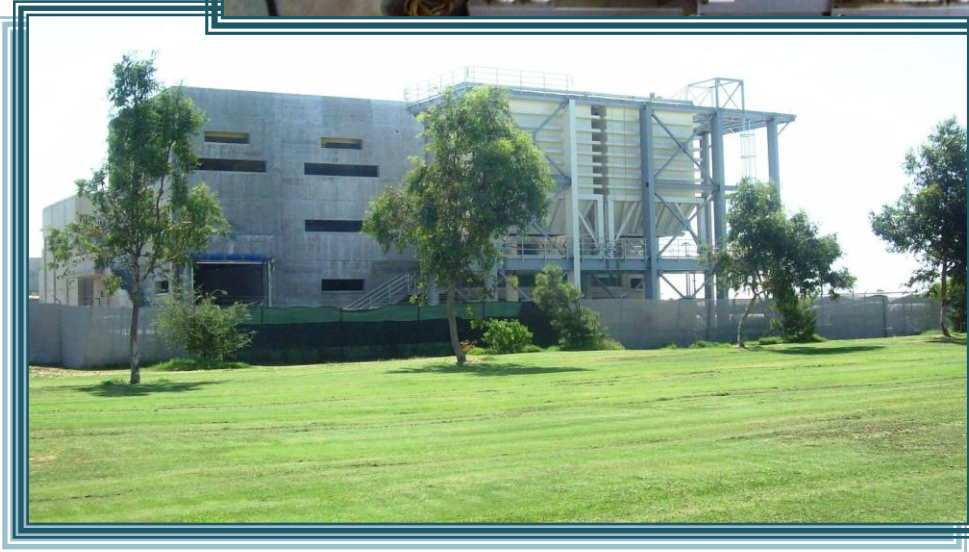
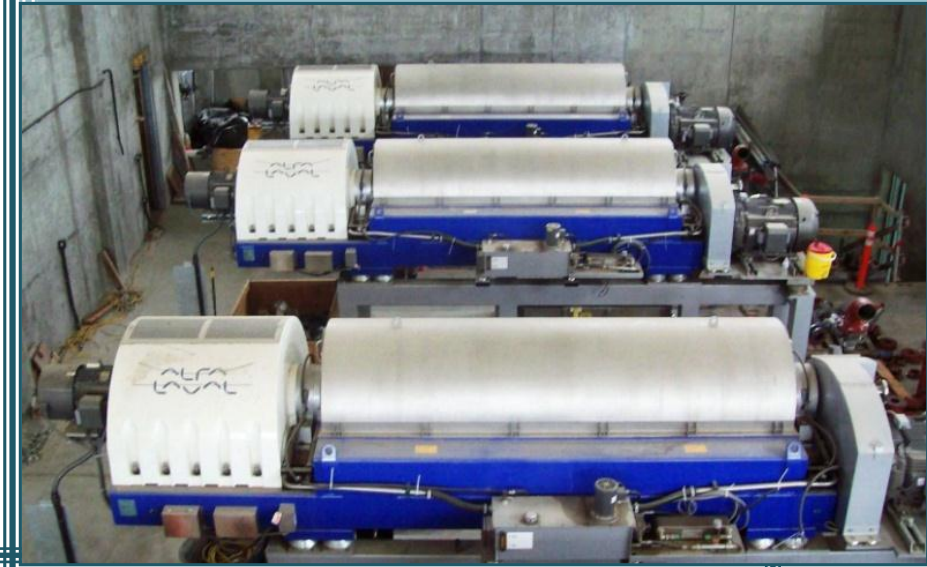
Major Accomplishments for FY 2010/2011 (continued):

Funding Developments (continued):

RP-1 Dewatering Expansion Project

The pictures below reflect the RP-1 Dewatering Expansion Project

***RP-1 Dewatering
Expansion Project
Centrifuges***



***RP-1 Dewatering
Building***

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

FUTURE YEARS

The economic slowdown, environmental regulations, water supply reliability, and the ongoing state budget crisis continue to be the most critical issues impacting the Agency and its customers.

The Agency continues to be challenged by the volatility in the energy market, new legislation such as California Assembly Bill (AB) 32 the California Global Warming Solutions Act which requires implementation of programs starting in 2012 to achieve a 20% reduction in greenhouse gas emissions by the year 2020, and more stringent regulations limiting the use of natural gas in energy generation. Energy costs represent nearly 14% of the Agency's total operating costs. Mitigating imported energy costs over time by maximizing use of self-generated and renewable energy power is a critical component of the Agency's commitment to cost containment. Consistent with the 2008 Energy Management Strategy, the Agency's "Go Gridless by 2020" initiative focuses on energy independence from the Southern California Edison (SCE) grid during the peak energy use/pricing periods by the year 2020 or sooner. This will be achieved through optimization of energy consumption (use efficiency) and by maximizing on-site energy generation; effective energy demand response, implementation of new technologies such as solar, wind, biogas generation and fuel cells; as well as utilization of advantageous energy procurement strategies. Implementing new low emission generation technology (Fuel Cells) will also help to mitigate the impact of new South Coast Air Quality Management District stringent rules.

A key objective of the Agency and its member agencies continues to be the development and securitization of local water supplies in the Chino Basin to meet current and future needs. In March 2011, Governor Jerry Brown announced the end to California's drought and rescinded the statewide drought declaration established by former Governor Schwarzenegger in 2009. In response to Governor Brown's announcement, Metropolitan Water District of Southern California (MWD) lifted mandatory restrictions and restored full imported water deliveries to the District's 26 member agencies for the first time in nearly two years. The accelerated construction of the Agency's Regional Recycled Water Distribution System as part of the Business Plan is consistent with the intent of the Optimum Basin Management Program (OBMP) to ensure the region's ability to meet its current and future water needs. IEUA is participating in key regional planning studies including MWD's Integrated Water Resources Plan and SAWPA's "One Water One Watershed" (OWOW) process to ensure we are strategic in our approach to developing local supplies in a cost effective manner. Construction of the Agency's regional recycled water distribution system will continue and is targeted for completion in FY 2013/2014, increasing deliveries of recycled and recharge water supplies from 25,000 AF (acre feet) projected for FY 2010/2011 to approximately 50,000 AFY (acre feet per year) by FY 2015/2016.

The implementation of the state's Global Climate Change legislation (AB 32) and SCAQMD rule 1110.2 will dramatically affect the water and wastewater utility industry. IEUA has developed an Energy Management Strategy which includes optimizing energy consumption at Agency facilities; increasing the production and use of digester gas; increasing self-generation capacity utilization; pursuing new technologies; and utilizing effective energy procurement strategies. Initial state agency recommendations for actions to implement AB 32 include development of renewable energy (solar, wind and fuel cell technology), and use of water recycling. IEUA was the Case Study agency and partner in a prominent statewide study of energy consumption and carbon generation in the water/wastewater industry which demonstrated that water recycling saves energy compared to importing water.

FUTURE YEARS (continued):

IEUA completed the installation of Photovoltaic (PV) systems in 2008 (i.e. solar panel equipment) with a combined capacity of 3.5 Megawatt (MW) at RP-1, RP-5, CCWRF and IERCF (Inland Empire Regional Composting Facility) which will account for up to about 9% of its energy needs from renewable, non-polluting energy sources. Implementation of the 1 MW wind turbine at the RP-4 recycling facility scheduled to be completed in June 2011, has been delayed to August due to the interruption in manufacturing activities following the devastating Japanese earthquake and tsunami crisis in March 2011. Fuel cell capacity of 2.8MW is anticipated to be operational by early 2012 and will replace 1.0 MW renewable energy currently generated from the Internal Combustion Engines (ICEs) at the RP-1 facility.

In the long term, these new energy initiatives will result in energy cost savings to the Agency by mitigating the volatility in energy market and future rate increases from Southern California Edison (SCE). The fuel cell project avoids costly retrofitting of ICEs to meet 1110.2 requirements. Implementation of the fuel cell project through the public-private partnership model using a PPA also avoids large capital outlay by the Agency.

Although we continue to have the lowest wholesale sewer rates in southern California, an ongoing challenge is to improve our efficiencies and effectiveness to sustain affordable cost of service rates. In concert with the efficiency improvements, the Agency implemented an Enterprise Resource Planning (ERP) system to integrate the financial, plant maintenance and engineering project systems and eliminates redundancy and inefficient processes. Over the next year we will also strive to integrate all of our information technologies (e.g., Human Capital Management and Payroll with SAP business software packages to improve overall performance).

Vision

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



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

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

The Agency has identified and committed to broad policy goals designed to move the Agency forward in executing its mission and attaining its vision.

FUTURE YEARS (continued):

Vision (continued):

Those goals can be categorized into nine major thematic areas:

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

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

- ◆ Sustain cost containment efforts throughout the Agency,
- ◆ Minimize capital projects to whatever is necessary to ensure continued operations, to improve efficiencies that result in substantial cost savings within the constraints of available funding,
- ◆ Leverage low interest state loans and grants to augment capital funding, and
- ◆ Expand the recycled water program to promote long term water conservation efforts and reduce dependency on costly imported water.
- ◆ Maintain the existing level of water conservation programs to encourage consumer behavioral changes that enhance water quality and protect water supplies;
- ◆ Minimize to the extent practical, increases in energy through use of proven technologies such as wind power, fuel cells, and solar panels.
- ◆ Control chemical costs through continued focus on improving chemical application and aggressive management of chemical contracts.
- ◆ Continue to enhance the ERP (Enterprise Resource Planning) system and leverage the return on investment (ROI) benefits that a fully integrated system has to offer.
- ◆ Achieving greater accountability through more measurable and specific performance indicators.
- ◆ Heighten asset management strategy through –
 - Continued condition assessments of aging facilities and pipeline infrastructure, and
 - Targeted capital replacements.

FINANCIAL INFORMATION

Internal Controls

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

Budgetary Controls

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

Cash and Investment Management

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

1. **Safety:** *Safety of principal is the foremost objective of the investment program. Investments made by the Agency are undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required to prevent any potential loss on any individual security or depository from exceeding the income generated from the remainder of the portfolio.*

2. **Liquidity:** *The investment portfolio will remain sufficiently liquid to enable the Agency to meet all operating requirements that might be reasonably anticipated.*

3. **Return on Investments:** *The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.*

All cash and investment transactions are conducted in accordance with the Agency's resolutions and Investment Policy and Master Resolutions. While management recognizes that investment risks may result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity, portfolio diversification is employed as a way to control these risks. The Agency therefore limits the allowable investment amount, per financial institution, per type of instrument, to a percentage between 10% and 50% of the surplus funds investment portfolio at the time of investment decision.

FINANCIAL INFORMATION (continued):

Cash and Investment Management (continued):

The computation of this limitation does not include the funds in demand deposit accounts, money market accounts, passbook savings accounts, escrow agreements for construction retention payments, or the funds invested in U.S. Government Securities, Agencies, Instrumentalities, or Local Agency Investment Fund (LAIF), deposits.

OTHER INFORMATION

Independent Audit

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

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Inland Empire Utilities Agency for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This was the twelfth consecutive year the Agency has received this prestigious award.

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

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

Acknowledgements

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


We further acknowledge the thorough and professional manner in which our auditors, White Nelson Diehl Evans and Company, LLP conducted the audit.

*December 21, 2011
To the President and Members of
The Board of Inland Empire Utilities Agency*


Acknowledgements, (continued):

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

Respectfully submitted,



Thomas A. Love
General Manager



Christina Valencia
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to
Inland Empire Utilities Agency -
A Municipal Water District
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

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

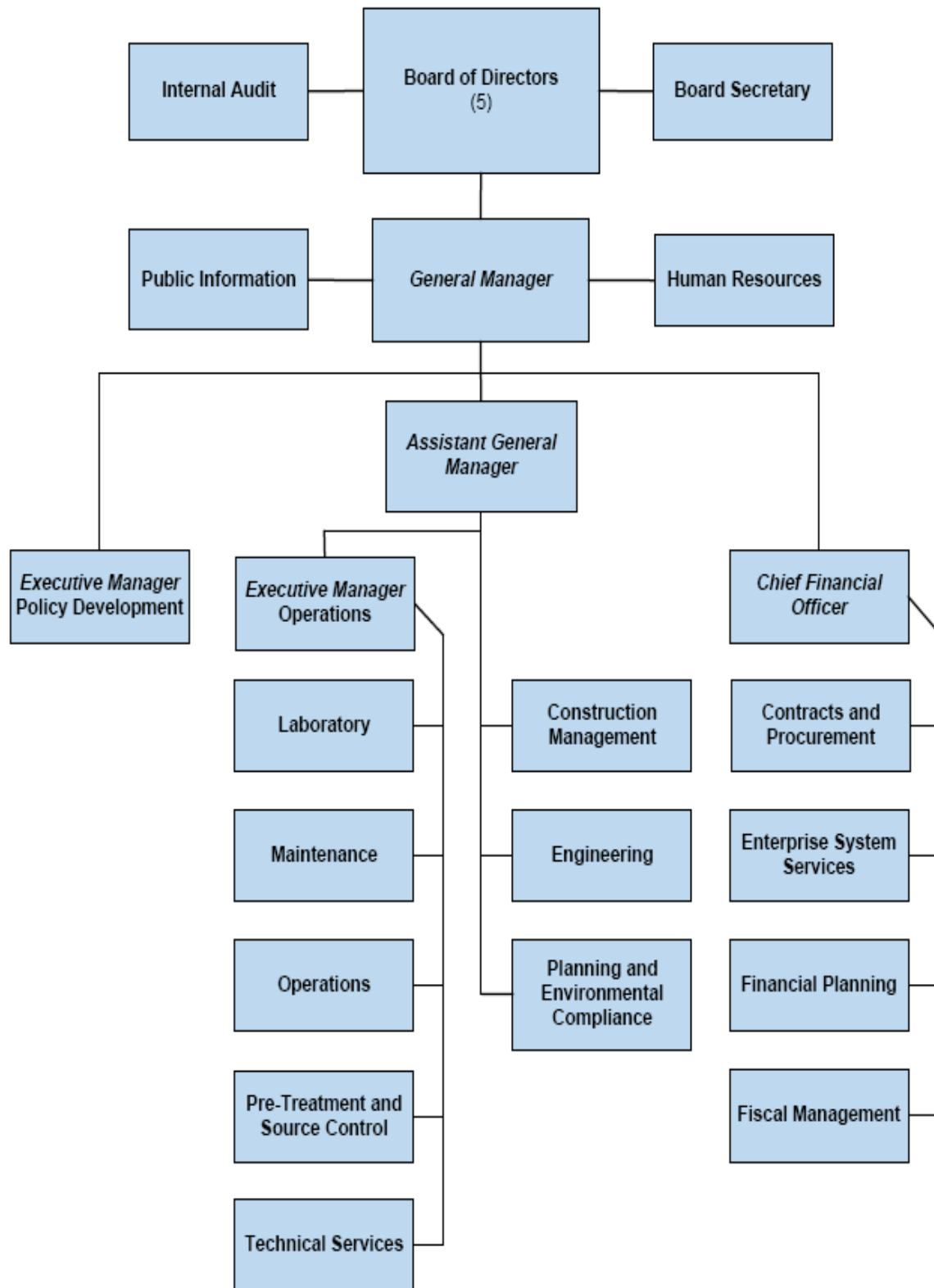


President

Executive Director

INLAND EMPIRE UTILITIES AGENCY

FY 2010/2011 ORGANIZATIONAL CHART



INLAND EMPIRE UTILITIES AGENCY

Principal Officials

June 30, 2011

BOARD OF DIRECTORS

Terry Catlin	<i>President</i>
Michael E. Camacho	<i>Vice President</i>
Steve Elie	<i>Secretary/Treasurer</i>
Gene Koopman	<i>Director</i>
Angel Santiago	<i>Director</i>

EXECUTIVE STAFF

Thomas A. Love	<i>General Manager</i>
Craig Miller	<i>Assistant General Manager</i>
Christina Valencia	<i>Chief Financial Officer</i>
Patrick Sheilds	<i>Executive Manager - Operations</i>
Martha Davis	<i>Executive Manager - Policy Development</i>

MANAGEMENT STAFF

Chris Berch	<i>Manager - Planning & Environmental Compliance</i>
Tina Y. Cheng	<i>Budget Officer</i>
Michael C. Chung	<i>Manager - Fiscal Management</i>
Gabe J. De Saddi	<i>Manager - Construction Management</i>
Parivash Dezham	<i>Manager - Pre-Treatment and Source Control</i>
Sondra J. Elrod	<i>Administration & Public Affairs Officer</i>
Jack E. Frazier	<i>Manager - Safety</i>
Jonathan Glazier	<i>Manager - Enterprise System Services</i>
Warren Green	<i>Manager - Safety and Risk Management</i>
Nelletje Groenveld	<i>Manager - Laboratories</i>
Jason Gu	<i>Grants Officer</i>
Gina L. Hillary	<i>Manager - Human Resources</i>
Cameron B. Langner	<i>Manager - Contracts and Procurement</i>
Randy C. Lee	<i>Manager - Operations</i>
Craig J. Parker	<i>Manager - Engineering</i>
Open	<i>Manager - Financial Planning</i>
Teresa Velarde	<i>Manager - Internal Audit</i>
April Woodruff	<i>Board Secretary</i>
Ernest Yeboah	<i>Manager - Maintenance</i>

STRIVE TO ACHIEVE RECOGNITION (STAR) PROGRAM

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



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

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

For the purposes of the STAR Program, the Agency is divided into three areas: 1) Finance/Administration Division, 2) Engineering/Planning Division, and 3) Operations Division. Each of these three areas has three representatives who serve on the Selection Committee (a total of nine committee members). The STAR program was started as a quarterly program. In Fiscal Year 1999/2000 the program was modified to a semi-annual award, to enjoy greater program participation. Accordingly, the prize award was also increased to afford more employee appeal. Following are the semi-annual STAR Award recipients for the FY 2010/11:

First Half FY 2010/11

Finance/Administration

Bill Tomlinson – Payroll Accountant

Engineering/Planning

Rocky Welborn – Associate Engineer

Operations

Jon Florio –Electrical Technician II



Second Half FY 2010/11

Finance/Administration

Cheyenne Reseck-Francis – Administrative Assistant

Engineering/Planning

Joel Ignacio – Sr. Associate Engineer

Operations

Michael Barber – Pretreatment & Source Inspector II



Employee of the Year

For the FY 2010/11, Michael Barber, was chosen by the Selection Committee as the Employee of the Year.

IEUA STAR AWARD RECIPIENT
Employee of the Year 2010/2011



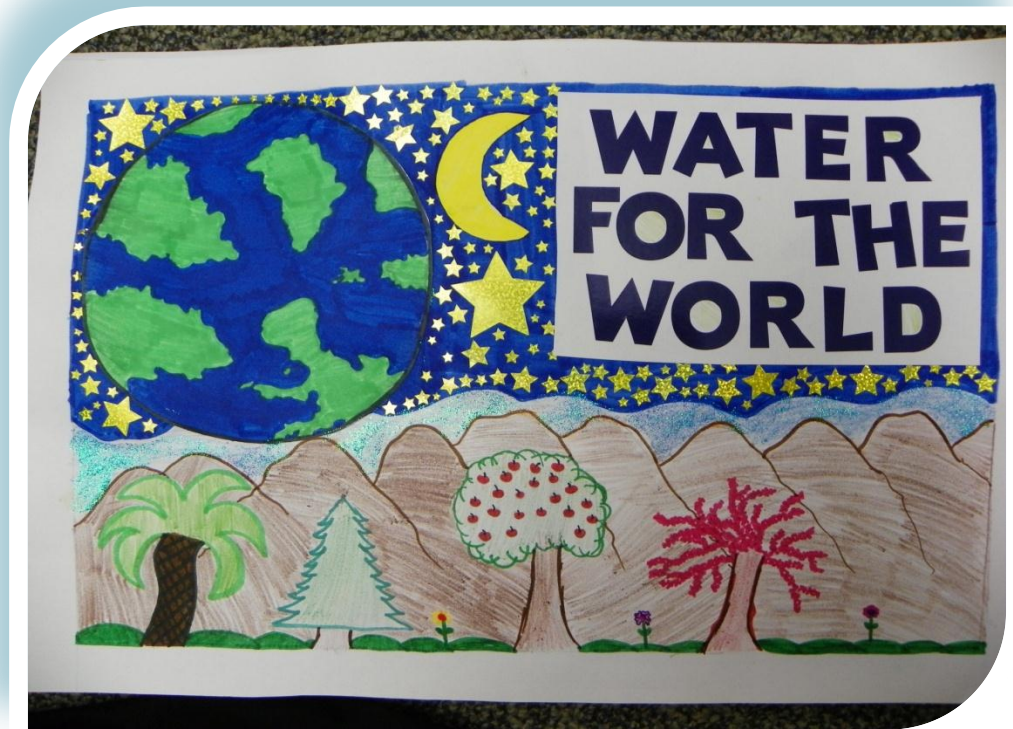
Michael Barber
Pretreat & Source Inspector II

A STAR Employee is considered an employee that exhibits leadership, creativity, outstanding performance, and teamwork. Mike Barber consistently exhibits all of these qualities. In dealing with customers (industries) on a daily basis, he maintains the utmost professional demeanor and truly demonstrates to the public what a model IEUA employee should be.

On many occasions, Mike exhibits leadership by example. He tackles tough tasks head on and offers new and unique ideas to solve problems. Mike also exhibits creativity in advising and assisting customers during inspections. He is always drawing upon his past experiences as an inspector to suggest and help solve compliance issues. Mike's performance is consistently exceptional. His follow-up makes him a reliable and dependable employee. Staff can always rely on him for accurate information and assistance regarding industry specific questions. As a team player, he maintains a mutual respect for others' opinions. During meetings that may become heated, he maintains a positive outlook and considers all facts and opinions. He seeks to include others in the process of looking for the solution to the issue instead of dwelling on the negatives.

Mike is a past STAR recipient in one of the most competitive divisions and that's due to his tireless dedication to the Agency.





Artist: Taylor Payne, Sixth Grade

Howard Cattle School - Chino

Third Place Winner - Sixth - Eighth Grade Category

Inland Empire Utilities Water District

INDEPENDENT AUDITORS' REPORT

Board of Directors
Inland Empire Utilities Agency
Chino, California

We have audited the basic financial statements of the Inland Empire Utilities Agency (the Agency) as of and for the year ended June 30, 2011. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the Agency for the year ended June 30, 2010. The financial statements of the Agency for the year ended June 30, 2010 were audited by other auditors whose report dated December 3, 2010, expressed an unqualified opinion on those statements. The Agency has restated the 2010 basic financial statements for the capital assets as discussed in Note 17. The other auditors' report on the 2010 basic financial statements was before the restatement.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Inland Empire Utilities Agency as of June 30, 2011 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State regulations governing Special Districts.

In accordance with Government Auditing Standards, we have also issued our report dated November 30, 2011 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of funding progress for the CalPERS pension plan and other post-employment benefit plan, as identified in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance on them.

Our audit was conducted for the purpose of forming an opinion on the Agency's basic financial statements as a whole. The Introductory Section and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

White Nelson Duhl Evans LLP

November 30, 2011
Irvine, California

MANAGEMENT'S DISCUSSION AND ANALYSIS

The intent of the management's discussion and analysis is to provide highlights of the financial activities of the Inland Empire Utilities Agency for the fiscal year ended June 30, 2011. Readers are encouraged to read this section in conjunction with the transmittal letter and the accompanying basic financial statements.

Agency's Fund Financial Statement

Within the financial reports, funds are classified as part of either a Major fund group or Non-major fund group. Because of the nature of the Agency's business, all funds are classified as "Proprietary" funds, using full accrual method of accounting, which recognizes transactions when they occur, regardless of when cash is exchanged.

The Agency's Operations – an Overview

As a municipal water district, Inland Empire Utilities Agency engages in primarily enterprise operations in various separate and distinct activities. These activities are: 1) wholesaling of potable water, and management of water resources; 2) sale of recycled water and development of the distribution system; 3) acquisition and construction of conveyance and plant facilities, and treatment of domestic wastewater; 4) organics management, digestion and marketing; 5) renewable energy production through digestion; and 6) non-reclaimable wastewater system services, operations and maintenance.

Total revenues, including grants and subsidies, of \$102,800,916 for FY 2010/11 reported a decrease of \$7,754,478 compared to \$110,555,394 recorded for FY 2009/10. The net decrease was primarily due to: 1) \$536,768 decrease in Interest income; 2) \$936,148 decrease in property taxes revenue; 3) \$2,355,010 in wastewater capital connection fees; 4) \$1,548,083 in other non-operating revenues; and 5) \$2,800,234 decrease in capital grants. These decreases were partially offset by an increase of \$231,105 in service charges, \$190,660 in recycled water sales.

Total expenses of \$106,715,465 for FY 2010/11 were \$2,255,904 higher than the \$104,459,561 reported in FY 2009/10, including an overall increase in operating expenses of \$4,000,210. The increase in operating expenses was primarily due to an increase of \$3,825,654 in depreciation and amortization expenses reported at \$29,998,908 and offset by a cumulative net decrease of \$1,994,491 in wastewater collection, treatment and disposal costs reported at a combined total of \$34,389,531. The decrease in these costs is due to ongoing cost containment efforts and historically low electricity and natural gas rates.

FINANCIAL HIGHLIGHTS

Cash and Investment Management

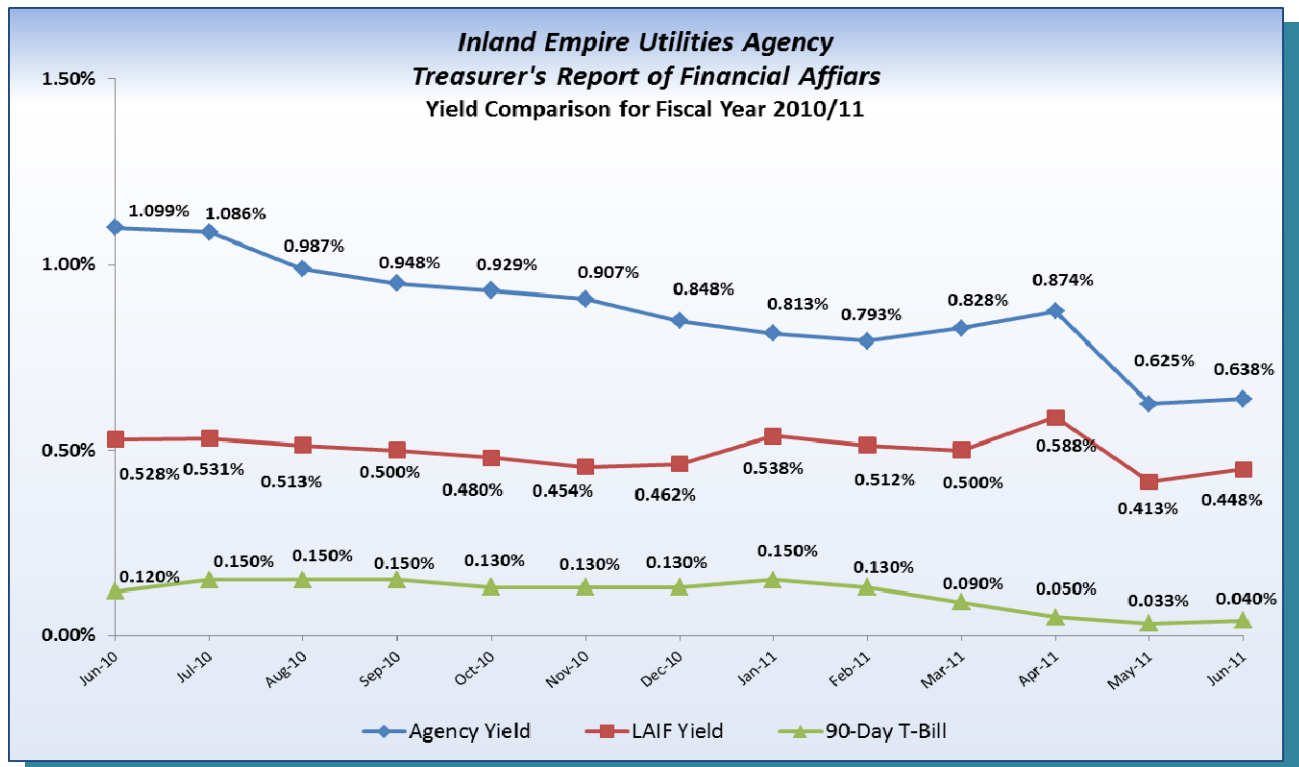
The Agency has a comprehensive cash and investment program subject to California State Code and bond covenants. These regulations are incorporated into the Agency's Investment Policy and Master Resolution, which identify the authorized investment types and any restrictions. Consistent with the State of California Government Code, the Agency bi-annually adopts an investment policy that is intended to remain sufficiently liquid to meet all operating requirements reasonably anticipated, safeguard the principal investment and minimize credit and market risks, while maintaining a competitive yield on the overall portfolio. The Agency's cash management system is also designed to forecast revenues and expenditures in order to identify and invest idle funds to the fullest extent possible. During the fiscal year ended June 30, 2011, idle funds were invested in accordance with this policy. These investments primarily consisted of United States Government Securities/Instrumentalities and deposits in a pooled investment fund administered by the State of California.

Investment Portfolio Performance

The continued economic recession is evident in the drastically low interest yields realized during FY 2010/11, with the average yield of the Agency's overall portfolio declining from 1.099% in July 2010 to .638% by June 30, 2011.

Despite some signs of an anemic national economic recovery, California and the Inland Empire region in particular, continues to struggle with local economists forecasting its recovery to lag the national recovery by at least two to three years.

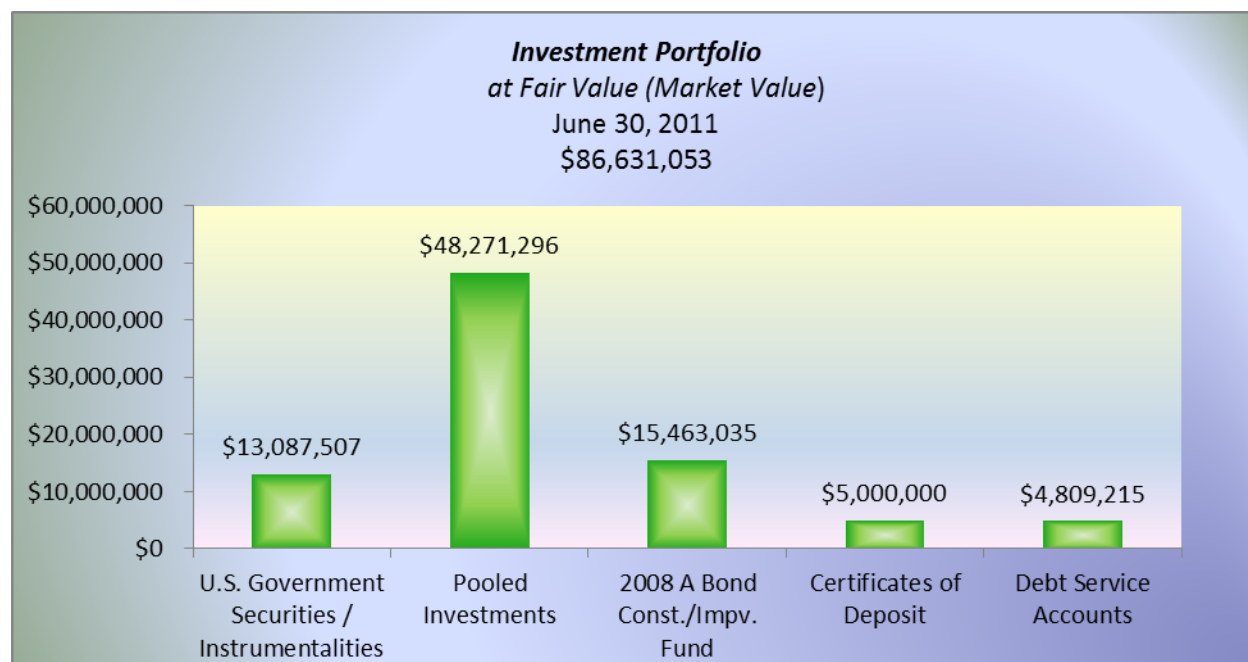
Total interest income for FY 2010/11 of \$1,178,506 dropped nearly .31% compared to \$1,715,274 in FY 2009/10.



FINANCIAL HIGHLIGHTS (continued):

Cash and Investment Management (continued):

The Agency has followed a conservative approach in conducting its investment activities and in accordance with the established Investment Policy and Master Resolution. Agency staff successfully managed the investment portfolio to attain the Agency's investment objectives, which are in the order of priority: liquidity, safety, and yield.



The Agency's portfolio fund balance for the fiscal years ended June 30, 2011 and 2010 were \$86,631,053 and \$81,526,963 respectively.

Chino Basin Desalter Operations

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

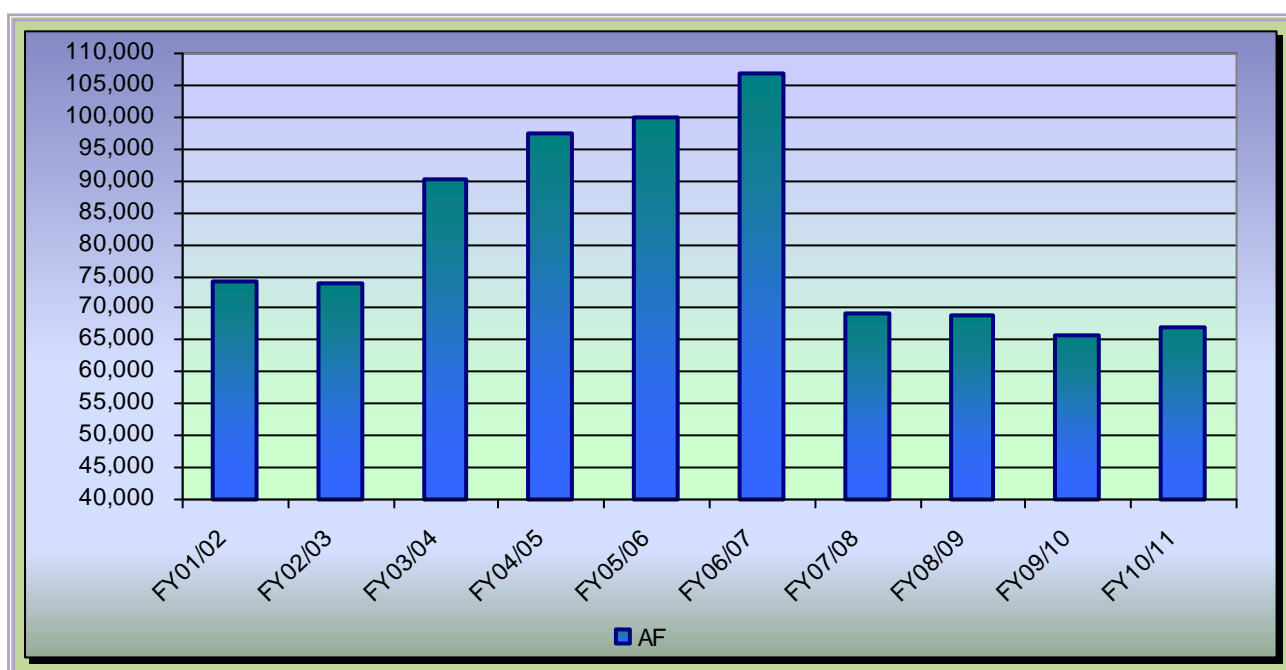
All operations and maintenance expenses including labor incurred by the Agency are recorded in the Administrative Service Fund. These expenses are billed to the CDA monthly. In FY 2010/11, the total amount billed and reimbursed was \$1,097,279 and reported as non-operating revenue.

FINANCIAL HIGHLIGHTS (continued):

Imported Water Deliveries

Imported water deliveries for FY 2010/11 were 67,004 acre feet (AF), (9,070 AF of which were groundwater deliveries), compared to a total budget of 73,000 AF. A surcharge of \$12 per AF was levied by the Agency for all imported water deliveries. The following is a comparative of imported water deliveries for the past ten fiscal years:

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



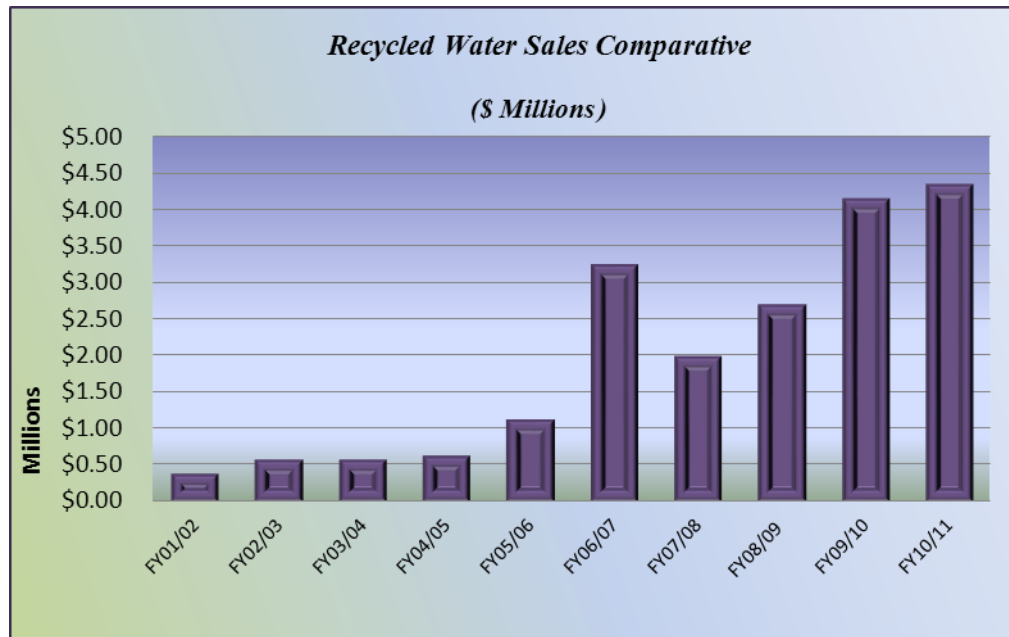
The total operating revenue was \$3,231,584 compared to \$2,436,933, last fiscal year. The increase was primarily due to an increase in the administrative surcharge from \$10/AF to \$12/AF effective January 2011, and an increase in the monthly meter rate of 40.5%, from \$.765 cents to \$1.075 cents per unit due to an increase in the Readiness to Serve (RTS) charges of \$2.4 million compared to \$1.7 million for last fiscal year by Metropolitan Water District of Southern California (MWD).

The total operating expenses increase from \$2,314,071 in FY 2009/10 to \$3,436,592 in FY2010/11 primarily due to higher RTS “pass through” fees from MWD, and recording of expenses for the completion of a school retrofit program jointly administered by Fontana Water Company and IEUA. total net asset balance at June 30, 2011, decreased by \$71,443, to \$2,331,295 in FY 2010/11.

FINANCIAL HIGHLIGHTS (continued):

Recycled Water Sales

Total recycled water sales increased by \$190,660 to \$4,352,800 in FY 2010/11, compared to \$4,162,140 in FY 2009/10.



The Recycled Water Fund recorded total revenue of \$4,352,800 in FY 2010/11, compared to \$4,162,140 in FY 2009/10.

The 4.6% increase in revenues was primarily driven by a 26.7% increase in recycled water rates for direct deliveries from \$75 to \$95 per AF (acre foot), and a 35.3% increase in the groundwater surcharge rate from \$85 to \$115 per AF, effective January 1, 2011. Included in total operating revenues was the MWD rebate of \$154/AF for recycled water sales above 3,500 AF and up to 17,000 AF.

Total receipts from MWD for the FY 2010/11 were \$2,026,086 compared to \$2,125,492 in FY 2009/10. Grants receipts totaled \$6,022,279 in support of the Regional Recycled Water Expansion program. Total operating expenses increased by \$1,541,410, or 26.8%, to \$7,297,263, including \$3,470,492 of depreciation expense.

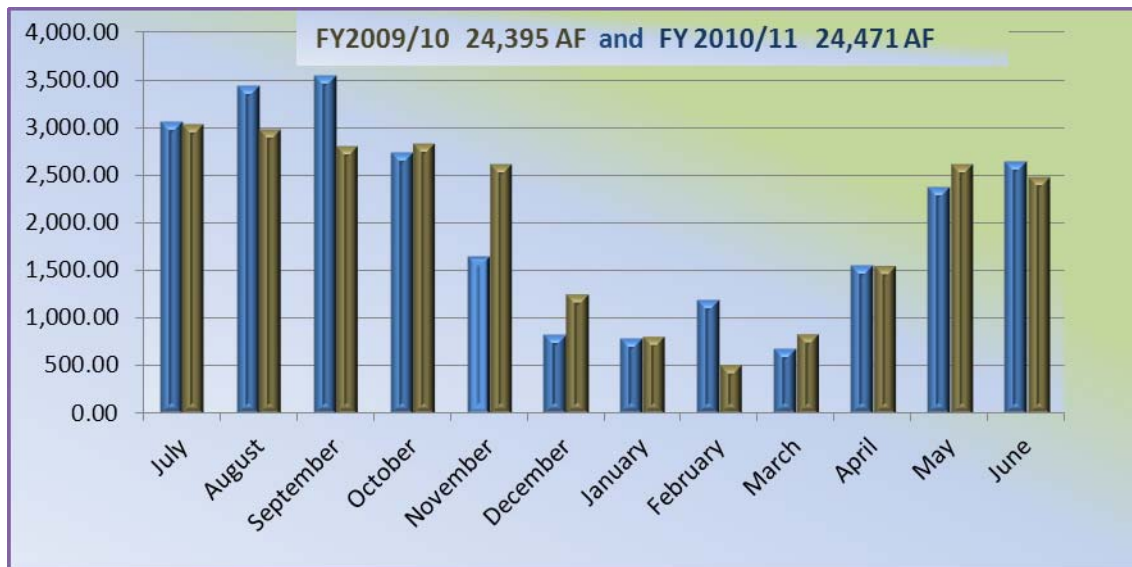
Total net assets at June 30, 2011 were \$66,018,122, an increase of \$4,931,999 primarily due to grant funding.

FINANCIAL HIGHLIGHTS (continued):

Recycled Water Sales (continued):

A total of 24,471 AF were registered for direct and recharged recycled water deliveries, compared to 24,395 AF for last fiscal year.

***Recycled Water Monthly Usage Comparative
By Acre Feet (AF)***



Wastewater Treatment Activities

The Regional Wastewater Fund reported combined total operating revenue of \$34,771,736 in FY 2010/11 for an increase of \$1,545,463, or 4.7%, over last fiscal year. The higher revenue was primarily due to an increase in the EDU volumetric rate from \$10.75 to \$11.14 per EDU effective July 1, 2010, and the recovery of 48,366 units in the total number of EDUs billed for a total of 3,072,090 EDUs compared to 3,023,724 billed in FY 2009/10, (see *Service Charge Revenue Rates by Contracting Agency p.122*). Each EDU is equivalent to approximately 98,550 gallons per year for a single residential household, or 270 gallons per day.

FINANCIAL HIGHLIGHTS (continued):

Wastewater Treatment Activities, (continued):

Total other income for the Regional Wastewater Program in FY 2010/11 was \$37,301,037 compared to \$42,552,602 for last fiscal year:

Revenues by Category – Regional Wastewater Program
For the Fiscal Year Ended June 30, 2011
(With Comparative Totals for the Fiscal Year Ended June 30, 2010)

Revenue Category	2010/11		2009/10		Increase/<Decrease> from 2009/10	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF CHANGE
Service Charges	\$34,771,736	48.0%	\$33,226,273	44.0%	\$ 1,545,463	5.0 %
Property Tax Revenue	28,061,808	39.0%	29,087,922	39.0%	(1,026,114)	(4.0)%
Wastewater Connection Fees	5,398,047	8.0%	7,753,057	10.0%	(2,355,010)	(30.0)%
Other Non-operating Revenues	3,205,151	4.0%	4,714,109	6.0%	(1,508,958)	(32.0)%
Interest Income	636,031	1.0%	997,514	1.0%	(361,483)	(36.0)%
Total Revenues	\$72,072,773	100.0%	\$75,778,875	100.0%	(\$3,706,102)	(5.0) %

Property tax revenue allocated to the Regional Wastewater Program decreased from \$29,087,922, to \$28,061,608 a 4% decrease.

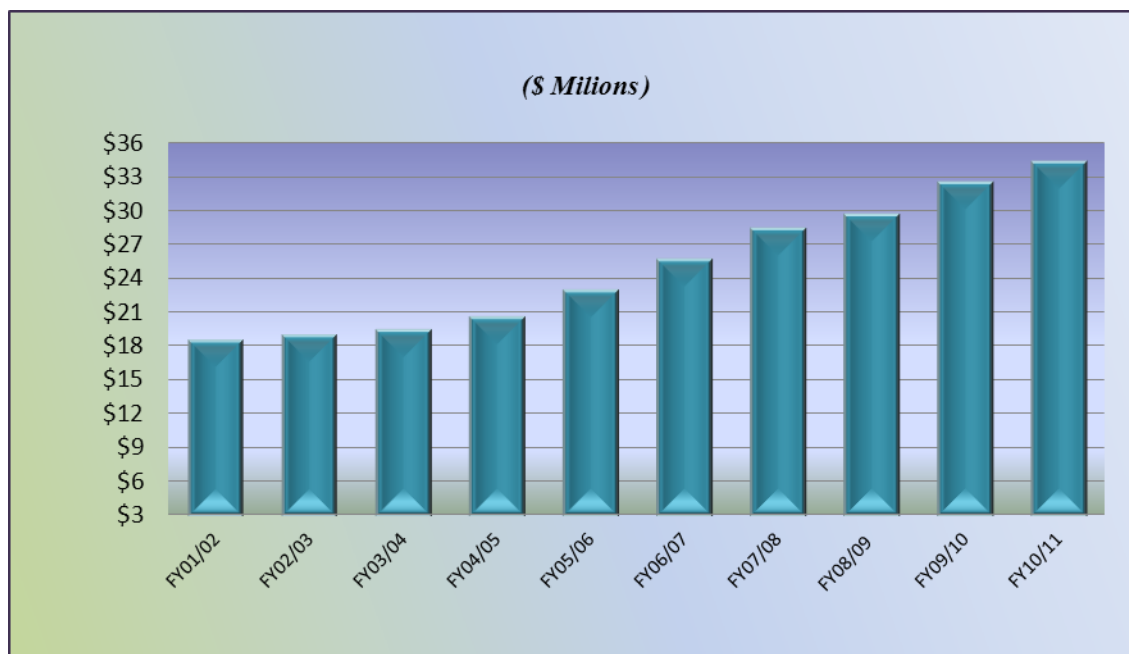
The total number of new EDU connections reported by contracting agencies in FY 2010/11 was 1,116 compared to 1,629 for FY 2009/10, a drop of 513 units at \$4,766 per unit. The decrease registered a drop in revenue of \$2,444,958.

Interest income continued to decline due to historically low market rates. The significant decrease in non-operating revenue was due to the reversal of \$1,598,590, in payables to Southern California Edison (SCE), for unrealized electrical power stand-by charges in FY 2009/10.

FINANCIAL HIGHLIGHTS (continued):

Wastewater Treatment Activities, (continued):

Comparative EDU Revenues



Total wastewater collection, treatment and disposal costs registered a decrease of \$1,219,109 from \$30,606,408 in FY 2010/11 to \$31,825,517 in FY 2009/10. The Decrease in these costs is due to continuous cost containment efforts and various process improvements.

Non-reclaimable Wastewater Treatment

Total service charges in FY 2010/11 decreased \$2,109,009 to \$6,772,637 compared to \$8,881,646 reported in FY 2009/10. A reduction in pass-through rates effective July 1, 2010, as well as a decrease in the sale of Non-reclaimable Wastewater (NRW) capacity units were the primary drivers for the decrease. Monthly capacity fees decreased 23%, or \$75 per unit, from \$268 in FY 2009/10 to \$193 in FY 2010/11. Additionally, NRW capacity units sold dropped 75%, from \$600,000 in FY2009/10, to \$150,000 in FY 2010/11. A reduction in pass-through rates also resulted in lower operating expenses of 8.08%, for a total of \$6,415,242 in FY 2010/11. At June 30, 2011, total net assets were \$51,774,203 for an increase of \$302,595 over the prior fiscal year.

A total of 61 users were connected to the NRW System during FY 2010/11, with a total flow of 1,371 million gallons.

FINANCIAL HIGHLIGHTS (continued):

Recharge Water Fund

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

Total operating expenses recorded in FY 2010/11 were \$1,876,287 compared to \$1,727,991 in FY 2009/10, resulting in a slight increase of \$148,296. Capital grant receipts of \$14,890 in FY 2010/11 also reported a decrease of \$816,461 compared to the prior fiscal year due to the completion of the groundwater recharge enhancement project. At June 30, 2011 total net assets were \$34,736,683, an increase of \$94,680 over the prior fiscal year.

FINANCIAL HIGHLIGHTS (continued):

Revenues

Combined revenues and contributions for the fiscal year totaled \$102,800,916, a decrease of \$7,754,478, compared to the prior fiscal year. The following table presents a comparison of revenues by category for fiscal years 2010/11 and 2009/10.

Combined Revenues by Category - All Funds
For the Fiscal Year Ended June 30, 2011
(With Comparative Totals for the Fiscal Year Ended June 30, 2010)

Revenue & Contributions Category	2010/11		2009/10		Increase/<Decrease> from 2009/10	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF CHANGE
Service Charges	\$ 44,775,957	44.0%	\$ 44,544,852	40.0%	\$ 231,105	1.0 %
Recycled Water Sales	4,352,800	4.0%	4,162,140	4.0%	190,660	5.0 %
Interest Income	1,178,506	1.0%	1,715,274	2.0%	(536,768)	(31.0)%
Property Tax Revenue	33,419,237	33.0%	34,355,385	31.0%	(936,148)	(3.0)%
Wastewater Connection Fees	5,398,047	5.0%	7,753,057	7.0%	(2,355,010)	(30.0)%
Other Non-operating Revenues	6,089,725	6.0%	7,637,808	7.0%	(1,548,083)	(20.0)%
Capital Grants	7,586,644	7.0%	10,386,878	9.0%	(2,800,234)	(27.0)%
Total Revenues & Contributions	\$102,800,916	100.0%	\$110,555,394	100.0%	\$(7,754,478)	(7.0%)

Wastewater Connection Fees

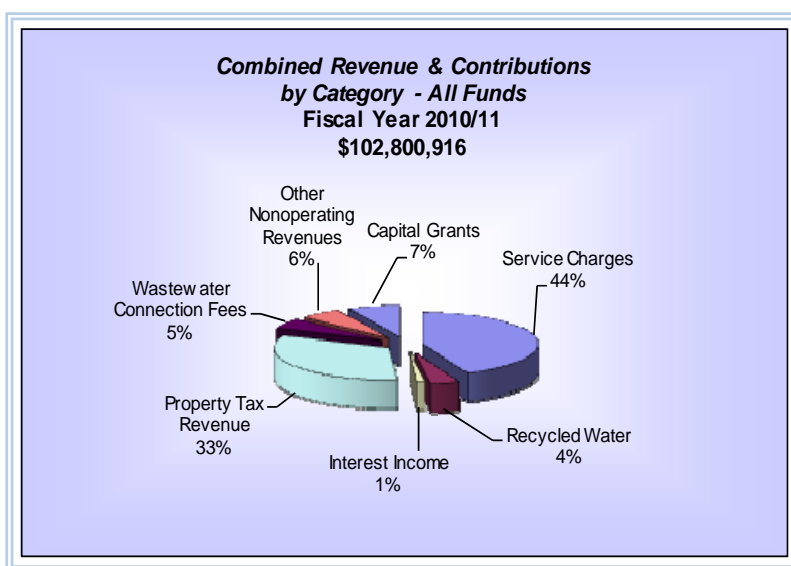
Decrease primarily due to reduction of approximately 513 EDU connections in FY 10/11.

Other Non-Operating Revenues

One time reversal of Southern California Edison standby charges accounted for the increase in FY 09/10.

Capital Grants

Decrease is due to completion of major American Recovery and Reinvestment Act of 2009 funded projects.



FINANCIAL HIGHLIGHTS (continued):

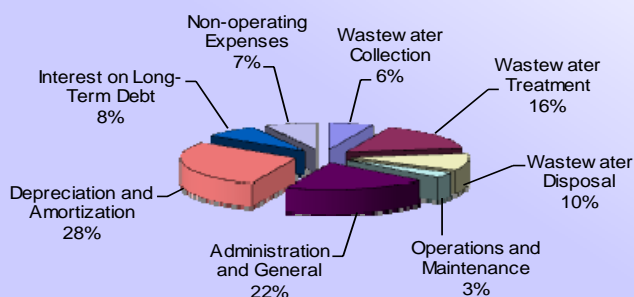
Expenses

Combined expenses for the fiscal year totaled \$106,715,465, an increase of \$2,255,904, over the prior fiscal year. The following table presents a comparison of expenses by category for fiscal years 2010/11 and 2009/10.

Combined Expenses by Category - All Funds
For the Fiscal Year Ended June 30, 2011
(With Comparative Totals for the Fiscal Year Ended June 30, 2010)

Expense Category	2010/11		2009/10		Increase/<Decrease> from 2009/10	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF CHANGE
Wastewater Collection	\$ 6,517,257	6.0%	\$ 7,337,951	7.0%	(\$ 820,694)	(11.0)%
Wastewater Treatment	17,208,487	16.0%	19,016,466	18.0%	(1,807,979)	(10.0)%
Wastewater Disposal	10,663,787	10.0%	10,029,605	10.0%	634,182	6.0 %
Operations and Maintenance	3,230,287	3.0%	2,759,673	3.0%	470,614	17.0 %
Administration and General	23,265,746	22.0%	21,567,313	21.0%	1,698,433	8.0 %
Depreciation and Amortization	29,998,908	28.0%	26,173,254	25.0%	3,825,654	15.0 %
Interest on Long-Term Debt	8,057,543	8.0%	9,891,049	9.0%	(1,833,506)	(19.0)%
Non-operating Expenses	7,773,450	7.0%	7,684,250	7.0%	89,200	1.0 %
Total Expenses	\$106,715,465	100.0%	\$104,459,561	100.0%	\$ 2,255,904	2.0%

Combined Expenses by Category - All Funds
Fiscal Year 2010/11
\$106,715,465



Wastewater Collection/ Treatment/Disposal

Decrease due to ongoing cost containment efforts and historically low electricity and natural gas rates.

Depreciation and Amortization

Significant number of project closures resulted in an increase in depreciation and amortization.

Interest Expense

The decrease in interest expense is due to historically low interest rates on variable long term debt which averaged 0.23% for the fiscal year.

FINANCIAL HIGHLIGHTS (continued):

Changes in Financial Conditions of the Agency

Combined Net Assets-All Funds
For the Fiscal Year Ended June 30, 2011
(With Comparative Totals for the Fiscal Year Ended June 30, 2010)

	FY 2010/11	FY 2009/10	Increase/<Decrease> from FY 2009/10	
Assets				
Current assets	\$117,166,100	\$110,327,503	\$ 6,838,597	6.2 %
Restricted assets	37,208,855	57,408,785	(20,199,930)	(35.2)%
Capital assets	672,170,172	656,610,733	15,559,439	2.4 %
Other assets	79,403,388	82,873,361	(3,469,973)	(4.2)%
Total Assets	905,948,515	907,220,382	(1,271,867)	(0.1)%
Liabilities				
Current liabilities	41,357,657	37,725,335	3,632,322	9.6 %
Non-current liabilities	346,135,444	347,125,084	(989,640)	(0.3)%
Total liabilities	387,493,101	384,850,419	2,642,682	0.7 %
Net Assets				
Invested in capital assets, net of related debt	372,277,242	377,512,292	(5,235,050)	(1.4)%
Restricted	50,378,110	63,544,894	(13,166,784)	(20.7)%
Unrestricted	95,800,062	81,312,777	14,487,285	17.8 %
TOTAL NET ASSETS	\$518,455,414	\$522,369,963	(\$3,914,549)	(0.7)%

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

- ◆ The decrease in Restricted Assets of \$20.2 million is primarily due to a reduction of \$18.7 million in Assets Held with Trustee/Fiscal Agent. Included in the decrease is \$12.0 million in draws from the 2008A bond proceeds to fund capital projects and \$6.7 million from the elimination of the debt reserve fund with the refunding of the 1994 Revenue Bonds in June 2011.
- ◆ Additional capital expenditures added to work in process, particularly as they relate to the expansion of the Agency's Regional Recycled Water Distribution System, contributed to the \$15.6 million increase in Capital Assets.
- ◆ The major contributor to the reduction in Other Assets is the repayment of \$3.7 million in Advance to Other Funds from the Recharge Water Fund to the Regional Wastewater Fund.

FINANCIAL HIGHLIGHTS (continued):

Changes in Financial Conditions of the Agency (continued):

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

For the Fiscal Year Ended June 30, 2011

(With Comparative Totals for the Fiscal Year Ended June 30, 2010)

Item Category	FY 2010/11		FY 2009/10		Increase/<Decrease> from FY 2009/10	
	Amount	% of Total	Amount	% of Total	Amount	% of Change
Total Revenue	\$ 95,214,272	18.0 %	\$100,168,516	19.0%	(\$4,954,244)	(5.0)%
Total Expenses	106,715,465	20.0 %	104,459,561	20.0%	2,255,904	2.0 %
Excess (deficiency) before contrib.	(11,501,193)	(2.0)%	(4,291,045)	(1.0)%	(7,210,148)	168.0 %
Capital Grants	7,586,644	1.0 %	10,386,878	2.0%	(2,800,234)	(27.0)%
Change in Net Assets	(3,914,549)	(1.0)%	6,095,833	1.0%	(10,010,382)	(164.0)%
Prior Period Adjustment			1,170,461	0.0%	(1,170,461)	(100.0)%
Beginning Net Assets	522,369,963	101.0%	515,103,669	99.0%	7,266,294	1.0 %
Ending Net Assets	\$518,455,414	100.0%	\$522,369,963	100.0%	(\$3,914,549)	(0.7)%

(FY2009/10 Ending Net Assets have been adjusted for rounding)

Capital Assets

Net of accumulated depreciation and amortization, the Agency had total capital assets of \$672,170,172 in FY 2010/11, compared to \$656,610,733 in FY 2009/10. The \$15.5 million increase is primarily due to the completion and capitalization of various capital projects and the additional capital expenditures added to work in progress as follows:

◆ RP-5 Systems Facility Upgrade & Improvements -	\$ 23,331,823
◆ RP-1 Dewatering Facility Expansion -	21,084,868
◆ RP-1 Facilities Improvement -	12,238,551
◆ RP-1 Odor Control – Phase I -	9,172,786
◆ 1630 E. Pipeline Segment A -	8,746,885
◆ 1299 E Reservoir -	8,131,286
◆ Recharge Enhancement Project -	6,676,988
◆ NRW System Upgrades -	5,684,224
◆ 1630 W. Reservoir -	5,575,540
◆ 1299 E. Pipeline -	5,541,856
◆ 1630 W Pipeline Phase 1 -	5,199,837
◆ 1630 W. Recycled Water Pipeline Segment -	4,224,385

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

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

Capital Asset Summary - All Funds
For the Fiscal Year Ended June 30, 2011
(With Comparative Totals for the Fiscal Year Ended June 30, 2010)

Asset Category	2010/11	2009/10	Increase/<Decrease> from FY 2009/10	% of Change
Land	\$ 14,141,374	\$ 14,141,374	\$ 0	0.0 %
Land Improvements	13,083,361	12,868,495	214,866	2.0 %
Structures and Improvements	573,211,399	566,940,311	6,271,088	1.0 %
Equipment	120,876,068	116,413,817	4,462,251	4.0 %
Water Rights	50,207,816	48,104,982	2,102,834	4.0 %
Computer Software	7,808,949	6,227,201	1,581,748	25.0%
Jobs in Progress	153,790,673	122,982,281	30,808,392	25.0%
Sub-total	933,119,640	887,678,461	45,441,179	5.0%
LESS: Accumulated Depreciation & Amortization	(260,949,468)	(231,067,728)	(29,881,740)	13.0%
Net Capital Assets	\$ 672,170,172	\$ 656,610,733	\$ 15,559,439	2.0%

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

Debt Management

At June 30, 2011, the Agency had four bond debt issues outstanding:

2005A Revenue Bonds - \$19,607,018
2008A Revenue Bonds - \$129,535,803
2008B Variable Rate Revenue Bonds - \$50,721,949
2010A Refunding Revenue Bonds - \$48,957,134

(Refer to Note 12 of the Notes to the Basic Financial Statements for detailed information).

Included in Notes and Loans Payable at June 30, 2011, are 1). A note from the Santa Ana Watershed Project Authority (SAWPA) pertaining to the purchases of pipeline capacity, with an outstanding balance of \$1,491,542; 2). Various State Revolving Financing loans from the State Water Resources Control Board (SWRCB), for a total of \$72,620,997; and 3). A loan in the amount of \$8,417,002 from the City of Fontana for the Agency's cost share of the San Bernardino Regional Lift Station and Force Main capital project.

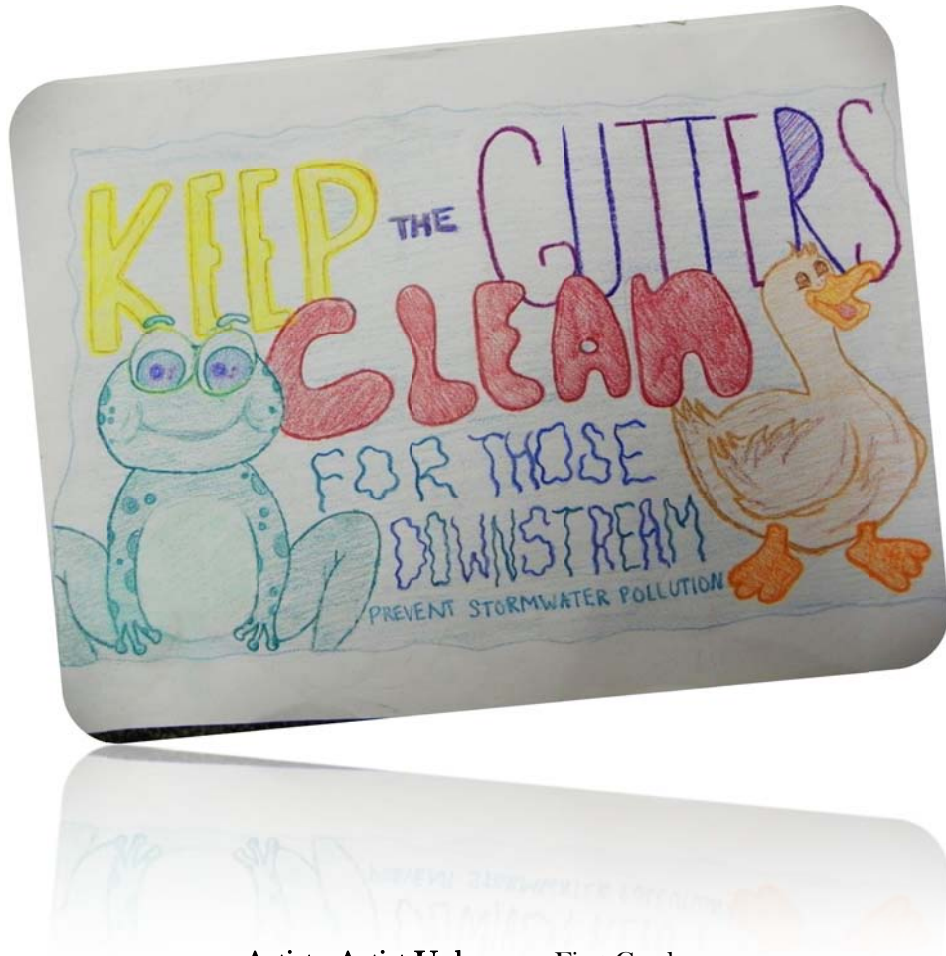
In June 2011, the Agency's credit rating for long-term debt was reaffirmed by two major credit rating agencies:

Moody's: Aa2
Standard and Poor's: AA-

FINANCIAL HIGHLIGHTS (continued):

Contacting the Agency's Financial Management

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



Artist: Artist Unknown, First Grade

Howard Cattle School - Chino

First Place Winner - Kindergarten - Fifth Grade Category

Inland Empire Utilities Water District

INLAND EMPIRE UTILITIES AGENCY

BASIC FINANCIAL STATEMENTS

OVERVIEW

Financial Statements

The following Basic Financial Statements, along with the supplementary Notes to the Basic Financial Statements, convey a summary of the Agency's financial position as of June 30, 2011, and the results of operations and the cash flows of its proprietary fund types for the fiscal year then ended.

All individual Enterprise Funds are classified as either Major fund groups or Non-major fund groups. An Administrative Service Fund is used to monitor the General and Administrative expenses of the Agency. Comparative prior year data is provided for a broader picture of the Agency's financial condition.

The Basic Financial Statements consist of:

- 1) Statement of Net Assets – the statement denotes the increase/(decrease) of net assets of the Agency.
- 2) Statement of Revenues, Expenses and Changes in Fund Net Assets – the statement shows all revenue and expense sources recorded for the period, and their effects on the net assets of the Agency.
- 3) Statement of Cash Flows – the statement reflects the Agency's financial activities and their effect on cash. It also denotes the cash position of the Agency at the end of the fiscal period.
- 4) Notes to the Basic Financial Statements.



Magnolia Channel Project

INLAND EMPIRE UTILITIES AGENCY**Statement of Net Assets****June 30, 2011**

(With Comparative Totals for June 30, 2010)

ASSETS	Enterprise Funds	
	Regional Wastewater	Recycled Water
Current assets		
Cash and investments (note 3)	\$41,053,543	\$ 10,255,613
Accounts receivable	8,317,819	5,438,814
Interest receivable	208,362	23,213
Taxes receivable	4,711,373	334,430
Other receivables	23,583	0
Inventory	0	0
Prepaid items	1,200	23,500
Total current assets	54,315,880	16,075,570
Noncurrent assets		
Restricted assets (note 3)		
Deposits held by governmental agencies	13,446,467	0
Assets held for 401(a) plan (note 4)	0	0
Assets held with trustee/fiscal agent	6,867,805	14,885,490
Total restricted assets	20,314,272	14,885,490
Capital assets (note 7)		
Land	14,120,545	0
Jobs in progress	82,451,929	55,941,701
Capital assets, net of accumulated depreciation	325,576,700	81,855,759
Intangible assets, net of accumulated amortization	5,966,202	227,000
Total capital assets	428,115,376	138,024,460
Other assets		
Long-term investments (note 11)	47,171,104	0
Long-term receivables (note 10)	7,533,164	1,282,310
Advances to other funds (note 14)	3,000,000	0
Deferred costs	3,232,293	1,949,465
Total other assets	60,936,561	3,231,775
Total noncurrent assets	509,366,209	156,141,725
Total assets	563,682,089	172,217,295

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

Non-Major	Totals	
	2011	2010
\$30,032,077	\$81,341,233	\$61,237,054
13,874,213	27,630,846	38,854,568
415,815	647,390	589,037
439,498	5,485,301	4,610,632
81,900	105,483	2,948,210
1,559,877	1,559,877	1,758,776
371,270	395,970	329,226
46,774,650	117,166,100	110,327,503
0	13,446,467	15,048,421
1,161,798	1,161,798	1,033,707
847,295	22,600,590	41,326,657
2,009,093	37,208,855	57,408,785
20,829	14,141,374	14,141,374
15,397,043	153,790,673	122,982,281
59,473,915	466,906,374	484,008,789
31,138,549	37,331,751	35,478,289
106,030,336	672,170,172	656,610,733
0	47,171,104	48,684,474
83,010	8,898,484	6,823,641
15,000,000	18,000,000	21,700,000
152,042	5,333,800	5,665,246
15,235,052	79,403,388	82,873,361
123,274,481	788,782,415	796,892,879
170,049,131	905,948,515	907,220,382
		(continued)

INLAND EMPIRE UTILITIES AGENCY
Statement of Net Assets (Continued from previous page)
June 30, 2011
(With Comparative Totals for June 30, 2010)

	Enterprise Fund Types	
	Regional Wastewater	Recycled Water
LIABILITIES		
Current liabilities		
Accounts payable	3,855,754	3,823,483
Accrued liabilities	1,545,635	5,411
Compensated absences (note 1)	0	0
Retentions payable	87,565	0
Notes payable, due within one year (note 12)	541,809	2,673,187
Long-term debt, due within one year (note 12)	5,866,186	0
Interest payable	1,629,593	838,558
Retention deposits and escrows	1,967,186	361,155
Total current liabilities	15,493,728	7,701,794
Noncurrent liabilities		
Compensated absences (note 1)	0	0
Long-term debt, due in more than one year (note 12)	186,288,877	30,350,239
Notes payable, due in more than one year (note 12)	28,869,074	49,432,215
Liability for 401(a) plan (note 4)	0	0
Advances from other funds (note 14)	0	18,000,000
Other noncurrent liabilities	0	714,925
Net OPEB liability (note 1d.)	0	0
Total noncurrent liabilities	215,157,951	98,497,379
Total liabilities	230,651,679	106,199,173
NET ASSETS		
Invested in capital assets, net of related debt	220,911,007	70,093,154
Restricted for:		
Capital construction	14,385,134	14,524,332
SRF Loan debt service	0	4,540,386
Bond operating contingency requirement	14,820,947	0
Total restricted	29,206,081	19,064,718
Unrestricted	82,913,322	(23,139,750)
Total net assets	\$333,030,410	\$66,018,122

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

Non-Major	Totals	
	2011	2010
11,523,391	19,202,628	17,087,850
3,968,652	5,519,698	4,601,862
1,960,081	1,960,081	2,056,418
2,137	89,702	166,140
118,463	3,333,459	2,548,649
528,814	6,395,000	5,920,000
60,597	2,528,748	3,151,833
0	2,328,341	2,192,583
18,162,135	41,357,657	37,725,335
1,587,592	1,587,592	1,788,025
24,062,479	240,701,595	253,905,394
894,794	79,196,083	64,256,344
1,161,798	1,161,798	1,033,707
0	18,000,000	21,700,000
0	714,925	684,265
4,773,451	4,773,451	3,757,349
32,480,114	346,135,444	347,125,084
50,642,249	387,493,101	384,850,419
81,273,081	372,277,242	377,512,292
0	28,909,466	42,725,144
0	4,540,386	2,703,201
2,107,311	16,928,258	18,116,549
2,107,311	50,378,110	63,544,894
36,026,490	95,800,062	81,312,777
\$119,406,882	\$518,455,414	\$522,369,963

INLAND EMPIRE UTILITIES AGENCY
Statement of Revenues, Expenses, and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2011
(With Comparative Totals for June 30, 2010)

	Enterprise Fund Types	
	Regional Wastewater	Recycled Water
OPERATING REVENUES		
Service charges	\$ 34,771,736	\$0
Recycled water sales	0	4,352,800
Total operating revenues	34,771,736	4,352,800
OPERATING EXPENSES		
Wastewater collection	2,734,134	0
Wastewater treatment	17,208,487	0
Wastewater disposal	10,663,787	0
Operations and maintenance	0	2,599,721
Administration and general	15,356,434	1,227,050
Depreciation and amortization	21,987,327	3,470,492
Total operating expenses	67,950,169	7,297,263
Operating income (loss)	(33,178,433)	(2,944,463)
NONOPERATING REVENUES (EXPENSES)		
Interest income	636,031	143,445
Property tax revenue	28,061,808	2,661,804
Wastewater capital connection fees	5,398,047	0
Other nonoperating revenues	3,205,151	276,741
Interest on long-term debt	(6,247,226)	(1,551,166)
Other nonoperating expenses	(4,671,253)	(1,296,611)
Total nonoperating revenues (expenses)	26,382,558	234,213
Income (loss) before contributions and transfers	(6,795,875)	(2,710,250)
TRANSFERS AND CAPITAL CONTRIBUTIONS		
Transfers in (note 15)	0	1,764,622
Transfers out (note 15)	(2,449,868)	(144,652)
Capital grants	807,005	6,022,279
Change in net assets	(8,438,738)	4,931,999
Total net assets - beginning as restated	341,469,148	61,086,123
Total net assets - ending	\$333,030,410	\$66,018,122
Prior period adjustment (note 17)		
Total net assets - ending	333,030,410	66,018,122

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

Non-Major	Totals	
	2011	2010
\$ 10,004,221	\$ 44,775,957	\$ 44,544,852
0	4,352,800	4,162,140
10,004,221	49,128,757	48,706,992
3,783,123	6,517,257	7,337,951
0	17,208,487	19,016,466
0	10,663,787	10,029,605
630,566	3,230,287	2,759,673
6,682,262	23,265,746	21,567,313
4,541,089	29,998,908	26,173,254
15,637,040	90,884,472	86,884,262
(5,632,819)	(41,755,715)	(38,177,270)
399,030	1,178,506	1,715,274
2,695,625	33,419,237	34,355,385
0	5,398,047	7,753,057
2,607,833	6,089,725	7,637,808
(259,151)	(8,057,543)	(9,891,049)
(1,805,586)	(7,773,450)	(7,684,250)
3,637,751	30,254,522	33,886,225
(1,995,068)	(11,501,193)	(4,291,045)
1,388,001	3,152,623	10,762,149
(558,103)	(3,152,623)	(10,762,149)
757,360	7,586,644	10,386,878
(407,810)	(3,914,549)	6,095,833
119,814,692	522,369,963	515,103,669
\$119,406,882	\$518,455,414	\$521,199,502
		1,170,461
119,406,882	518,455,414	522,369,963

INLAND EMPIRE UTILITIES AGENCY**Statement of Cash Flows****For the Fiscal Year ended June 30, 2011**

(With Comparative Totals for June 30, 2010)

	Enterprise Funds	
	Regional Wastewater	Recycled Water
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$38,830,875	\$13,895,607
Cash received from interfund services provided		
Cash payments to suppliers for goods and services	(19,566,803)	(2,349,346)
Cash payments to employees for services	(7,949,017)	(646,556)
Cash payments for interfund services used	(17,839,870)	(1,555,223)
Net cash provided by (used for) operating activities	(6,524,815)	9,344,482
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in		1,764,622
Transfers out	(2,449,868)	(144,652)
Contract reimbursement from others	3,205,151	276,741
Tax revenues	27,348,119	2,567,300
Issuance of long-term receivable	(2,315,667)	
Collection of long-term receivable		214,772
Cash paid to others	(4,615,515)	(1,321,328)
Advances from other funds	3,700,000	
Advances to other funds		
Net cash provided by (used for) noncapital financing activities	24,872,220	3,357,455
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(19,577,373)	(22,780,638)
Proceeds from State Revolving Funds	13,477,208	2,897,555
Calls on deposits held by members	5,398,047	
Capital grants received	807,005	6,022,279
Proceeds from bond refunding	48,984,727	
Payment to refunding bond escrow agent	(55,290,402)	
Bond issuance costs	(254,041)	
Principal paid on capital debt	(6,140,868)	(38,182)
Interest paid on capital debt	(6,718,197)	(1,326,101)
Bond administration fees	(55,738)	
Contractor deposits collected	387,113	
Refund of contractor deposits	0	(210,811)
Net cash provided by (used for) capital and related financing activities	(18,982,519)	(15,435,898)

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

Non-Major	Totals	
	2011	2010
\$10,470,081	\$63,196,563	\$49,072,749
22,241,696	22,241,696	24,053,243
(7,130,609)	(29,046,758)	(39,816,170)
(19,824,514)	(28,420,087)	(30,110,030)
(1,955,568)	(21,350,661)	(23,624,439)
3,801,086	6,620,753	(20,424,647)
1,388,001	3,152,623	10,762,150
(558,103)	(3,152,623)	(10,762,150)
2,726,180	6,208,072	7,506,422
2,629,149	32,544,568	34,061,756
0	(2,315,667)	(1,497,082)
26,053	240,825	2,398,683
(1,655,786)	(7,592,629)	(7,304,380)
0	3,700,000	6,000,000
(3,700,000)	(3,700,000)	(6,000,000)
855,494	29,085,169	35,165,399
(2,075,371)	(44,433,382)	(41,255,890)
0	16,374,763	12,358,369
0	5,398,047	7,753,057
757,360	7,586,644	10,386,883
	48,984,727	0
	(55,290,402)	0
	(254,041)	0
(640,248)	(6,819,298)	1,991,525
(436,007)	(8,480,305)	(10,954,071)
6,038	(49,700)	(296,043)
	387,113	538,403
(116,982)	(327,793)	(1,527,773)
(2,505,210)	(36,923,627)	(21,005,540)
		(Continued)

INLAND EMPIRE UTILITIES AGENCY
Statement of Cash Flows (Continued from previous page)
For the Fiscal Year ended June 30, 2011
(With Comparative Totals for June 30, 2010)

	Enterprise Funds	
	Regional	Recycled
	Wastewater	Water
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	\$646,611	\$157,040
Sale of investments	0	0
Net cash provided by (used for) investing activities	646,611	157,040
Net increase (decrease) in cash and cash equivalents	11,497	(2,576,921)
Cash and cash equivalents - beginning	61,356,318	27,718,024
Cash and cash equivalents - ending	<u>\$61,367,815</u>	<u>\$25,141,103</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income (loss)	(\$33,178,433)	(\$2,944,463)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities		
Depreciation and amortization	21,987,326	3,470,492
Changes in assets and liabilities		
(Increase) decrease in		
Accounts receivable	1,347,819	9,542,807
Other receivables		
Short-term receivable	2,711,321	
Inventory		
Prepaid items	2,645	(20,000)
Increase (decrease) in		
Accounts payable	(542,287)	(478,489)
Accrued liabilities	1,146,794	(256,524)
Other liabilities		30,659
Compensated absences		
Net cash provided by (used for) operating activities	<u>(\$6,524,815)</u>	<u>\$9,344,482</u>

(Continued)

INLAND EMPIRE UTILITIES AGENCY
Statement of Cash Flows - (Continued from previous page)
For the Fiscal Year Ended June 30, 2011
(With Comparative Totals for June 30, 2010)

	Enterprise Funds	
	Regional	Recycled
	Wastewater	Water
RECONCILIATION OF CASH & CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:		
Cash and short-term investments	\$41,053,543	\$10,255,613
Restricted assets	20,314,272	14,885,490
Cash & cash equivalents at end of year	<u>\$61,367,815</u>	<u>\$25,141,103</u>

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

Non-Major	Totals	
	2011	2010
\$30,032,077	\$81,341,233	\$61,237,054
847,295	36,047,057	56,375,078
<u>\$30,879,372</u>	<u>\$117,388,290</u>	<u>\$117,612,132</u>



Artist: Artist Unknown, First Grade

Howard Cattle School - Chino

First Place Winner - Kindergarten - Fifth Grade Category

Inland Empire Utilities Water District

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

June 30, 2011

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NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

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. As defined by accounting principles generally accepted in the United States of America and the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the Agency as the primary government. The Agency has no legally separate component units that require blended or discrete presentation.

Subject to the limitation imposed by the Constitution of California, and pursuant to its charter, all powers of the Agency are vested in a five-member Board of Directors. Each Director serves a four-year term and is elected by and represents the voters of a specific geographic area within the Agency's boundaries, identified as a Division. As of June 30, 2011, the Agency's staff is led by the Board-appointed General Manager, Assistant General Manager, Executive Manager of Policy Development, Executive Manager of Operations, and the Chief Financial Officer. The Agency's staff consisted of 295 authorized positions, of which 274 were filled as of June 30, 2011. 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.

b. Fund Financial Statements

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets equity, revenues and expenses, as appropriate. The Agency's resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The Agency accounts for its activities in Enterprise Funds. 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, and Recycled Water. These major funds are comprised of certain sub-funds within the Agency's accounting system. The composition of the major funds by sub-fund is indicated in the accompanying supplementary information schedules. (Refer to "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.)

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

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

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

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

Enterprise Funds

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

Regional Wastewater Capital Fund

The Regional Wastewater Capital Fund records the transactions for the acquisition, construction, and expansion of the Agency's municipal wastewater treatment plants, large sewer interceptors, and appurtenant facilities. Previously, the program included the Obligation Payment (OP) Fund, which was closed in December 2010 after the refinancing of the 1994 Revenue Bonds and termination of the Master Resolution.

Regional Wastewater Fund

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

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

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

Recycled Water Fund

The Recycled Water Fund records the revenues and expenses associated with the operations and maintenance of the facilities used to distribute recycled water supplied from the Agency's recycling plants. Additionally, the Recycled Water Fund records all of the costs associated with the construction of recycled water capital projects. In response to the potential shortage and reduction of imported water supplies, the Agency adopted the Recycled Water Business Plan (RWBP) in December 2007. A key goal of the RWBP is to increase the demand for recycled water to 50,000 acre foot per year (AFY) with the expansion of the Regional Recycled Water Distribution System. Recycled water provides a cost effective and more dependable local water supply and a key to drought proofing the Agency's service area.

Basis of Accounting

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

Use of Estimates

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

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

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

Recognition of Revenues and Expenses

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

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

Operating and Non-operating Revenues and Expenses

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

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

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

d. Assets, Liabilities and Net Assets or Equity

Cash and Investments

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

For the purpose of the Combining Statement of Cash Flows at June 30, 2011, and in accordance with the Governmental Accounting Standards Board Statement Number 9, the Agency's cash and cash equivalents are considered to be petty cash, demand deposits and savings accounts that are readily available on demand. All short-term cash surpluses are maintained in a cash and investment pool, and allocated to each fund based on month-end cash and investment balances. For financial presentation purposes, cash is shown within cash, short-term investments and restricted assets. Additionally, guidelines provided by GASB Statement No. 40 regarding risk disclosures on deposits and investments have been followed.

Interest Income Allocation Method

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

Receivables and Payables

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

Property taxes 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 in two installments on December 10 and April 11. Any unpaid amounts at the end of the fiscal year are recorded as accounts receivable. The County bills and collects the property taxes and subsequently remits the amount due to the Agency in installments during the year. The Agency accrues those taxes which are received from the County within sixty days after fiscal year end. The Agency does not collect property taxes in advance; therefore no deferred revenue is shown on the financial statements.

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

All receivables are shown net of an allowance for uncollectibles. IEUA extends credit to customers in the normal course of operations. Management has evaluated the accounts and believes they are all collectible. Management evaluates all accounts receivable and if it is determined that they are uncollectible they are approved by the board and written off as a bad debt expense. A bad debt allowance of \$149,923.99 has been created for FY 2010/2011. In FY 2009/2010, \$1,070 was written off as bad debt expense.

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

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

Inventories and Prepaids

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

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

Restricted Assets

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

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

Capital Assets

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

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

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

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

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

Capital Assets (continued):

During the year ended June 30, 2011, no interest was capitalized on jobs in process related to either the 1994, or the 1999 Revenue Bonds proceeds, since proceeds were completely expended on projects that were placed in operation in prior fiscal years. Total interest of \$2,279,008 was capitalized on jobs in process related to the 2008A Revenue Bonds proceeds, and is comprised of \$1,268,133 recorded in the Regional Capital Improvement Fund, \$627,425 in the Recycled Water Fund, \$214,830 recorded in the Non-Reclaimable Wastewater Fund, and \$168,620 in the Regional Operations and Maintenance Fund.

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

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

Estimated useful lives are:	Furniture, machinery and equipment	5 - 10 years
	Improvements	15 years
	Interceptors, buildings and plants	5 - 50 years
	Intangible Capacity Rights	40 years
	Computer Software	10 years

Compensated Absences

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

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

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

At July 1, 2010 the accumulated vacation leave payable was \$1,900,474 with additions and deletions during the year of \$294,267 and \$308,718 respectively, resulting in an ending balance at June 30, 2011 of \$1,886,023. This was a net decrease of \$14,451 over the previous fiscal year. The sick and compensatory leave balance at July 1, 2010 was \$1,943,970 with additions and deletions during the year of \$791,979 and \$1,074,299 respectively, resulting in an ending balance at June 30, 2011 of \$1,661,650. This was a net decrease of \$282,320 over the previous fiscal year. Total compensated absences have been recorded in the Administrative Service Fund as a combined total of \$3,547,673 payable in future years. The current year liability is estimated to be \$1,960,081.

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

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

Other Post - Employment Benefits

In accordance with the Agency's Memorandum of Understanding (MOU), the Agency provides post-employment benefits to all retired employees through the Public Employees' Retirement System (CalPERS) health program, as follows:

- A. Each employee hired on or after January 1, 1992, and who simultaneously retires from the Agency and CalPERS, who does not meet the requirements of C, D, or E following, will receive health benefits under the Public Employees' Medical and Hospital Care Act in an amount up to a maximum of \$111.41 per month, plus administrative costs.
- B. Each employee hired on or after July 1, 1980, and prior to January, 1992, and who simultaneously retires from the Agency and CalPERS, who does not meet the requirements of C, D, or E following, will receive health benefits under the Public Employees' Medical and Hospital Care Act in an amount up to a maximum of \$111.41 per month, plus administrative costs.
- C. Each employee hired on or prior to July 1, 1980 and who simultaneously retires from the Agency and CalPERS, who is a minimum age of 55, with a minimum of 15 years Agency service, and /or eligible dependents, will receive health benefits under the Public Employees' Medical and Hospital Care Act in an amount equal to 100% of the cost of the Agency's basic health plan (Kaiser South), plus administrative costs.
- D. Each employee hired on or after July 1, 1980, through December 31, 1991, and who simultaneously retires from the Agency and CalPERS, who is a minimum age of 55, with a minimum of 20 years Agency service, and/or eligible dependents, will receive health benefits under the Public Employees' Medical and Hospital Care Act in an amount equal to 50% of the cost of the Agency's basic health plan (Kaiser South), plus administrative costs.
- E. Each employee retiring after July 4, 2004, and who simultaneously retires from the Agency and CalPERS, who is at a minimum age of 55, with a minimum of 12 years Agency service, who does not meet the requirements of C or D above, will receive health benefits under the Public Employees' Medical and Hospital Care Act in an amount equal to 50% of the cost of the Agency's basic health plan (Kaiser South), plus administrative costs for single party for the employee or surviving spouse.

In accordance with GASB Statement No. 12, the Agency's fixed fee contributions are financed on a pay-as-you-go basis for retired employees and their eligible dependents, based on the above provisions. Insurance premiums are reduced when a retiree becomes eligible for Medicare. Consequently, the Agency's payments are reduced accordingly. During the fiscal year ended June 30, 2011, the Agency paid \$333,797 for 70 retired employees.

In accordance with GASB Statement No. 45 – Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pension (OPEB), public entities are required to accrue OPEB costs throughout the employee's working lifetime and record the actuarially calculated cost as a liability. The Agency contracted an independent pension consultant and actuaries to perform an actuarial valuation of the OPEB as of July 1, 2010. The report used the "Entry Age Normal" actuarial cost method and an attribution period that runs from the date of hire until the expected retirement date. Normal costs can be defined to be the present value of future benefits that are "earned" by employees for service rendered during the current year. The report used the normal cost approach with which the Agency's unfunded actuarial accrued liability is being amortized as a level dollar amortization over a closed 26-year period.

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

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

Other Post - Employment Benefits (continued):

As of June 30, 2011, no decision has been made to fund the actuarially calculated OPEB liability.

The following table presents the summary of the Actuarial Accrued Liability (AAL), Plan Assets and Annual Required Contribution for the Fiscal Year 2010/11.

Valuation as on October 1,2011	FY10/11
Annual Required Contribution (ARC)	\$1,369,249
Interest on net OPEB Obligation	\$169,081
Adjustment to ARC	(174,818)
Annual OPEB Costs	\$1,363,512
IEUA Contributions	(333,797)
Percentage Contributed	24.5%
Increase or Decrease in Net OPEB	\$1,029,715
Net OPEB Obligation – Beginning of Year	\$3,743,736
Net OPEB Obligation – End of Year	\$ 4,773,451
Annual Covered Payroll	\$24,132,037

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

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

Other Post - Employment Benefits (continued):

Actuarial Methods and Assumptions:

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

The valuation process uses a mathematical model to project the number of retirees and dependents in each future year based on the retirees at the beginning of the year who are expected to survive until the end of the year, and the active employees expected to retire during the year. The expected benefits payable in future year are calculated based on the number of projected retirees and dependents and the anticipated future per capita costs. Actuarial assumptions used for the October 1, 2011 valuation were:

Discount Rate – a 4.5% discount was used to calculate the present value of future benefit payments. Normal costs increase by 5.5% per year.

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

<u>Year</u>	<u>Rate</u>
2013	7.3%
2014	7.0%
2015	6.7%
2016	6.4%
2017	6.1%
2018	5.8%
2019 and after	5.5%

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

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

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

Long-Term Obligations

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

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

Prior Year Data

The information included in the accompanying financial statements for the prior year has been presented for comparison purposes only, and does not represent a complete presentation in accordance with generally accepted accounting principles. Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures. Restatement of the beginning balance of Job in Progress from \$121,811,820 to \$122,982,281 is due to the adjustment of Capitalized Interest related to prior year financial statements.

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

Deficit Fund Balance

At June 30, 2011 there were expenditures over appropriations in certain funds at the department level. However, this did not result in a negative fund balance of the individual funds because of expenditure savings from other departments in the fund and/or adequate revenues or other funding sources in the fund to offset expenditures.

III. DETAILED NOTES ON ALL FUNDS

(3) Cash and Investments

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

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

Cash and investments as of June 30, 2011 are classified in the accompanying financial statement as follows:

Statement of net assets:	
Cash and investments	\$ 81,341,233
Cash and investments held by fiscal agent	<u>36,047,057</u>
Total cash and investments	<u>\$ 117,388,290</u>

Cash and investments as of June 30, 2011 consist of the following:

Cash on hand (Petty Cash)	\$ 2,164
Deposits with financial institutions	17,308,606
Deposits held by other governmental agencies	13,446,467
Investments	<u>86,631,053</u>
Total cash and investments	<u>\$ 117,388,290</u>

GASB Statement No. 31

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

Investments and Interest Receivable – Restricted

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

(3) Cash and Investments (continued):

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

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
State Treasury Obligations	5 years	10%	None
Local Agency Obligations	5 years	None	None
Commercial Paper	270 days	20%	None
Time, Certificates, PSC of Deposit	5 years	20%	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.

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

California Asset Management Program (CAMP)

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

Deposits

At June 30, 2011, the carrying amount of the Agency's deposits was \$17,308,606 and the bank balance was \$18,144,296. The \$835,690 difference represents outstanding checks and other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure an Entity's deposits by pledging government securities with a value of 110% of an Entity's deposits. California law also allows financial institutions to secure Entity deposits by pledging first mortgage notes having a value of 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. 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.

(3) Cash and Investments (continued):

Credit Risk

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

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

Presented below is the minimum rating required by the Agency's investment policy, and the actual rating as of fiscal year ended June 30, 2011 for each investment type:

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Not Required To Be Rated</u>	<u>Rating as of June 30, 2011</u>		
				<u>AAA</u>	<u>A – AA+</u>	<u>Unrated</u>
U.S. Agency Securities	\$ 8,513,990	*AAA	\$ 0	\$8,513,990	\$ 0	\$ 0
Medium Term Notes	3,539,567	A to AA+	0	0	3,539,567	0
State Municipal Bonds	1,033,950	A	0	0	1,033,950	0
Certificates of Deposit	5,000,000	N/A	0	0	0	5,000,000
State Investment Pool	48,271,296	N/A	0	0	0	48,271,296
Held by Bond Trustee:						
Money Market Accounts	460,323	N/A	0	0	0	460,323
U.S. Agency Securities	2,187,005	AAA	0	2,187,005	0	0
U.S. Treasuries	2,161,923	**AAA	0	2,161,923	0	0
CAMP Investment Pool	15,462,999	AAA	0	15,462,999	0	0
Total	\$ 86,631,053		\$ 0	\$28,325,917	\$ 4,573,517	\$53,731,619

*U.S. Agency securities were subsequently downgraded to AA+ by S&P credit rating agency as of August 2011, while Moody's preserved the AAA rating

**U.S. Treasuries rated by Moody's only

Concentration of Credit Risk

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

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Fannie Mae	Bonds and Discount Notes	\$ 5,010,820
CDARS	Certificate of Deposit	5,000,000

(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, 2011, the Agency's deposits (bank balance) were insured by the Federal Depository Insurance Corporation up to \$250,000 and the remaining balances were collateralized under California law. None of the Agency's deposits or investments was exposed to custodial credit risk.

Interest Rate Risk

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

As of June 30, 2011, the Agency had the following investments and original maturities:

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>				<u>Fair Value</u>
	<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>	
U.S. Agency Securities	\$ 0	\$ 0	\$ 8,513,990	\$ 0	\$ 8,513,990
Medium Term Notes	0	3,170,810	368,757	0	3,539,567
State Municipal Bonds	0	0	1,033,950	0	1,033,950
State Investment Pool	48,271,296	0	0	0	48,271,296
Held by Bond Trustee:					
Money Market Accounts	376,535	0	0	0	376,535
US Agency Securities	0	0	2,270,340	0	2,270,340
US Treasuries	0	0	2,162,376	0	2,162,376
CAMP Investment Pool	15,462,999	0	0	0	15,462,999
Total	\$64,110,830	\$3,170,810	\$14,349,413	\$ 0	\$ 81,631,053

(4) Deferred Compensation Plan

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

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

In fiscal year 1997/98, the Board of Directors adopted a resolution to establish another Deferred Compensation Plan that is a qualified plan under the IRC Section 401(a). Each participant is expected to contribute up to 10% of their employee's earnings up to a maximum of \$49,000 for 2011. All contributions are made with pre-tax income and are solely obtained from the employee's funds. An employee's election to participate in the plan is irrevocable and shall remain in force until the employee terminates employment. Under current IRS regulations once an employee elects to participate in the plan, he/she cannot change his/her contribution amount or withdraw from the plan until he/she leaves Agency employment.

Unlike the Deferred Compensation Plan under IRC Section 457, the IRC Section 401(a) Deferred Compensation Plan must be reported in the financial statements. The reported balances were \$1,161,798 and \$1,033,707 at fiscal years ended June 30, 2011 and 2010, respectively.

(5) Defined Benefit Pension Plan

Plan Description

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

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

Funding Policy

Agency employees are required to contribute 8% of their annual covered salary to CalPERS. The Agency makes the contributions required of Agency employees on their behalf and for their account. The Agency is required to contribute the actuarially determined remaining amounts necessary to fund the retirement benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration.

(5) Defined Benefit Pension Plan (continued):

Funding Policy (continued):

All full-time Agency employees participate in CalPERS with benefits vesting after five years of CALPERS related service. For each year of service credit, Agency employees who retire at or after age 55 are eligible for annual retirement benefits, payable monthly for life, in an amount equal to 2.5% of their average salary during the period of 12 consecutive months in which they earned their highest salary.

Annual Pension Costs

Under GASB Statement No. 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2010 to June 30, 2011 has been determined by an actuarial valuation of the plan as of June 30, 2008.

In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2011, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2010 to June 30, 2011. The Agency's annual pension cost for the fiscal year ended June 30, 2011 was \$4,730,153.

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

Valuation Date	June 30, 2008
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percentage of Payroll
Average Remaining Period	23 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administration expenses)
Projected Salary Increases	3.25% to 14.45% depending on Age, Service, and type of employment.
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30 year rolling period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period. The unfunded actuarial liability is amortized over a period ending June 30, 2036.

(5) Defined Benefit Pension Plan (continued):

Three-year Trend information for the IEUA CalPERS

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2009	5,083,038	100%	0
6/30/2010	4,747,436	100%	0
6/30/2011	4,730,153	100%	0

(6) Risk Management

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

- General and auto liability, public officials and employees' error and omissions: The Agency retains the risk of loss for general liability, automobile liability, and, errors and omissions claims of up to \$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.

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 \$50,000,000 per occurrence coverage limit, subject to a \$25,000 deductible per occurrence. All other claims categories provide coverage up to \$10,000,000 on an annual aggregate basis.
- Boiler and machinery coverage for the replacement cost up to a shared limit of \$500,000, subject to various deductibles depending on the type of equipment.

(6) Risk Management (continued):

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, 2011, 2010, and 2009. Additionally, there have been no reductions in insurance coverage since the establishment of the risk management program.

Claim Liabilities

Claim liabilities of the Agency are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claim liabilities include an amount for claims that have been incurred but not reported (IBNRs). A negative amount reflects a current year change in the estimated unpaid claims balance at the beginning of the year. Claim liabilities are calculated considering effects of inflation, recent claim settlement trends (including frequency and amount of payouts), and other economic and social factors. The liability for claims and judgments is reported in the accrued liabilities.

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

	Worker's Compensation		General Liability	
	2010/11	2009/10	2010/11	2009/10
Unpaid Claims, beginning of fiscal year	\$169,449	\$295,088	\$ 0	\$ 0
Incurred claims (including IBNRs)	301,714	126,169	2,003,217	4,846
Claim payments	(142,753)	(251,808)	(3,217)	(4,846)
Unpaid claims, end of fiscal year	\$328,410	\$169,449	\$ 2,000,000	\$ 0

(7) Changes in Capital Assets

The following is a summary of property, plant and equipment, net jobs in progress and intangible assets at June 30, 2011:

Capital Assets

Capital assets-	Balance at 6/30/10	Additions	Transfers & Retirements	Balance at 6/30/11	Accumulated Depreciation at 6/30/11	Net Book Value at 6/30/11
Capital assets-not being depreciated:						
Land	\$ 14,141,374	\$ 0	\$ 0	\$ 14,141,374	\$ 0	\$ 14,141,374
Jobs in progress	122,982,281	46,183,232	(15,374,840)	153,790,673	0	153,790,673
Total capital assets, not being depreciated	<u>\$ 137,123,655</u>	<u>\$ 46,183,232</u>	<u>\$ (15,374,840)</u>	<u>\$167,932,047</u>	<u>\$ 0</u>	<u>\$ 167,932,047</u>
Capital assets- being depreciated:						
Interceptors, trunk lines and inter-ties	\$ 27,808,582	\$ 820	\$ 0	\$ 27,809,402	\$ (6,879,894)	\$ 20,929,508
Office facilities	11,504,999	291,887	0	11,796,886	(1,729,674)	10,067,212
Collection, outfall, and transmission lines	116,012,513	0	783,476	116,795,989	(53,712,831)	63,083,158
Reservoirs, settling basins, ponds, and chlorination stations	96,747,332	1,448,587	0	98,195,919	(16,512,512)	81,683,407
Recycled water distribution systems	81,395,346	1,715,431	(871,606)	82,239,171	(7,745,136)	74,494,035
Treatment plants, pump stations and office buildings	233,471,539	3,094,267	(191,774)	236,374,032	(97,068,612)	139,305,420
Equipment	116,413,817	4,924,402	(462,151)	120,876,068	(50,213,876)	70,662,192
Land improvement	12,868,495	214,866	0	13,083,361	(6,401,919)	6,681,442
Total capital assets, being depreciated	<u>\$ 696,222,623</u>	<u>\$ 11,690,260</u>	<u>\$ (742,055)</u>	<u>\$707,170,828</u>	<u>\$(240,264,454)</u>	<u>\$ 466,906,374</u>
 Note: 1) Restatement the beginning balance of Job in Progress from \$121,811,820 to \$122,982,281 due to the adjustment of Capitalized Interest related to prior year financial statements.						
Less accumulated depreciation for:						
Interceptors, trunk lines and inter-ties	\$(3,833,784)	\$ (647,017)	\$(2,399,093)	\$(6,879,894)		
Office facilities	(1,479,677)	(283,081)	33,084	(1,729,674)		
Collection, outfall, and transmission lines	(34,293,623)	(3,802,608)	(15,616,600)	(53,712,831)		
Reservoirs, settling basins, ponds, and chlorination stations	(14,049,612)	(2,324,892)	(138,008)	(16,512,512)		
Recycled water distribution systems	(5,956,823)	(1,788,313)	0	(7,745,136)		
Treatment plants, pump stations and office buildings	(108,177,736)	(6,913,117)	18,022,241	(97,068,612)		
Equipment	(38,611,771)	(11,765,286)	163,181	(50,213,876)		
Land improvement	(5,810,808)	(644,319)	53,208	(6,401,919)		
Total accumulated depreciation	<u>(212,213,834)</u>	<u>(28,168,633)</u>	<u>118,013</u>	<u>(240,264,454)</u>		
Total capital assets, being depreciated, net	<u>\$ 484,008,789</u>	<u>\$ (16,478,373)</u>	<u>\$ (624,042)</u>	<u>\$ 466,906,374</u>		
Total capital assets-Enterprise Funds, net	<u>\$ 621,132,444</u>	<u>\$ 29,704,859</u>	<u>\$ (15,998,882)</u>	<u>\$ 634,838,421</u>		

(7) Changes in Capital Assets (continued):

Intangible Assets

Intangible assets-	Balance at 6/30/10	Additions	Transfers & Retirements	Balance at 6/30/11	Accumulated Amortization at 6/30/11	Net Book Value at 6/30/11
Intangible assets-being amortized:						
Computer Software	\$ 6,227,201	\$ 1,581,748	\$ 0	\$ 7,808,949	\$(2,480,917)	\$ 5,328,032
Metropolitan Water District connections	198,891	0	0	198,891	(161,103)	37,788
Corps of Engineers-Cucamonga Creek	43,489	0	0	43,489	(22,969)	20,520
San Bernardino County Flood Control- Chino Road Barrier	48,078	0	0	48,078	(12,020)	36,058
County Sanitation Districts of Los Angeles County's facilities and capacity rights	33,502,985	2,102,834	0	35,605,819	(12,297,906)	23,307,913
Santa Ana Watershed Project Authority capacity rights	12,467,002	0	0	12,467,002	(5,204,410)	7,262,592
Organization and master planning	1,844,537	0	0	1,844,537	(505,689)	1,338,848
Total intangible assets being amortized	\$ 54,332,183	\$ 3,684,582	\$ 0	\$ 58,016,765	\$(20,685,014)	\$ 37,331,751
Less accumulated amortization for:						
Computer Software	\$ (1,732,436)	\$ (748,481)	\$ 0	\$ (2,480,917)		
Metropolitan Water District connections	(157,125)	(3,978)	0	(161,103)		
Corps of Engineers-Cucamonga Creek berm	(22,099)	(870)	0	(22,969)		
San Bernardino County Flood Control- Chino Road Barrier	(10,417)	(1,603)	0	(12,020)		
County Sanitation Districts of Los Angeles County's facilities and capacity rights	(11,554,395)	(743,511)	0	(12,297,906)		
Santa Ana Watershed Project Authority capacity rights	(4,906,826)	(297,584)	0	(5,204,410)		
Organization and master planning	(470,596)	(35,093)	0	(505,689)		
Total accumulated amortization	(18,853,894)	(1,831,120)	0	(20,685,014)		
Total intangible assets-Enterprise Funds, net	\$ 35,478,289	\$ 1,853,462	\$ 0	\$ 37,331,751		
Total capital assets- Enterprise Funds, net	\$656,610,733	\$ 31,558,321	\$ (15,998,882)	\$672,170,172		

The ending balance of accumulated depreciation and amortization for all capital assets has been adjusted to the Statement of Net Assets for 2011 (rounding difference). For the fiscal year ended June 30, 2011, depreciation and amortization expense was \$29,999,753.

(7) Changes in Capital Assets (continued):

Jobs in Progress

At the Fiscal Year ended June 30, 2011, the Agency had several jobs in progress designed to expand the Recycled Water Distribution System as part of the amendments to the 3 Year Business Plan adopted in December 2007. Other significant projects are also underway to expand, improve and refurbish existing treatment facilities in the Agency's Regional Program, including the disposition of wastewater by-products and provide for ancillary facilities that support operating activities.

Other Projects (less than \$1,000,000 each)	\$ 13,776,254
RP5 System Facility Upgrade & Improvements	23,331,823
RP1 Dewatering Facility Expansion	21,084,868
RP1 Facilities Improvements	12,238,551
RP1 Odor Control - Phase I	9,172,786
1630 E Pipeline Segment A	8,746,885
1299 E Reservoir City of Rancho Cucamonga	8,131,286
Recharge Enhancement Project	6,676,988
NRW System Upgrades	5,684,224
1630 W. Reservoir City of Rancho Cucamonga	5,575,540
1299 E Pipeline City of Rancho Cucamonga	5,541,856
1630 W Pipeline Phase 1 City of Upland	5,199,837
1630 W. Recycled Water Pipeline Segment	4,224,385
930 W. Reservoir & Pipeline	3,401,318
RP2 Dewater Cake Storage System	3,274,331
1630 W. Recycled Water Pump Station	3,106,689
RP5/RP2 Recycled Water Pipelines	2,458,352
Church Street Lateral	2,441,437
RP-5 Recycled Water Pump Station Expansion	1,701,061
RP-1 Digester No. 3 Roof Repair	1,540,381
RP-1 Asset Replacement	1,450,641
CCWRF Tertiary Filter & Chlorine Contact Tank Expansions	1,392,407
RP2-SARI Dump Site Relocation	1,329,168
Victoria & San Sevaine - Wells & Lysimeters	1,266,757
RP-2 & RP-5 IPS Overflow	1,042,848
Total jobs in progress	<u>\$ 153,790,673</u>

(8) Construction Commitments

The Agency is committed to several material construction contracts. Total outstanding obligation was \$12,319,552 at June 30, 2011. Some of the more significant contracts are as follows:

There are several projects on-going throughout the Agency's regional plants, with three major projects on-going at RP-1 totaling \$4,634,845; seven major recycled water projects totaling \$7,270,489; one major project on-going at RP-4 totaling \$271,979, and several recycled water and smaller projects at each facility, with a remaining combined obligation of \$142,239.

(8) Construction Commitments (continued):

The major projects include:

- **EN06015** – *RP-1 Dewatering Facility Expansion* This project will expand the dewatering facilities at RP-1 by replacing the existing filter belt presses with a more efficient and cost effective dewatering system. A storage system for the dewatered cake will also be added to provide a minimum of 48 hours of dewater cake storage. This will allow more flexibility in scheduling of trucks to haul the solids to the composting facility. The project will also replace the belt conveyance system with a dual system to insure reliability and redundancy. This would eliminate potential bottlenecks at this system when handling current and ultimate treatment capacities. This project will only utilize the existing footprint of the building to house the new system upgrade, but a temporary facility will be constructed within the area to maintain dewatering operations during construction. This project has an outstanding obligation of \$4,390,380.
- **EN08018.01** – *1630 W. Reservoir*. This project consists of the design and construction of a three million gallon reservoir (1630 W. Reservoir). The reservoir will be located on a parcel of land at the northwest quadrant of the 19th Street and Sapphire Street in Rancho Cucamonga. In the future another three million gallon recycled water reservoir may be added to this site. This project has an outstanding obligation of \$2,262,737.
- **EN08018.02** – *1630 W. Recycled Water Pipeline Segment C*. This project includes two 24- inch regional pipelines as follows: 1) approximately 2,400 linear feet of 24-inch diameter pipeline will be constructed from the reservoir site along the Flood Control Channel to Baseline Road; 2) approximately 3,500 linear feet of 24-inch diameter pipeline will be constructed from the border of the City of Upland and Cucamonga Valley Water District service areas, to Red Hill Park. This project has an outstanding obligation of \$1,900,662.
- **EN09003.01** – *1630 W. Recycled Water Pipeline Segment B*. This project involves construction of pipeline within the 1630 Pressure Zone West, to serve as an inlet / outlet pipeline to the 1630 Pressure Zone West Reservoir. Specifically, this project involves construction of 13,000 feet of 24-inch diameter pipeline. The pipeline will start at the Memorial Park, and will continue to 16th Street, at the border of the City of Upland and the Cucamonga Valley Water District service area. This project has an outstanding obligation of \$1,634,373.
- **WR08032** – *1630 W. Recycled Water Pump Station*. This project consists of design and construction of a new recycled water pump station. The new pump station will include the installation of three pumps, of approximately 450 horse power (hp). The 1630 W. Pump Station will be designed to have one lead pump, one lag pump, and one stand-by pump held in reserve. Construction will occur at the City of Ontario's Fern Reservoir site, located at the intersection of Eighth Street and Fern Avenue, in the City of Upland. The project has an outstanding obligation of \$693,755.
- **WR08023** – *1630 W. Recycled Water Pipeline Segment A*. The purpose of this project is to provide irrigation for the landscaped Euclid Avenue median in the City of Upland. This project consists of an 8-inch diameter lateral connected to the San Antonio Channel pipeline, Segment B. The lateral will begin at Campus Avenue and 4th Streets, extend north on Campus Avenue to 7th Street, then proceed west in 7th Street. When completed, the pipeline will be 6,620 feet in length. The project has an outstanding obligation of \$584,674.

(8) Construction Commitments (continued):

- **EN11028** – *RP-4 Storage Pond Improvements*. The goal of this project is to repair the seal gaps between the pond's liner and above slab, and sod to avoid run-off from settling under the liner. Design plans include permanent stabilization of the slop by adding another layer on top of the existing one. This project also includes on-going monitoring of crack movements of the area to anticipate possible slope failure. The project has an outstanding obligation of \$271,979.
- **EN07010.04** – *Prado Lake Discharge Control Valve*. The intent of this project is to find and implement an effective means to control flow through Prado Lake Discharge at a maximum of 3 Million gallons per day (MGD). Operations requires better control of the Prado Lake Discharge valve to effectively regulate the amount of recycled water being discharged. The Prado Lake Discharge sleeve valve (E.D. Valve) and magnetic flow meter are on a 20-inch line, and cannot effectively control flows in the 3 MGD range. Additionally, the sodium bisulfate (SBS) pumps that inject into the discharge line directly downstream the flow meter, may be oversized and are running at their minimum capacity. There is a failsafe feature that runs a pump at full capacity if the system cannot read the flow properly (normally a very low flow). The SBS pumps will be inspected to identify options to correct this problem. This project has an outstanding obligation of \$153,869.
- **EN07006.04** – *RP-1 Dechlorination / Solids Upgrades*. This project will provide upgrades of the dechlorination system at Tertiary Treatment Plant 1 (TP-1) to accommodate the increased flows from the RP-4 expansion; introduce filtrate treatment systems at RP-1; and perform the gas system modifications to provide capacity for ultimate flow of 60 MGD. This project has an outstanding obligation of \$133,454.
- **EN06020.03** – *Magnolia Channel Wetlands Restoration*. The project will implement best management practices for the collection of storm water; re-establish the drainage of approximately 2,000 linear feet of natural urban stream at the undeveloped portion of the existing Magnolia Channel; use retention ponds to reduce the flow and encourage filtration; and build approximately five acres of managed riparian habitat and vegetated banks to improve water quality. This project is expected to: reduce pollutants, pathogens, erosion and flooding that affect Chino Creek (and downstream Santa Ana River and to the Coast) due to runoff from the surrounding and developing urban, dairy and agricultural areas within the City of Chino and, provide native habitat within the northern Prado Wetlands for sensitive and endangered species of significant concern in California. The project is a part of the overall Chino Creek Master Plan which is an ongoing project with over 50 stakeholders; and, is funded by the State Water Resources Control Board (SWRCB) to improve the Prado Basin. This project has an outstanding obligation of \$115,791.
- **EN11046** – *RP-1 930 PS Fifth Pump*. A fifth 500 hp pump that matches the existing pump, will be added at RP-1 to eliminate any chances of losing a high percentage of pumping capacity should the larger pump, or its existing accessories, go out of service. This project has an outstanding obligation of \$111,010.
- **EN07010.01** – *Installation of Pressure Release Valve (PRV) Between Zone 1158 and zone 1050*. The scope of this project includes design and construction of a 24-inch bypass pipeline to connect the 1158 recycled water pressure zone to the 1050 pressure zone, and consequently to the 930 pressure zone. The bypass will include a pressure reducing valve, and provisions for the future addition of a magnetic flow meter. The project has an outstanding obligation of \$40,420.

(8) Construction Commitments (continued):

- **PU06407** – Public Retrofit Ontario Schools. Under the Public Retrofit Program, this project will change the irrigation system of the City of Ontario schools, from potable water to recycled water. This project consists of thirteen sub-projects, each relative to a facility in the City of Ontario public school system. Two sub-projects were in progress as of June 30, 2011, and when completed, will retrofit the Dorothy Gibson Continuation School, and the Mariposa Elementary School irrigation system connections to the recycled water main system. These two projects have a combined outstanding obligation of \$26,448.

(9) Contingent Liabilities

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

At June 30, 2011, 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, except two litigations. These two cases bear a probable and measurable liability of \$2.0m to the agency, of which \$1.5m has been recorded in the Regional Capital Improvement Fund and \$0.5m has been recorded in the Administrative Service Fund.

(10) Long-Term Receivables

Lewis Operating Corporation

On January 2002, the Agency sold the Co-Composter site to Lewis Operating Corporation. In addition to the purchase price, Lewis agreed to pay \$4,678,500 toward the Agency's relocation costs in two equal installments. On July 2011, the Board approved to extend the due date of the two installments by two years and reduce the interest rate from 6% to 5%. The first installment will be due on June 30, 2013 and the second on June 30, 2014. As of June 30, 2011, the receivable amount is \$4,678,500, and is recorded in the Regional Wastewater Capital Improvement (RC) Fund.

Niagara Bottling, L.L.C.

In March 2004, the Agency entered into an agreement with Niagara Bottling, L.L.C. for the construction of a Non-reclaimable Wastewater (NRW) lateral pipeline with a not-to-exceed cost of \$250,000. Niagara is responsible for reimbursing the Agency in equal monthly installments over a ten (10) year period with interest added at 3% per annum. As of June 30, 2011, the receivable amount is \$83,010, and is recorded in the Non-reclaimable Wastewater Capital Improvement Fund.

City of Ontario

On June 4, 2004, the Agency entered into an amendment to its original contract with the City of Ontario for the reimbursement of the RP-1 to RP-5 By-Pass Project. As of March 31, 2008 the project was completed and as of June 30, 2011, the receivable amount is \$2,854,664 and is recorded in the Regional Wastewater Capital Improvement (RC) Fund.

(10) Long-Term Receivables (continued):

Monte Vista Water District

On February 2, 2008, the Agency entered into an agreement with Monte Vista Water District (MVWD) for the construction of the regional recycled water distribution system that resides within the MVWD service area. Monte Vista Water District agrees to reimburse IEUA \$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, 2011, the receivable amount is \$890,229, and is recorded in the Recycled Water (WC) Fund.

Bellevue Memorial Park

On June 2008, the Agency entered into an agreement with Bellevue Memorial Park for the construction of retrofit improvements for the use of recycled water. Bellevue agreed to reimburse IEUA \$850,000 for construction costs to be paid over a 5 year period. The monthly installments began on September 2009, and include interest charged on the outstanding principal of an annum rate of 4.85% interest annually for 5 years. As of June 30, 2011, the receivable amount is \$392,081, and is recorded in the Recycled Water Fund.

(11) Joint Ventures - Long-Term Agreements

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

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, is summarized as follows:

	2011	2010
Total assets	<u>\$178,336,846</u>	<u>\$184,373,117</u>
Total liabilities	<u>\$115,484,904</u>	<u>\$120,555,903</u>
Total net assets	<u>\$ 62,851,942</u>	<u>\$ 63,817,214</u>
Total revenues	\$ 18,153,314	\$ 21,211,683
Total expenses	(19,118,586)	(19,556,378)
Net change in net assets	<u>\$ (965,272)</u>	<u>\$ 1,655,305</u>

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

Santa Ana Watershed Project Authority (continued):

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

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

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

- A) On June 10, 1981, the Agency entered into Project Agreement #7. The Agency purchased through its Non-reclaimable Capital Improvement Fund capacity use rights of 2.5 mgd in the SARI pipeline capacity, for a cost of \$2,621,204 per mgd. Subsequent annual capital replacement and supplemental costs were \$3,318,846, which brought the total expenditures to \$9,871,856 as of June 30, 2001.
- B) The Agency assumed the future liability of payments for supplemental treatment facilities billed by CSDOC after July 1, 1981, to provide treatment and capacity for up to 2.5 mgd of wastewater.
- C) On June 30, 1989, the Agency purchased through its Regional Capital Improvement Fund 1.5 mgd of SARI pipeline and treatment capacity. In September 1993, the Agency's Board approved the sale of .4 mgd SARI discharge right to the State of California Department of Corrections. The net cost of the 1.1 mgd of SARI pipeline and 1.5 mgd capacity is \$4,650,970. Subsequent annual capital replacement and supplemental costs were \$1,442,010, which brought the total expenditures to \$6,092,980 as of June 30, 2001.
- D) On June 19, 1998, the Agency entered into an agreement with SAWPA for the purchase of an additional 1.5 mgd of SARI pipeline capacity. One third of this capacity is earmarked for the Regional Wastewater Program. The Agency, through Regional Capital Improvement Fund, purchased .5 mgd. The remaining 1.0 mgd was purchased with monies from the Non-reclaimable Capital Improvement Fund. The total cost of the purchase was \$5,625,000, with a 5% down payment. The balance is payable over 20 years with a zero interest rate, and has been discounted by \$2,095,253 at an imputed interest rate of 6%.

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

Santa Ana Watershed Project Authority (continued):

- E) In July 7, 1999, the Agency Board of Directors approved the purchase of 1.0 mgd of SARI pipeline capacity from SAWPA. The purchase price was \$3,750,000, and is recorded in the Non-reclaimable Wastewater Fund. The agreement called for a 5% down payment of \$187,500, and the balance of \$3,562,500 to be financed by SAWPA for a 20 year-period at a 6% interest rate. This note was paid in full as approved by the Board on May 21, 2003 for a principal balance of \$2,961,171 plus accrued interest of \$167,935.
- F) On April 21, 2004, the Agency Board of Directors of approved the sale of 2.10 mgd of pipeline capacity and 2.05 mgd of treatment and disposal capacity to the Chino Basin Desalter Authority. The sale price totaled \$14.25 million payable in three equal installments within one year. This sale was recorded in two separate funds with \$4.73 million going to the Regional Capital Improvement Fund and \$9.52 million going to the Non-reclaimable Wastewater Fund.

Chino Basin Desalter

The Chino Basin Desalter Authority (CDA) was formed in September, 2001 as a Joint Powers Authority (JPA) to acquire all assets and liabilities from 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 CDA Desalter 1 facility.

As of June 30, 2011, Desalter 1 and Desalter 2 delivered a total of 25,009 acre feet of water. Financial data is available at the IEUA's main office.

Inland Empire Regional Composting Authority

In February 2002, Inland Empire Utilities Agency (IEUA) entered into a Joint Power Authority Agreement (JPA) with the County Sanitation District No. 2 of Los Angeles County (CSDLAC) 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 adjacent to IEUA's Regional Plant No. 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 property. The facility started operation in FY 2006/2007. The operational costs of the JPA are recorded in the Regional Wastewater Operations and Maintenance (RO) Fund. As of June 30, 2011, the IEUA's equity share is \$47,171,104 recorded in the Regional Wastewater Capital Improvement Fund. There was a write-down of \$1,513,370 (50% of IEUA's equity share) of the JPA's net asset at June 30, 2011; this reduction is recorded in the non-operating expenses on the statement of revenues in the RO Fund. The operational costs of the JPA are recorded in the RO Fund. IERCA Financial data is available at the Agency's main office.

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

Santa Ana River Watermaster

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

The Watermaster represents the four water districts identified below and is composed of a committee of five representatives from the four water districts. Two representatives serve from Orange County Water District (OCWD) and one representative from the Inland Empire Utilities Agency (IEUA), 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 the Watermaster after receiving contributions from the four water districts. Financial data is available at the Agency's main office. 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	<u>20%</u>
Total	<u>100%</u>

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

	2010	2009
Total assets - cash	<u>\$ 10,100</u>	<u>\$ 3,592</u>
Fund balance	<u>10,100</u>	<u>3,592</u>
Total revenues	\$ 16,800	\$ 11,200
Total expenses	(10,292)	(25,330)
Net increase/(decrease) in equity	<u>\$ 6,508</u>	<u>\$ (14,130)</u>

Santa Ana River Watermaster issues a separate Comprehensive Annual Financial Report. Copies of the report may be obtained upon request to: P.O. Box 5906, San Bernardino, California 92412.

(12) Long-term Debt and Notes Payable

Long-term Debt

Summary of changes in Long-Term debt for the fiscal year ended June 30, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due After One Year
Bonds Payable:						
1994 Revenue Bonds	\$ 58,135,000	\$ 0	\$58,135,000	\$ 0	\$ 0	\$ 0
2005A Revenue Bonds (1999 Refinancing)	21,650,000	0	1,290,000	20,360,000	1,325,000	19,035,000
2008A Revenue Bonds	125,000,000	0	0	125,000,000	0	125,000,000
2008B Variable Rate (2002A Refinancing)	52,330,000	0	1,535,000	50,795,000	1,560,000	49,235,000
2010A (1994 Refunding)	0	45,570,000	0	45,570,000	3,510,000	42,060,000
Sub-total	257,115,000	45,570,000	60,960,000	241,725,000	6,395,000	235,330,000
Deferred Bond Cost	2,710,394	2,112,435	(548,766)	5,371,595		5,371,595
Total	\$259,825,394	\$47,682,435	\$60,411,234	\$247,096,595	\$6,395,000	\$240,701,595

1994 Revenue Bonds

On July 15, 2010, the Chino Basin Regional Financing Authority issued the Chino Basin Regional Financing Authority Revenue Bonds Series 2010A to refund the outstanding Chino Basin Regional Financing Authority Revenue Bonds Series 1994. (Refer to note on 2010A Revenue Bonds.)

2005A Revenue Bonds

On May 1, 2005, the Chino Basin Regional Financing Authority issued the Chino Basin Regional Authority Revenue Bonds, Series 2005A in the 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 \$1,325,000 to \$2,120,000 with interest rates from 3.00% to 5.00%. The balance outstanding at June 30, 2011 is comprised of the principal of \$20,360,000, less net unamortized deferred bond costs and discount of (\$752,982) for a net balance of \$19,607,018.

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

Long-term Debt (continued):

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.
- 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, 2011 is comprised of the principal of \$125,000,000, plus a deferred premium of \$4,535,803, for a net balance of \$129,535,803.

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 cost 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 \$1,560,000 to \$3,480,000 with a variable interest rate no higher than 12.00% per annum. The balance outstanding at June 30, 2011 comprised of the principal amount of \$50,795,000, less net unamortized deferred bond costs and discount of (\$73,051), for a net amount of \$50,721,949.

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

Long-term Debt (continued):

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.
- The bonds maturing through 2022 are payable in annual installments ranging from \$3,510,000 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, 2011 is comprised of the principal amount of \$45,570,000, plus net unamortized deferred bond premium of \$3,387,134, for a net amount of \$48,957,134.

Aggregate Long Term Debt

As of June 30, 2011, the aggregate debt service requirements on bonded indebtedness to maturity are summarized as follows:

Year Ending June 30	Principal Payments	Interest Payments	Total
2012	\$ 6,395,000	\$ 8,877,690	\$ 15,272,690
2013	6,650,000	8,749,502	15,399,502
2014	6,870,000	8,580,772	15,450,772
2015	7,105,000	8,397,800	15,502,800
2016	7,395,000	8,171,499	15,566,499
2017-2021	41,360,000	36,975,066	78,335,066
2022-2026	31,325,000	30,895,888	62,220,888
2027-2031	41,285,000	25,986,287	67,271,287
2032-2036	53,970,000	16,755,776	70,725,776
2037-2039	39,370,000	3,018,250	42,388,250
Subtotal	241,725,000	156,408,530	398,133,530
Less: Deferred amount on refunding	(2,862,356)		(2,862,356)
Plus: Net Premium (Discount)	8,233,951		8,233,951
Total debt service payable	\$247,096,595	\$156,408,530	\$403,505,125

All bond debt with variable interest rates use .4%, the rate in effect as of 06/30/11.

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

Long-term Debt (continued):

Debt Covenants

In accordance with bond covenants, property tax revenues are committed to bond debt service. San Bernardino County property tax revenues are distributed 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. The Agency has complied with all covenants related to the outstanding debt issues as of June 30, 2011. (Refer to the bond disclosures in the statistical section).

Notes Payable

Summary of notes payable activity for the Fiscal Year ended June 30, 2011 was as follows:

	Beginning			Ending	Amounts Due Within	Amounts Due After
	Balance	Additions	Reductions	Balance	One Year	One Year
<u>Notes Payable:</u>						
SARI Pipeline Cap. 1.5mgd	\$ 1,659,178	\$ 0	\$ 167,636	\$ 1,491,542	\$ 177,694	\$ 1,313,848
City of Fontana State Revolving Fund	8,899,580	0	482,578	8,417,002	482,578	7,934,424
Loan	56,246,235	18,273,365	1,898,602	72,620,998	2,673,187	69,947,811
Total notes payable	\$66,804,993	\$18,273,365	\$2,548,816	\$82,529,542	\$3,333,459	\$79,196,083

The financial statement included imputed interest @ 6% in the Notes payable, due within one year of \$89,493 from Notes payable, due in more than one year.

Santa Ana Watershed Project Authority

As a result of the purchase of 1.5 mgd SARI pipeline capacity from the Santa Ana Watershed Project Authority (SAWPA) in Fiscal Year 1997/98, the Agency signed a 20 year term note in the amount of \$5,625,000 with a 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 fourteenth installment is due on July 15, 2011. This is a combined note payable from the Non-reclaimable Wastewater and Regional Wastewater Funds.

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

Notes Payable (continued):

Santa Ana Watershed Project Authority (continued):

As of June 30, 2011, the future payments for the remaining note payable obligation by year is as follows:

Year Ending June 30	Principal Payments	Imputed Interest	Total
2012	\$ 177,694	\$ 89,493	\$ 267,187
2013	188,357	78,831	267,188
2014	199,658	67,529	267,187
2015	211,638	55,550	267,188
2016	224,336	42,852	267,188
2017/2018	489,859	44,516	534,375
Total SAWPA note	\$1,491,542	\$378,771	\$1,870,313

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 commence one year after the completion of construction, with principal and interest paid annually for 20 years at an annual rate of 2.5%. As of June 30, 2011, the balance is \$11,328,448.

- The RP1 Pump Station and West Edison SAC RW Pipeline A & B projects (Phase II) are also in part funded by the State Revolving Fund (SRF). The three projects were complete as of June 30, 2010 and have received \$14,752,201 of SRF funding. The current balance as of June 30, 2011 is \$13,144,453.
- The RP4 Pump Station, Pipeline and Reservoir projects (Phase III) are also in part funded by the State Revolving Fund (SRF). The three projects were complete as of June 30, 2010 and have received \$10,862,198 of SRF funding, with a current balance as of June 30, 2011 of \$9,817,465.
- The Recycled Water projects included in Phase IV are also in part funded by the State Revolving Fund (SRF). As of June 30, 2011, the four projects were complete and received \$15,061,175 of SRF funding. The current balance of \$15,065,382 includes \$4,207 of interest added to the principal balance.
- The Recycled Water Project (Construction of 2 Monitoring Wells) in Phase V is also in part funded by the State Revolving Fund (SRF). As of June 30, 2011, the project is completed and has received \$998,332 of SRF funding. The current balance at June 30, 2011 is \$953,242.
- The Recycled Water Project (Southern Area) in Phase VI is also in part funded by the State Revolving Fund (SRF). As of June 30, 2011, we reflect a current balance of \$1,796,412.
- The RP1 Dewatering Facility Expansion project is also in part funded by the State Revolving Fund (SRF). As of June 30, 2011, this project is approximately 75% complete and has received \$20,515,596 of SRF funding.

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

Notes Payable (continued):

State Water Resources Control Board (continued):

As of June 30, 2011, the future payments for the remaining loan obligations by year are as follows:

<u>Year Ending June 30</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Payment</u>
2012	\$ 2,673,187	\$ 692,344	\$ 3,365,531
2013	3,686,203	753,800	4,440,003
2014	3,777,058	762,334	4,539,392
2015	3,835,374	722,011	4,557,385
2016	3,877,068	680,384	4,557,452
2017/2021	20,040,677	2,746,502	22,787,179
2022/2026	20,163,114	1,569,113	21,732,227
2027/2031	13,271,109	499,983	13,771,092
2032/2033	1,297,208	13,789	1,310,997
Total SRF loans	<u><u>\$72,620,998</u></u>	<u><u>\$8,440,260</u></u>	<u><u>\$81,061,258</u></u>

City of Fontana

On October 18, 2005, the Agency entered into a reimbursement agreement with the City of Fontana for the design and construction of the San Bernardino Avenue lift station and force main, to convey the wastewater to the Agency's regional wastewater facility 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 IEUA from the City of Fontana.

As of June 30, 2011, the future payments for the remaining note payable obligation by year are as follows:

<u>Year Ending June 30</u>	<u>Principal Payments</u>	<u>Interest Amortization</u>	<u>Total</u>
2012	\$ 482,578	\$ 79,824	\$ 562,402
2013	482,578	79,824	562,402
2014	482,578	79,824	562,402
2015	482,578	79,824	562,402
2016	482,578	79,824	562,402
2017/2021	2,412,890	399,120	2,812,010
2022/2026	2,412,890	399,120	2,812,010
2027/2029	1,178,332	165,368	1,343,700
Total Fontana loan	<u><u>\$8,417,002</u></u>	<u><u>\$1,362,728</u></u>	<u><u>\$9,779,730</u></u>

(13) Arbitrage Rebate Obligation

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

- The 1994 and 2008A Revenue, 2005A Variable Rate and 2008B and 2010A Refunding Revenue Bonds are all subject to arbitrage limitations. As such, the initial arbitrage rebate installment on the 1994 Revenue Bonds was made in September 1998, the second installment was paid in September 2003, and the third installment was paid in August 2008. The next installment is due August 2011.
- The initial arbitrage rebate on the 2005A Variable Rate Revenue Bonds was calculated in May, 2010.
- On the 2008A and 2008B Bonds, the initial arbitrage rebate will be due in June, 2013.
- The initial arbitrage rebate on the 2010A Bonds will be due in July, 2015.

The Agency's arbitrage rebate liability was calculated by Willdan Financial Services, formerly MuniFinancial Inc., and is included in "Other noncurrent liabilities" for the Regional Wastewater Capital Improvement Fund. No arbitrage liability is currently due at June 30, 2011.

(14) Advance to/from Other Funds

The composition of advances to/from other funds balances as of June 30, 2011, is as follows:

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

Regional Wastewater Capital Improvement Fund & Recycled Water Fund

At June 30, 2011, the Regional Wastewater Capital Improvement Fund reported an advance to the Recycled Water Fund, and the Recycled Water Fund reported an advance from the Regional Wastewater Capital Improvement Fund, in the amount of \$3,000,000. This advance will support capital construction expenditures related to the Regional Recycled Water Distribution System as part of the Agency's Recycled Water Business Plan adopted in December 2007. Repayment is scheduled over several fiscal years from increased recycled water sales.

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

Non-reclaimable Wastewater Capital Improvement Fund & Recycled Water Fund

At June 30, 2011, the Non-reclaimable Wastewater Capital Improvement Fund reported an advance to the Recycled Water Fund, and the Recycled Water Fund reported an advance from the Non-reclaimable Wastewater Capital Improvement 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.

(15) Interfund Transfers

The Recycled Water Fund received debt service support from the Regional Wastewater Capital Improvement Fund in the amount of \$1,464,622 and \$300,000 in operating support from the Water Fund.

Non-Major Enterprise Funds received transfers in the amount of \$1,388,001 including \$985,246 from the Regional Wastewater Funds. These transfers included \$363,312 in capital support to the Administrative Service Fund from various funds. The remaining amount consisted of \$646,640 in debt service support and \$378,049 in operating support to the Recharge Fund.

The following table reflects the interfund transfer balances in and out by fund as of June 30, 2011.

Transfers In:				
	Regional Wastewater	Recycled Water	Non-Major Enterprise Funds	Total
Transfers out:				
Regional Wastewater Funds	\$ 0	\$1,464,622	\$ 985,246	\$ 2,449,868
Recycled Water Fund	0		144,652	144,652
Non-Major Enterprise Funds	0	300,000	258,103	558,103
Total Transfers	\$ 0	\$1,764,622	\$1,388,001	\$ 3,152,623

(16) Operating Leases

The Agency has two operating leases at June 30, 2011:

- One postage meter lease extending to June 30, 2015
- One lease for nine copiers, extending to June 30, 2015

Total operating lease costs were \$10,858 for the year ended June 30, 2011. The future minimum lease payments for equipment leases are as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2012	\$10,925
2013	11,253
2014	11,590
2015	11,938
Total	<u>\$45,706</u>

(17) Restatement of Net Assets and Related Accounts

As a result of a change in the approach of calculating the capitalized interest for prior fiscal years, related to the 2008A bonds, several funds were affected as a result of the understatement of project costs.

Non-reclaimable Wastewater Fund

Net Assets for the Fiscal Year ended June 30, 2010 have been restated to reflect prior years' recording of capitalized interest related to the 2008A Bonds, in the total amount of \$261,473.

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

Net assets as previously reported June 30, 2010	\$51,210,135
Capitalized interest of prior years'	<u>261,473</u>
Net assets as restated, June 30, 2010	<u>\$51,471,608</u>

Regional Wastewater Capital Improvement Fund

Net Assets for the Fiscal Year ended June 30, 2010 have been restated to reflect prior years' recording of capitalized interest related to the 2008A Bonds, in the total amount of \$851,552.

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

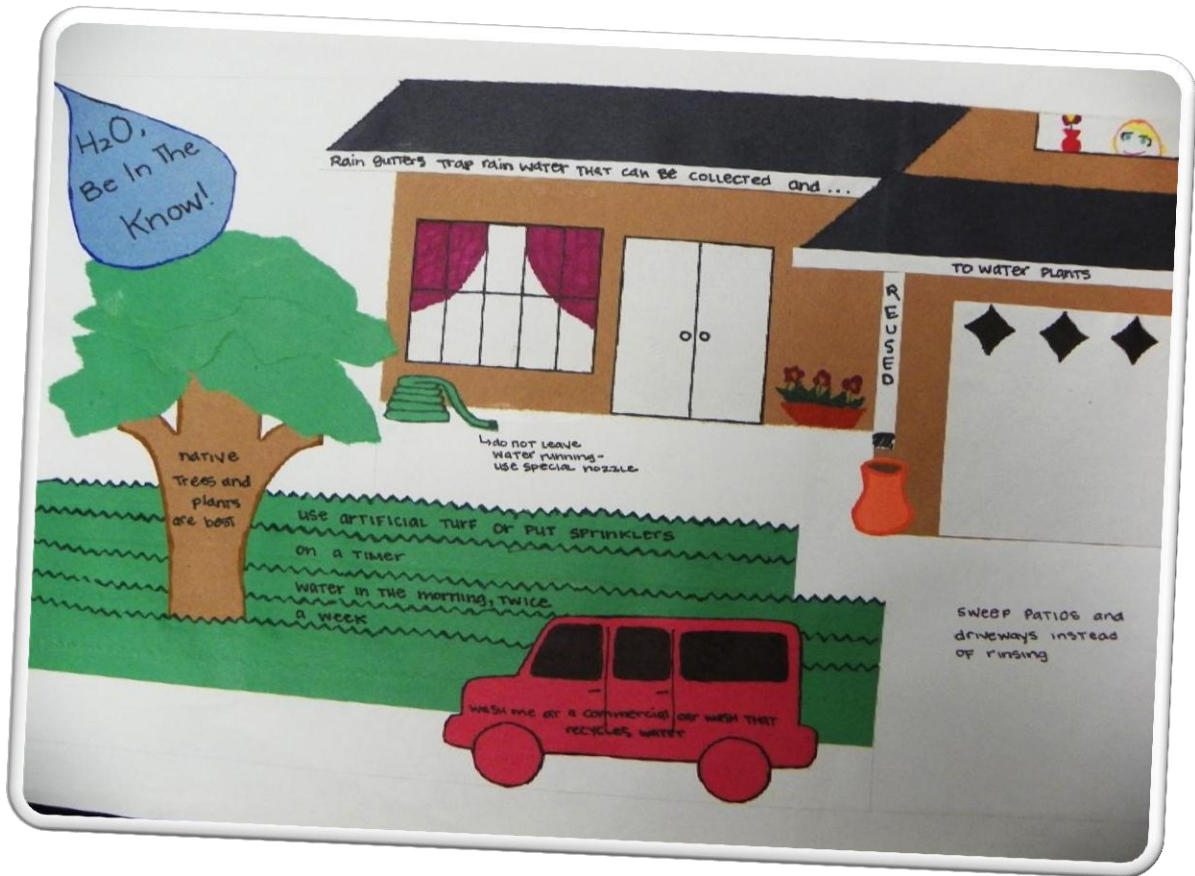
Net assets as previously reported June 30, 2010	\$340,617,697
Capitalized interest of prior years'	<u>851,552</u>
Net assets as restated, June 30, 2010	<u>\$341,469,249</u>

Recycled Water Fund

Net Assets for the Fiscal Year ended June 30, 2010 have been restated to reflect prior years' recording of capitalized interest related to the 2008A Bonds, in the total amount of \$57,437.

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

Net assets as previously reported June 30, 2010	\$61,028,686
Capitalized interest of prior years'	<u>57,437</u>
Net assets as restated, June 30, 2010	<u>\$61,086,123</u>



Artist: Roxana Sheets, Sixth Grade

Howard Cattle School - Chino

First Place Winner - Sixth - Eighth Grade Category

Inland Empire Utilities Water District

Required Supplementary Information

Other Post Employment Benefits Schedule of Funding Progress

INLAND EMPIRE UTILITIES AGENCY **REQUIRED SUPPLEMENTARY INFORMATION**

CalPERS Miscellaneous Pension Plan **As of June 30, 2011**

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

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 Payroll (c)	UAAL as a Percentage of Covered Payroll ((a - b)/c)
6/30/2008	\$83,250,326	\$70,725,415	\$12,524,911	85.0%	\$24,428,539	51.3%
6/30/2009	101,921,750	79,689,675	22,232,075	78.2%	24,511,910	90.7%
6/30/2010	112,269,428	86,916,141	25,353,287	77.4%	24,293,839	104.4%

Other Post-Employment Benefit Plan

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 Payroll (c)	UAAL as a Percentage of Covered Payroll ((a - b)/c)
04/01/09	\$15,245,030	-	\$15,245,030	0.00%	\$25,374,198	60.1%
04/01/09	13,977,691	-	13,977,691	0.00%	24,293,839	57.5%
10/01/11	14,520,001	-	14,520,001	0.00%	24,132,037	60.2%

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

SUPPLEMENTARY SCHEDULES -

Non-Major Enterprise Fund Statements.

INDIVIDUAL FUNDS -

Individual Schedules of all funds are provided as supplementary information.



Garden in Every School Project



RP-5 Bio-Filter Media



IEUA Solar Field

INLAND EMPIRE UTILITIES AGENCY
Combining Statement of Net Assets
June 30, 2011

(With Comparative Totals for June 30, 2010)

	Non-Major Enterprise Funds	
	Non-reclaimable	
ASSETS	<u>Water</u>	<u>Wastewater</u>
Current assets		
Cash and investments	\$1,187,155	\$5,507,972
Accounts receivable	9,254,140	1,701,652
Interest receivable	2,596	342,295
Taxes receivable	0	0
Other receivables	44	26,303
Inventory	0	0
Prepaid items	<u>0</u>	<u>247,190</u>
 Total current assets	 <u>10,443,935</u>	 <u>7,825,412</u>
Noncurrent assets		
Restricted assets		
Assets held for 401(a) plan	0	0
Assets held with trustee/fiscal agent	<u>0</u>	<u>2</u>
 Total restricted assets	 <u>0</u>	 <u>2</u>
Capital assets		
Land	0	0
Jobs in progress	363,934	7,709,968
Capital assets, net of accumulated depreciation	22,112	5,119,931
Intangible assets, net of accumulated amortization	<u>44,113</u>	<u>26,122,153</u>
 Total capital assets	 <u>430,159</u>	 <u>38,952,052</u>
Other assets		
Long-term receivables	0	83,010
Advances to other funds	0	15,000,000
Deferred costs	<u>0</u>	<u>83,524</u>
 Total other assets	 <u>0</u>	 <u>15,166,534</u>
 Total noncurrent assets	 <u>430,159</u>	 <u>54,118,588</u>
 Total assets	 <u>10,874,094</u>	 <u>61,944,000</u>

Recharge Water	Administrative Services	Totals	
		2011	2010
\$2,422,498	\$20,914,452	\$30,032,077	\$27,604,381
0	2,918,421	13,874,213	14,207,308
9,555	61,369	415,815	333,286
0	439,498	439,498	373,022
0	55,553	81,900	213,306
0	1,559,877	1,559,877	1,758,776
0	124,080	371,270	321,881
<u>2,432,053</u>	<u>26,073,250</u>	<u>46,774,650</u>	<u>44,811,960</u>
0	1,161,798	1,161,798	1,033,707
<u>847,293</u>	<u>0</u>	<u>847,295</u>	<u>933,409</u>
<u>847,293</u>	<u>1,161,798</u>	<u>2,009,093</u>	<u>1,967,116</u>
0	20,829	20,829	20,829
6,682,468	640,673	15,397,043	18,232,609
41,884,931	12,446,941	59,473,915	60,963,555
<u>56,597</u>	<u>4,915,686</u>	<u>31,138,549</u>	<u>29,271,118</u>
<u>48,623,996</u>	<u>18,024,129</u>	<u>106,030,336</u>	<u>108,488,111</u>
0	0	83,010	109,062
0	0	15,000,000	15,000,000
<u>67,760</u>	<u>758</u>	<u>152,042</u>	<u>158,284</u>
<u>67,760</u>	<u>758</u>	<u>15,235,052</u>	<u>15,267,346</u>
<u>49,539,049</u>	<u>19,186,685</u>	<u>123,274,481</u>	<u>125,722,573</u>
<u>51,971,102</u>	<u>45,259,935</u>	<u>170,049,131</u>	<u>170,534,533</u>

(continued)

INLAND EMPIRE UTILITIES AGENCY
Combining Statement of Net Assets (Continued from previous page)
June 30, 2011
(With Comparative Totals for June 30, 2010)

	<u>Non-Major Enterprise Funds</u>	
	<u>Water</u>	<u>Non-reclaimable Wastewater</u>
LIABILITIES		
Current liabilities		
Accounts payable	8,200,983	779,681
Accrued liabilities	341,816	918,385
Compensated absences	0	0
Retentions payable	0	2,500
Notes payable, due within one year	0	118,463
Long-term debt, due within one year	0	0
Interest payable	0	59,479
	<u>8,542,799</u>	<u>1,878,508</u>
Total current liabilities		
Noncurrent liabilities		
Compensated absences	0	0
Long-term debt, due in more than one year	0	7,396,495
Notes payable, due in more than one year	0	894,794
Liability for 401(a) plan	0	0
Advances from other funds	0	0
Other noncurrent liabilities	0	0
Net OPEB liability	0	0
	<u>0</u>	<u>8,291,289</u>
Total noncurrent liabilities		
Total liabilities	<u>8,542,799</u>	<u>10,169,797</u>
NET ASSETS		
Invested in capital assets, net of related debt	<u>430,159</u>	<u>30,542,302</u>
Restricted for:		
Capital construction	0	0
Bond operating contingency requirement	0	1,718,351
	<u>0</u>	<u>1,718,351</u>
Total restricted		
Unrestricted	<u>1,901,136</u>	<u>19,513,550</u>
Total net assets	<u>\$2,331,295</u>	<u>\$51,774,203</u>

Recharge Water	Administrative Services	Totals	
		2011	2010
38,866	2,503,861	11,523,391	7,991,485
0	2,708,451	3,968,652	3,941,086
0	1,960,081	1,960,081	2,056,418
(363)	0	2,137	119,119
0	0	118,463	111,757
528,814	0	528,814	520,365
1,118	0	60,597	87,855
568,435	7,172,393	18,162,135	14,828,085
0	1,587,592	1,587,592	1,788,025
16,665,984	0	24,062,479	24,599,418
0	0	894,794	1,013,257
0	1,161,798	1,161,798	1,033,707
0	0	0	3,700,000
0	0	0	0
0	4,773,451	4,773,451	3,757,349
16,665,984	7,522,841	32,480,114	35,891,756
17,234,419	14,695,234	50,642,249	50,719,841
32,276,491	18,024,129	81,273,081	82,915,250
0	0	0	54,439
0	388,960	2,107,311	2,913,102
0	388,960	2,107,311	2,967,541
2,460,192	12,151,612	36,026,490	33,931,901
<u>\$34,736,683</u>	<u>\$30,564,701</u>	<u>\$119,406,882</u>	<u>\$119,814,692</u>

INLAND EMPIRE UTILITIES AGENCY
Combining Statement of Revenues, Expenses, and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2011

(With Comparative Totals for June 30, 2010)

	<u>Non-Major Enterprise Funds</u>	
	Water	Non-reclaimable Wastewater
OPERATING REVENUES		
Service charges	\$3,231,584	\$6,772,637
Total operating revenues	3,231,584	6,772,637
OPERATING EXPENSES		
Wastewater collection	0	3,783,123
Operations and maintenance	630,566	0
Administration and general	2,800,659	1,371,930
Depreciation and amortization	5,367	1,260,189
Total operating expenses	3,436,592	6,415,242
Operating income (loss)	(205,008)	357,395
NONOPERATING REVENUES (EXPENSES)		
Interest income	19,272	128,908
Property tax revenue	0	11
Other nonoperating revenues	81,305	72,430
Interest on long-term debt	0	(208,412)
Other nonoperating expenses	(401,799)	(35,384)
Total nonoperating revenues (expenses)	(301,222)	(42,447)
Income (loss) before contributions and transfers	(506,230)	314,948
TRANSFERS AND CAPITAL CONTRIBUTIONS		
Transfers in	0	0
Transfers out	(300,000)	(12,353)
Capital grants	734,787	0
Change in net assets	(71,443)	302,595
Total net assets - beginning as restated	2,402,738	51,471,608
Total net assets - ending	2,331,295	51,774,203
Prior period adjustment		
Total net assets - ending	\$2,331,295	\$51,774,203

Recharge Water	Administrative Services	Totals	
		2011	2010
\$0	\$0	\$10,004,221	\$11,318,579
0	0	10,004,221	11,318,579
0	0	3,783,123	4,558,505
0	0	630,566	99,695
842,792	1,666,881	6,682,262	7,122,218
1,033,495	2,242,038	4,541,089	4,491,233
1,876,287	3,908,919	15,637,040	16,271,651
(1,876,287)	(3,908,919)	(5,632,819)	(4,953,072)
44,182	206,668	399,030	451,492
0	2,695,614	2,695,625	2,823,068
1,090,652	1,363,446	2,607,833	2,908,619
(50,739)	0	(259,151)	(489,160)
(152,707)	(1,215,696)	(1,805,586)	(744,037)
931,388	3,050,032	3,637,751	4,949,982
(944,899)	(858,887)	(1,995,068)	(3,090)
1,024,689	363,312	1,388,001	3,413,572
0	(245,750)	(558,103)	(2,326,746)
14,890	7,683	757,360	1,119,835
94,680	(733,642)	(407,810)	2,203,571
34,642,003	31,298,343	119,814,692	117,349,648
34,736,683	30,564,701	119,406,882	119,553,219
			261,473
\$34,736,683	\$30,564,701	\$119,406,882	\$119,814,692

INLAND EMPIRE UTILITIES AGENCY
Combining Statement of Cash Flows
For the Fiscal Year ended June 30, 2011

(With Comparative Totals for June 30, 2010)

	<u>Non-Major Enterprise Funds</u>	
	<u>Water</u>	<u>Non-reclaimable Wastewater</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$881,135	\$7,362,511
Cash received from interfund services provided		
Cash payments to suppliers for goods and services	(513,703)	(4,101,951)
Cash payments to employees for services	(381,864)	(723,501)
Cash payments for interfund services used	<u>(433,136)</u>	<u>(1,413,580)</u>
Net cash provided by (used for) operating activities	<u>(447,568)</u>	<u>1,123,479</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in		
Transfers out	(300,000)	(12,353)
Contract reimbursment from others	81,305	72,430
Tax revenues		11
Issuance of long term receivables		26,053
Cash paid to others	(401,800)	(41,424)
Advances to other funds	<u></u>	<u></u>
Net cash provided by (used for) noncapital financing activities	<u>(620,495)</u>	<u>44,717</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(237,110)	(1,405,125)
Capital grants	734,787	
Principal paid on capital debt		(121,062)
Interest paid on capital debt		(205,397)
Bond administration fees		6,038
Refund of contractor deposits	<u></u>	<u>(92,487)</u>
Net cash provided by (used for) capital and related financing activities	<u>497,677</u>	<u>(1,818,033)</u>

Recharge Water	Administrative Services	Totals	
		2011	2010
\$4,210,697	(\$1,984,262)	\$10,470,081	\$15,939,243
	22,241,696	22,241,696	24,053,243
(534,792)	(1,980,163)	(7,130,609)	(11,756,743)
(257,251)	(18,461,898)	(19,824,514)	(23,153,451)
(108,852)		(1,955,568)	(1,885,227)
3,309,802	(184,627)	3,801,086	3,197,065
1,024,689	363,312	1,388,001	3,413,572
	(245,750)	(558,103)	(2,326,746)
1,090,652	1,481,793	2,726,180	2,777,233
	2,629,138	2,629,149	2,754,982
		26,053	25,284
	(1,212,562)	(1,655,786)	(641,574)
(3,700,000)		(3,700,000)	(6,000,000)
(1,584,659)	3,015,931	855,494	2,751
(58,157)	(374,979)	(2,075,371)	(4,535,352)
14,890	7,683	757,360	1,119,839
(519,186)		(640,248)	(691,473)
(227,477)	(3,133)	(436,007)	(569,394)
		6,038	6,024
(17,679)	(6,816)	(116,982)	(389,584)
(807,609)	(377,245)	(2,505,210)	(5,059,940)
			(Continued)

INLAND EMPIRE UTILITIES AGENCY
Statement of Cash Flows (Continued from previous page)
For the Fiscal Year ended June 30, 2011

(With Comparative Totals for June 30, 2010)

	Non-Major Enterprise Funds	
	Water	Non-reclaimable Wastewater
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	\$19,861	\$69,034
Sale of investments		
Net cash provided by (used for) investing activities	19,861	69,034
Net increase (decrease) in cash and cash equivalents	(550,525)	(580,803)
Cash and cash equivalents - beginning	1,737,680	6,088,777
Cash and cash equivalents - ending	\$1,187,155	\$5,507,974

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

Operating income (loss)	(\$205,008)	\$357,395
Adjustments to reconcile operating income to net cash provided by (used for) operating activities		
Depreciation and amortization	5,367	1,260,189
Changes in assets and liabilities		
(Increase) decrease in		
Accounts receivable	(2,378,583)	476,580
Other receivables		113,294
Short term receivables	28,133	
Inventory		
Prepaid items		(54,804)
Increase (decrease) in		
Accounts payable	2,202,870	(311,101)
Accrued liabilities	(100,347)	(718,074)
Other noncurrent liabilities		
Compensated absences		
Net cash provided by (used for) operating activities	(\$447,568)	\$1,123,479

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INLAND EMPIRE UTILITIES AGENCY**Statement of Cash Flows - (Continued from previous page)****For the Fiscal Year Ended June 30, 2011**

(With Comparative Totals for June 30, 2010)

	<u>Non-Major Enterprise Funds</u>	
		Non-reclaimable
	<u>Water</u>	<u>Wastewater</u>
RECONCILIATION OF CASH & CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:		
Cash and short-term investments	\$1,187,155	\$5,507,972
Restricted assets		2
Cash & cash equivalents at end of year	<u>\$1,187,155</u>	<u>\$5,507,974</u>

Recharge	Administrative	Total Non-Major Funds	
Water	Services	2,011	2,010
\$2,422,498	\$20,914,452	\$30,032,077	\$27,604,381
847,293		847,295	933,409
<u>\$3,269,791</u>	<u>\$20,914,452</u>	<u>\$30,879,372</u>	<u>\$28,537,790</u>



Artist: Madison Moffett, Tenth Grade

Don Antonio Lugo School - Chino

Third Place Winner - Ninth - Twelfth Grade Category

Inland Empire Utilities Water District

INLAND EMPIRE UTILITIES AGENCY REGIONAL WASTEWATER FUND COMBINING SCHEDULES

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

Regional Capital Improvement (RC)

The RC Fund records the transactions for the acquisition, construction, and expansion of the Agency's municipal wastewater treatment plants, large sewer interceptors, and appurtenant facilities. Previously the Regional Wastewater program included the Obligation Payment (OP) fund, which was closed in December 2010, after the refinancing of the 1994 Revenue Bonds and termination of the Master Resolution. This fund now includes debt service costs and associated administrative costs required for the revenue bonds.

The RC Fund's revenues include property taxes, connections fees, and interest income on the fund balance. Additionally, this fund records state loans and grants received for the recycled water capital projects.

Regional Operations and Maintenance (RO)

The RO Fund accounts for the revenue and operating costs directly related to domestic sewage treatment services (Wastewater Collection and Treatment) provided to the Agency's contracting agencies. The fund's major source of revenue is the service charges applied to the regional wastewater flows based on Equivalent Dwelling Units (EDU's). Other revenue sources include property tax revenues from San Bernardino County and member Agencies' Redevelopment Fees, and labor cost reimbursement from the Inland Empire Regional Composting Authority, for providing operation and maintenance services at the facility.



Wind Turbine Project – Regional Plant No. 4 – Rancho Cucamonga

INLAND EMPIRE UTILITIES AGENCY
Regional Wastewater Fund
Combining Schedule of Net Assets by Subfund
June 30, 2011
(With Comparative Totals for June 30, 2010)

	Regional Capital Improvement	Regional Operations & Maintenance	Totals	
			2011	2010
ASSETS				
Current assets				
Cash and investments	\$16,796,796	\$24,256,747	\$41,053,543	\$32,756,725
Accounts receivable	2,544,782	5,773,037	8,317,819	9,665,639
Interest receivable	157,593	50,769	208,362	218,942
Taxes receivable	3,558,324	1,153,049	4,711,373	3,997,684
Other receivables	23,583		23,583	2,734,904
Prepaid items	1,200		1,200	3,845
Total current assets	23,082,278	31,233,602	54,315,880	49,377,739
Noncurrent assets				
Restricted assets				
Deposits held by governmental agencies	13,446,467		13,446,467	15,048,421
Assets held with trustee/fiscal agents	6,059,873	807,932	6,867,805	13,551,172
Total restricted assets	19,506,340	807,932	20,314,272	28,599,593
Capital assets				
Land	14,120,545		14,120,545	14,120,545
Jobs in progress	77,026,312	5,425,617	82,451,929	65,979,784
Capital assets, net of accumulated depreciation	324,920,859	655,841	325,576,700	342,742,117
Intangible assets, net of accumulated amortization	5,966,202		5,966,202	6,169,512
Total capital assets	422,033,918	6,081,458	428,115,376	429,011,958
Other assets				
Long-term investments	47,171,104		47,171,104	48,684,474
Advances to other funds	3,000,000		3,000,000	6,700,000
Long-term receivables	7,533,164		7,533,164	5,217,497
Deferred costs	3,182,120	50,173	3,232,293	3,454,608
Total other assets	60,886,388	50,173	60,936,561	64,056,579
Total noncurrent assets	502,426,646	6,939,563	509,366,209	521,668,130
Total assets	525,508,924	38,173,165	563,682,089	571,045,869

(Continued)

	Regional Capital Improvement	Regional Operations & Maintenance	Totals	
			2011	2010
LIABILITIES				
Current liabilities				
Accounts payable	1,408,952	2,446,802	3,855,754	4,398,041
Accrued liabilities	1,533,070	12,565	1,545,635	398,841
Retentions payable	87,565		87,565	142,008
Notes payable, due within one year	541,809		541,809	538,457
Long-term debt, due within one year	5,866,186		5,866,186	5,399,635
Interest payable	1,593,864	35,729	1,629,593	2,322,879
Retention deposits and escrows	1,967,186		1,967,186	1,525,630
Total current liabilities	12,998,632	2,495,096	15,493,728	14,725,491
Noncurrent liabilities				
Long-term debt, due in more than one year	181,845,800	4,443,077	186,288,877	198,917,555
Notes payable, due in more than one year	28,869,074		28,869,074	15,933,675
Other noncurrent liabilities	0	0	0	0
Total noncurrent liabilities	210,714,874	4,443,077	215,157,951	214,851,230
Total liabilities	223,713,506	6,938,173	230,651,679	229,576,721
NET ASSETS				
Invested in capital assets, net of related debt	218,464,694	2,446,313	220,911,007	228,869,971
Restricted for:				
Capital construction	13,577,203	807,931	14,385,134	16,484,835
Bond operating contingency requirement	1,829,797	12,991,150	14,820,947	15,203,447
Total restricted	15,407,000	13,799,081	29,206,081	31,688,282
Unrestricted	67,923,724	14,989,598	82,913,322	80,910,895
Total net assets	\$301,795,418	\$31,234,992	\$333,030,410	\$341,469,148

INLAND EMPIRE UTILITIES AGENCY
Regional Wastewater Fund
Combing Schedule of Revenues, Expenses
And Changes in Fund Net Assets by Subfund
For the Fiscal Year Ended June 30, 2011
(With Comparative Totals for June 30, 2010)

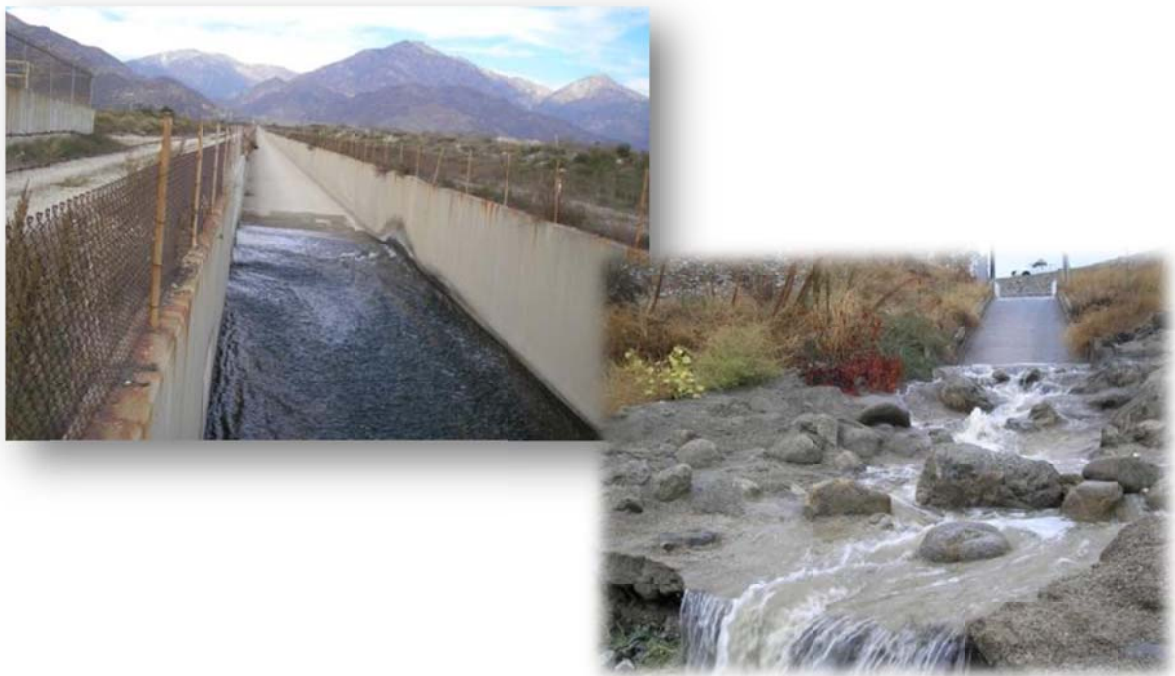
	Regional Capital Improvement	Regional Operations & Maintenance	Totals	
			2011	2010
OPERATING REVENUES				
Service charges	\$0	\$34,771,736	\$34,771,736	\$33,226,273
Total operating revenues	0	34,771,736	34,771,736	33,226,273
OPERATING EXPENSES				
Wastewater collection		2,734,134	2,734,134	2,779,446
Wastewater treatment		17,208,487	17,208,487	19,016,466
Wastewater disposal		10,663,787	10,663,787	10,029,605
Administration and general	6,989,391	8,367,043	15,356,434	13,784,823
Depreciation and amortization	21,924,554	62,773	21,987,327	19,246,418
Total operating expenses	28,913,945	39,036,224	67,950,169	64,856,758
Operating income (loss)	(28,913,945)	(4,264,488)	(33,178,433)	(31,630,485)
NONOPERATING REVENUES (EXPENSES)				
Interest income	461,557	174,474	636,031	997,514
Property tax revenue	21,584,498	6,477,310	28,061,808	29,087,922
Wastewater capital connection fees	5,398,047		5,398,047	7,753,057
Other nonoperating revenues	135,044	3,070,107	3,205,151	4,714,109
Interest on long-term debt	(6,201,471)	(45,755)	(6,247,226)	(7,464,617)
Other nonoperating expenses	(1,957,228)	(2,714,025)	(4,671,253)	(5,729,971)
Total nonoperating revenues (expenses)	19,420,447	6,962,111	26,382,558	29,358,014
Income (loss) before capital contributions and transfers	(9,493,498)	2,697,623	(6,795,875)	(2,272,471)
TRANSFERS AND CAPITAL CONTRIBUTIONS				
Transfers in			0	3,800,509
Transfers out	(2,449,868)		(2,449,868)	(6,569,274)
Capital grants	784,566	22,439	807,005	847,983
Change in net assets	(11,158,800)	2,720,062	(8,438,738)	(4,193,253)
Total net assets - beginning as restated	312,954,218	28,514,930	341,469,148	344,810,850
Total net assets - ending	301,795,418	31,234,992	333,030,410	340,617,597
Prior period adjustment (note 17)				851,551
Total net assets - ending	\$ 301,795,418	\$ 31,234,992	\$ 333,030,410	\$ 341,469,148

INLAND EMPIRE UTILITIES AGENCY **RECHARGE WATER FUND** **COMPARATIVE SCHEDULES**

Recharge Water Fund

The Recharge Water (RW) Fund accounts for the revenues and expenses associated with the groundwater recharge operations and maintenance through the joint effort of the CBWM, the Chino Basin Water Conservation District (CBWCD), the San Bernardino County Flood Control District (SBCFCD), and the Inland Empire Utilities Agency. Expenses include general basin maintenance or restoration costs, groundwater administration (e.g. labor, equipment, and tools), contracted services (e.g. weeding and vector control) compliance reporting and environmental documentation for the program's Fish & Game Permit. The operations and maintenance budget is partially funded by the Chino Basin Watermaster (CBWM) and the Agency. Revenues include reimbursements from CBWM, inter-fund transfers from RC & WC, grant proceeds and interesting earnings on the programs reserve balance.

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



INLAND EMPIRE UTILITIES AGENCY
Recharge Water Fund
Schedule of Net Assets
June 30, 2011
(With Comparative Totals for June 30, 2010)

	Totals	
	2011	2010
ASSETS		
Current assets		
Cash and investments	\$2,422,498	\$1,475,983
Accounts receivable		4,209,341
Interest receivable	9,555	0
Prepaid items		1,356
Total current assets	2,432,053	5,686,680
Noncurrent assets		
Restricted assets		
Assets held with trustee/fiscal agents	847,293	841,647
Total restricted assets	847,293	841,647
Capital assets		
Jobs in progress	6,682,468	6,624,373
Capital assets net of accumulated depreciation	41,884,931	42,909,656
Intangible assets, net of accumulated amortization	56,597	65,304
Total capital assets	48,623,996	49,599,333
Other assets		
Deferred costs	67,760	70,987
Total other assets	67,760	70,987
Total noncurrent assets	49,539,049	50,511,967
Total assets	51,971,102	56,198,647

(Continued)

	Totals	
	2011	2010
LIABILITIES		
Current liabilities		
Accounts payable	38,866	96,969
Accrued liabilities		0
Retentions payable	(363)	17,316
Notes payable, due within one year		
Long-term debt, due within one year	528,814	520,365
Interest payable	1,118	28,376
Total current liabilities	568,435	663,026
Noncurrent liabilities		
Advances from other funds		3,700,000
Long-term debt, due in more than one year	16,665,984	17,193,618
Total noncurrent liabilities	16,665,984	20,893,618
Total liabilities	17,234,419	21,556,644
NET ASSETS		
Invested in capital assets, net of related debt	32,276,491	31,885,350
Restricted for:		
Debt service	847,293	841,647
Total restricted	847,293	841,647
Unrestricted	1,612,899	1,915,006
Total net assets	\$34,736,683	\$34,642,003

INLAND EMPIRE UTILITIES AGENCY
Recharge Water Fund
Schedule of Revenues, Expenses
and Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2011
(With Comparative Totals for June 30, 2010)

	Totals	
	2011	2010
OPERATING REVENUES		
Recycled water sales	\$0	\$0
Total operating revenues	0	0
OPERATING EXPENSES		
Administration and general	842,792	732,409
Depreciation and amortization	1,033,495	995,582
Total operating expenses	1,876,287	1,727,991
Operating income (loss)	(1,876,287)	(1,727,991)
NONOPERATING REVENUES (EXPENSES)		
Interest income	44,182	0
Other nonoperating revenues	1,090,652	1,267,670
Interest on long-term debt	(50,739)	(77,819)
Other nonoperating expenses	(152,707)	(111,427)
Total nonoperating revenues (expenses)	931,388	1,078,424
Income (loss) before contributions and transfers	(944,899)	(649,567)
TRANSFERS AND CAPITAL CONTRIBUTIONS		
Transfers in	1,024,689	1,111,705
Capital grants	14,890	831,351
Change in net assets	94,680	1,293,489
Total net assets - beginning	34,642,003	33,348,514
Total net assets - ending	\$34,736,683	\$34,642,003

INLAND EMPIRE UTILITIES AGENCY

RECYCLED WATER FUND

COMPARATIVE SCHEDULES

Recycled Water Fund:

The Recycled Water (WC) Fund records the revenues of recycled water sales and expenses associated with the operations and maintenance of the facilities that support the distribution of recycled water supplied from the Agency's recycling plants. Additionally, the Recycled Water fund records revenues and costs related to the construction of recycled water capital projects. These project costs include site studies, environmental reviews, design, construction, and construction management, trunk and distribution lines and pumping stations needed in the distribution of recycled water within the Agency's service area. The WC fund generates revenue through groundwater recharge rates and from the sale of recycled water to member agencies and industries, such as multiple golf courses throughout the service area.

Safe, Reliable Recycled Water



Regional Plant No. 5 Pump Station



INLAND EMPIRE UTILITIES AGENCY
Recycled Water Fund
Schedule of Net Assets
June 30, 2011
(With Comparative Totals for June 30, 2010)

	Totals	
	2011	2010
ASSETS		
Current assets		
Cash and investments	\$10,255,613	\$875,948
Accounts receivable	5,438,814	14,981,621
Interest receivable	23,213	36,809
Taxes receivable	334,430	239,926
Prepaid items	23,500	3,500
Total current assets	16,075,570	16,137,804
Noncurrent assets		
Restricted assets		
Assets held with trustee/fiscal agents	14,885,490	26,842,076
Total restricted assets	14,885,490	26,842,076
Capital assets		
Jobs in progress	55,941,701	38,769,888
Capital assets, net of accumulated depreciation	81,855,759	80,303,117
Intangible assets, net of accumulated amortization	227,000	37,659
Total capital assets	138,024,460	119,110,664
Other assets		
Long term receivables	1,282,310	1,497,082
Deferred costs	1,949,465	2,052,354
Total other assets	3,231,775	3,549,436
Total noncurrent assets	156,141,725	149,502,176
Total assets	172,217,295	165,639,980

(Continued)

	Totals	
	2011	2010
LIABILITIES		
Current liabilities		
Accounts payable	3,823,483	4,698,324
Accrued liabilities	5,411	261,935
Notes payable, due within one year	2,673,187	1,898,435
Interest payable	838,558	741,099
Retention deposits and escrows	361,155	571,966
Total current liabilities	<u>7,701,794</u>	<u>8,171,759</u>
Noncurrent liabilities		
Advances from other funds	18,000,000	18,000,000
Long-term debt, due in more than one year	30,350,239	30,388,421
Notes payable, due in more than one year	49,432,215	47,309,412
Other noncurrent liabilities	714,925	684,265
Total noncurrent liabilities	<u>98,497,379</u>	<u>96,382,098</u>
Total liabilities	<u>106,199,173</u>	<u>104,553,857</u>
NET ASSETS		
Invested in capital assets, net of related debt	70,093,154	65,642,830
Restricted for:		
Capital construction	14,524,332	26,185,870
Bond debt service	3	84,241
SRF Loan debt service	4,540,386	2,703,201
Total restricted	<u>19,064,721</u>	<u>28,973,312</u>
Unrestricted	<u>(23,139,753)</u>	<u>(33,530,019)</u>
Total net assets	<u>\$66,018,122</u>	<u>\$61,086,123</u>

INLAND EMPIRE UTILITIES AGENCY
Recycled Water Fund
Schedule of Revenues, Expenses, and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2011
(With Comparative Totals for June 30, 2010)

	Totals	
	2011	2010
OPERATING REVENUES		
Recycled water sales	\$4,352,800	\$4,162,140
Total operating revenue	4,352,800	4,162,140
OPERATING EXPENSES		
Operations and Maintenance	2,599,721	2,659,978
Administration and general	1,227,050	660,272
Depreciation and amortization	3,470,492	2,435,603
Total operating expenses	7,297,263	5,755,853
Operating income (loss)	(2,944,463)	(1,593,713)
NONOPERATING REVENUES (EXPENSES)		
Interest income	143,445	266,268
Property tax revenue	2,661,804	2,444,395
Other nonoperating revenues	276,741	15,080
Other nonoperating expenses	(1,296,611)	(1,210,242)
Interest on long-term debt	(1,551,166)	(1,937,272)
Total nonoperating revenues (expenses)	234,213	(421,771)
Income (loss) before contributions and transfers	(2,710,250)	(2,015,485)
TRANSFERS AND CAPITAL CONTRIBUTIONS		
Transfers in	1,764,622	3,548,068
Transfers out	(144,652)	(1,866,129)
Capital grants	6,022,279	8,419,060
Change in net assets	4,931,999	8,085,514
Total net assets - beginning as restated	61,086,123	52,943,172
Total net assets - ending	66,018,122	61,028,686
Prior period adjustment (note 17)	0	57,437
Total net assets - ending	\$66,018,122	\$61,086,123

INLAND EMPIRE UTILITIES AGENCY

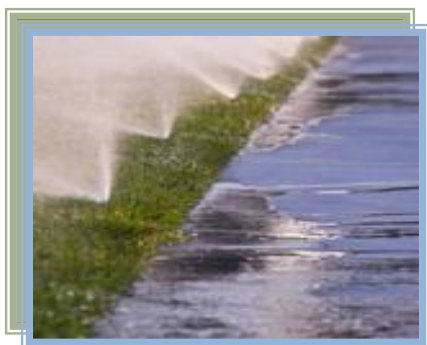
WATER RESOURCES FUND

COMPARATIVE SCHEDULES

Water Resources Fund

The Water Resources (WW) Fund records the fiscal activities 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 water, groundwater recharge, and storm water management.

The WW Fund's major revenue source can be attributed to the surcharge for imported water sold within the service area and a monthly meter service charge per meter. The regional water conservation programs receive dedicated funding, including a portion of the imported water acre foot surcharge and water meter service charge, and program grants and reimbursements from various sources including State, Federal and local agencies.

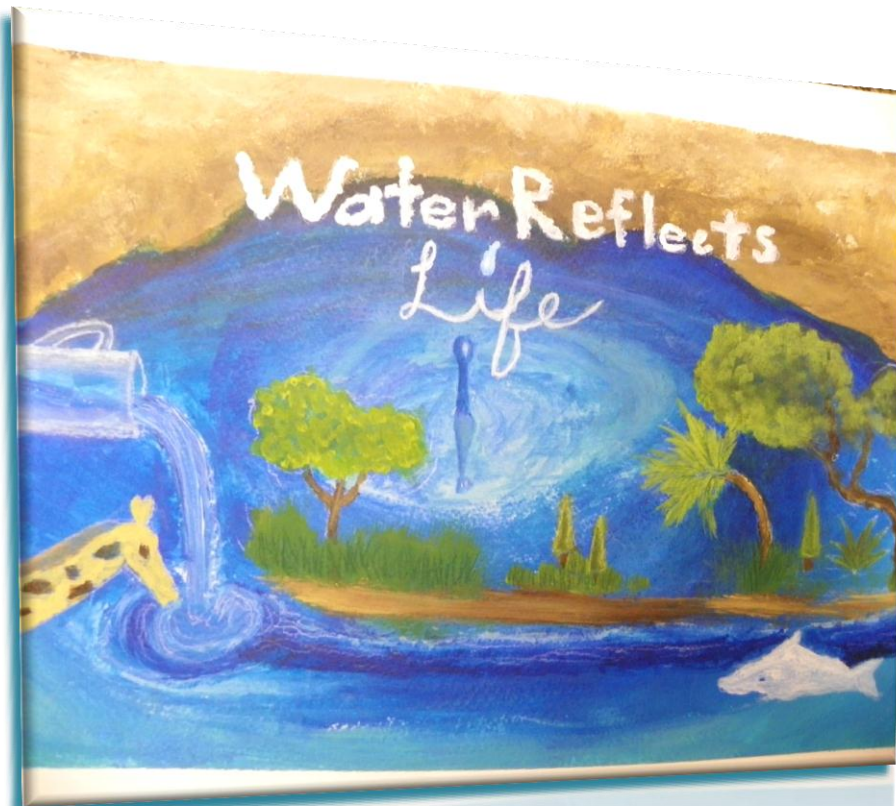


INLAND EMPIRE UTILITIES AGENCY
Water Resources Fund
Schedule of Net Assets
June 30, 2011
(With Comparative Totals for June 30, 2010)

	Totals	
	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets		
Cash and investments	\$1,187,155	\$1,737,680
Accounts receivable	9,254,140	6,875,555
Interest receivable	2,596	3,185
Other receivable	<u>44</u>	<u>28,177</u>
Total current assets	<u>10,443,935</u>	<u>8,644,597</u>
Noncurrent assets		
Capital assets		
Jobs in progress	363,934	126,825
Capital assets, net of accumulated depreciation	22,112	22,658
Intangible assets, net of accumulated amortization	<u>44,113</u>	<u>48,934</u>
Total capital assets	<u>430,159</u>	<u>198,417</u>
Total noncurrent assets	<u>430,159</u>	<u>198,417</u>
Total assets	<u>10,874,094</u>	<u>8,843,014</u>
LIABILITIES		
Accounts payable	8,200,983	5,998,113
Accrued liabilities	<u>341,816</u>	<u>442,163</u>
Total liabilities	<u>8,542,799</u>	<u>6,440,276</u>
NET ASSETS		
Invested in capital assets, net of related debt	430,159	198,417
Unrestricted	1,901,136	2,204,321
Total net assets	<u>\$2,331,295</u>	<u>\$2,402,738</u>

INLAND EMPIRE UTILITIES AGENCY
Water Resources Fund
Schedule of Revenues, Expenses, and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2011
(With Comparative Totals for June 30, 2010)

	Totals	
	2011	2010
OPERATING REVENUES		
Service charges	\$3,231,584	\$2,436,933
Total operating revenues	3,231,584	2,436,933
OPERATING EXPENSES		
Operations and maintenance	630,566	99,695
Administration and general	2,800,659	2,209,009
Depreciation and amortization	5,367	5,367
Total operating expenses	3,436,592	2,314,071
Operating income (loss)	(205,008)	122,862
NONOPERATING REVENUES (EXPENSES)		
Interest income	19,272	31,503
Other nonoperating revenues	81,305	71,471
Other nonoperating expenses	(401,799)	(400,568)
Total nonoperating revenues (expenses)	(301,222)	(297,594)
Income (loss) before contributions and transfers	(506,230)	(174,732)
TRANSFERS AND CAPITAL CONTRIBUTIONS		
Transfers out	(300,000)	(300,000)
Capital grants	734,787	223,402
Change in net assets	(71,443)	(251,330)
Total net assets - beginning	2,402,738	2,654,068
Total net assets - ending	\$2,331,295	\$2,402,738



Artist: Stuart Kusdono, Sixth Grade

Rhodes School - Chino

Second Place Winner – Sixth – Eighth Grade Category

Inland Empire Utilities Water District

INLAND EMPIRE UTILITIES AGENCY **NON-RECLAIMABLE WASTEWATER FUND** **COMPARATIVE SCHEDULES**

The Non-reclaimable Wastewater Fund consists of the following:

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

The NC Fund's revenues are generated from volumetric, capacity, strength, and excess use fees, administrative fees, Capital Improvement Program (CIP) charges, proceeds from repayment of inter-fund loans, and other service charge revenues. Administrative costs associated with the implementation and maintenance of capital projects required for the improvements on collection lines of the NRW System are also recorded.

Pipeline Cleaning Discharge – IEUA Vector Truck



INLAND EMPIRE UTILITIES AGENCY
Non-reclaimable Wastewater Fund
Schedule of Net Assets
June 30, 2011
(With Comparative Totals for June 30, 2010)

	Totals	
	2011	2010
ASSETS		
Current assets		
Cash and investments	\$5,507,972	\$5,997,015
Accounts receivable	1,701,652	2,178,232
Interest receivable	342,295	282,421
Other receivables	26,303	139,597
Prepaid items	247,190	192,386
Total current assets	7,825,412	8,789,651
Noncurrent assets		
Restricted assets		
Assets held with trustee/fiscal agent	2	91,762
Total restricted assets	2	91,762
Capital assets		
Jobs in progress	7,709,968	8,502,221
Capital assets, net of accumulated depreciation	5,119,931	5,398,832
Intangible assets, net of accumulated amortization	26,122,153	24,906,062
Total capital assets	38,952,052	38,807,115
Other assets		
Advances to other funds	15,000,000	15,000,000
Long-term receivables	83,010	109,062
Deferred costs	83,524	86,539
Total other assets	15,166,534	15,195,601
Total noncurrent assets	54,118,588	54,094,478
Total assets	61,944,000	62,884,129

(Continued)

	Totals	
	2011	2010
LIABILITIES		
Current liabilities		
Accounts payable	779,681	1,090,782
Accrued liabilities	918,385	1,636,459
Retention deposits and escrows	2,500	94,987
Notes payable, due within one year	118,463	111,757
Interest payable	59,479	59,479
Total current liabilities	1,878,508	2,993,464
Noncurrent liabilities		
Long-term debt, due in more than one year	7,396,495	7,405,800
Notes payable, due in more than one year	894,794	1,013,257
Total noncurrent liabilities	8,291,289	8,419,057
Total liabilities	10,169,797	11,412,521
NET ASSETS		
Invested in capital assets, net of related debt	30,542,302	30,069,267
Restricted for:		
Capital construction	0	54,439
Bond debt service	0	37,323
Bond operating contingency requirement	1,718,351	1,943,880
Total restricted	1,718,351	2,035,642
Unrestricted	19,513,550	19,366,699
Total net assets	\$51,774,203	\$51,471,608

INLAND EMPIRE UTILITIES AGENCY
Non-reclaimable Wastewater Fund
Schedule of Revenues, Expenses and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2011
(With Comparative Totals for June 30, 2010)

	Totals	
	2011	2010
OPERATING REVENUES		
Service charges	\$6,772,637	\$8,881,646
Total operating revenues	6,772,637	8,881,646
OPERATING EXPENSES		
Wastewater collection	3,783,123	4,558,505
Administration and general	1,371,930	1,273,134
Depreciation and amortization	1,260,189	1,204,926
Total operating expenses	6,415,242	7,036,565
Operating income (loss)	357,395	1,845,081
NONOPERATING REVENUES (EXPENSES)		
Interest income	128,908	201,704
Property tax revenue	11	161
Other nonoperating revenues	72,430	210,613
Interest on long-term debt	(208,412)	(411,341)
Other nonoperating expenses	(35,384)	(127,121)
Total nonoperating revenues (expenses)	(42,447)	(125,984)
Income (loss) before contributions and transfers	314,948	1,719,097
TRANSFERS		
Transfers out	(12,353)	(9,683)
Change in net assets	302,595	1,709,414
Total net assets - beginning as restated	51,471,608	49,500,721
Total net assets - ending	51,774,203	51,210,135
Prior period adjustment (note 17)		261,473
Total net assets - ending	\$51,774,203	\$51,471,608

INLAND EMPIRE UTILITIES AGENCY

ADMINISTRATIVE SERVICES FUND

COMPARATIVE SCHEDULES

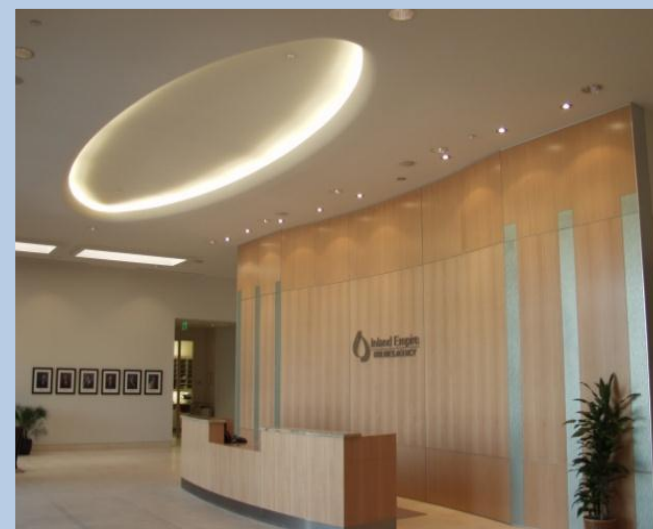
Administrative Services Fund

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

Revenues for the GG fund include 8% of the Agency's total property tax revenue, contract cost reimbursements and interest. Other funding sources include inter-fund transfers for capital replacement support from the Regional Wastewater, Non-Reclaimable Wastewater, and Recycled Water Programs.



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



Reception Area of Headquarters, Building A

INLAND EMPIRE UTILITIES AGENCY
Administrative Services Fund
Schedule of Net Assets
June 30, 2011
(With Comparative Totals for June 30, 2010)

	Totals	
	2011	2010
ASSETS		
Current assets		
Cash and investments	\$20,914,452	\$18,393,703
Accounts receivable	2,918,421	944,180
Interest receivable	61,369	47,680
Taxes receivable	439,498	373,022
Other receivables	55,553	45,532
Inventory	1,559,877	1,758,776
Prepaid items	124,080	128,139
Total current assets	26,073,250	21,691,032
Noncurrent assets		
Restricted assets		
Assets held for 401(a) plan	1,161,798	1,033,707
Total restricted assets	1,161,798	1,033,707
Capital assets		
Land	20,829	20,829
Jobs in progress	640,673	2,979,190
Capital assets, net of accumulated depreciation	12,446,941	12,632,409
Intangible assets, net of accumulated amortization	4,915,686	4,250,818
Total capital assets	18,024,129	19,883,246
Other assets		
Deferred costs	758	758
Total other assets	758	758
Total noncurrent assets	19,186,685	20,917,711
Total assets	45,259,935	42,608,743

(Continued)

	Totals	
	2011	2010
LIABILITIES		
Current liabilities		
Accounts payable	2,503,861	805,621
Accrued liabilities	2,708,451	1,862,464
Compensated absences	1,960,081	2,056,418
Retentions payable	0	6,816
Current liabilities	7,172,393	4,731,319
Noncurrent liabilities		
Compensated absences	1,587,592	1,788,025
Liability for 401(a) plan	1,161,798	1,033,707
Net OPEB liability (note 1 d.)	4,773,451	3,757,349
Total noncurrent liabilities	7,522,841	6,579,081
Total liabilities	14,695,234	11,310,400
NET ASSETS		
Invested in capital assets, net of related debt	18,024,129	19,883,246
Restricted for:		
Bond operating contingency requirement	388,960	969,222
Total restricted	388,960	969,222
Unrestricted	12,151,612	10,445,875
Total net assets	\$30,564,701	\$31,298,343

INLAND EMPIRE UTILITIES AGENCY
Administrative Services Fund
Schedule of Revenues, Expenses and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2011
(With Comparative Totals for June 30, 2010)

	Totals	
	2011	2010
OPERATING REVENUES		
Service charges	\$0	\$0
Total operating revenues	0	0
OPERATING EXPENSES		
Administration and general	1,666,881	2,907,666
Depreciation and amortization	2,242,038	2,285,358
Total operating expenses	3,908,919	5,193,024
Operating income (loss)	(3,908,919)	(5,193,024)
NONOPERATING REVENUES (EXPENSES)		
Interest income	206,668	218,285
Property tax revenue	2,695,614	2,822,907
Other nonoperating revenues	1,363,446	1,358,865
Other nonoperating expenses	(1,215,696)	(104,921)
Total nonoperating revenues (expenses)	3,050,032	4,295,136
Income (loss) before contributions and transfers	(858,887)	(897,888)
TRANSFERS AND CAPITAL CONTRIBUTIONS		
Transfers in	363,312	2,301,867
Transfers out	(245,750)	(2,017,063)
Capital grants	7,683	65,082
Change in net assets	(733,642)	(548,002)
Total net assets - beginning	31,298,343	31,846,345
Total net assets - ending	\$30,564,701	\$31,298,343

INLAND EMPIRE UTILITIES AGENCY
Index of Statistical Section Schedules

June 30, 2011

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

- (1) *Financial Trends.....116*
 - a. *These schedules contain trend information to help the reader understand how IEUA's financial performance and well-being have changed over time.*
- (2) *Revenue Capacity.....120*
 - a. *These schedules contain information to help the reader assess IEUA's most significant revenue sources.*
- (3) *Debt Capacity.....125*
 - a. *These schedules present information to help the reader assess the affordability of IEUA's current levels of outstanding debt and ability to issue additional debt in the future.*
- (4) *Operating Indicators.....130*
 - a. *These schedules contain service and infrastructure data to help the reader understand the information in IEUA's financial reports and how it relates to the services that IEUA provides and the activities it performs.*
- (5) *Demographic and Economic Information.....136*
 - a. *These schedules offer demographic and economic indicators to help the reader understand the environment within which IEUA's financial activities take place.*

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

INLAND EMPIRE UTILITIES AGENCY
Historical Operating Results
Wastewater Revenue Funds' Combined Statement of Revenues, Expenses
and Changes in Fund Net Assets
Fiscal Years Ended June 30, 2002 through 2011
(Dollars in Thousands)

	2010/11	2009/10	2008/09	2007/08	2006/07
Operating revenues					
Service charges	\$ 41,544	\$ 42,108	\$ 41,575	\$ 38,021	\$ 36,132
Other charges	4,353	4,162	2,715	-	-
Total operating revenues	<u>45,897</u>	<u>46,270</u>	<u>44,290</u>	<u>38,021</u>	<u>36,132</u>
Operating expenses					
Wastewater collection	6,517	7,338	5,939	5,361	1,086
Wastewater treatment	17,208	19,016	20,049	22,430	25,082
Wastewater disposal	10,664	10,030	12,885	12,722	7,434
Operations and maintenance	2,600	-	-	2,135	4,442
Administration and general	20,465	22,018	25,685	12,728	17,650
Depreciation and amortization	29,993	26,168	22,179	17,289	17,603
Total operating expenses	<u>87,447</u>	<u>84,570</u>	<u>86,737</u>	<u>72,665</u>	<u>73,297</u>
Operating income (loss)	<u>(41,550)</u>	<u>(38,300)</u>	<u>(42,447)</u>	<u>(34,644)</u>	<u>(37,165)</u>
Non-operating revenues (expenses)					
Interest income	1,159	1,684	2,742	4,659	5,226
Property tax revenue	33,419	34,355	36,325	34,451	31,018
Wastewater capital connection fees	5,398	7,753	5,753	16,626	24,672
Other nonoperating revenues	6,008	7,566	3,098	15,280	5,711
Interest on long-term debt	(7,803)	(9,891)	(13,498)	(10,101)	(8,419)
Other nonoperating expenses	(7,626)	(7,283)	(3,268)	(1,224)	(15,275)
Total nonoperating revenues (expenses)	<u>30,555</u>	<u>34,184</u>	<u>31,152</u>	<u>59,691</u>	<u>42,933</u>
Income (loss) before contributions and transfers	<u>(10,995)</u>	<u>(4,116)</u>	<u>(11,295)</u>	<u>25,047</u>	<u>5,768</u>
Capital grants	6,852	10,163	12,275	1,095	3,380
Contribution in aid	-	-	-	-	-
Transfers (to non-sewer funds)	300	300	300	(4,546)	(14,358)
Change in net assets	<u><u>\$ (3,843)</u></u>	<u><u>\$ 6,347</u></u>	<u><u>\$ 1,280</u></u>	<u><u>\$ 21,596</u></u>	<u><u>\$ (5,210)</u></u>
Total net assets - beginning	518,244	511,897	434,393	412,797	422,441
Prior period adjustment	1,171	-	76,224	-	(4,434)
Total net assets - ending	<u><u>\$ 515,572</u></u>	<u><u>\$ 518,244</u></u>	<u><u>\$ 511,897</u></u>	<u><u>\$ 434,393</u></u>	<u><u>\$ 412,797</u></u>

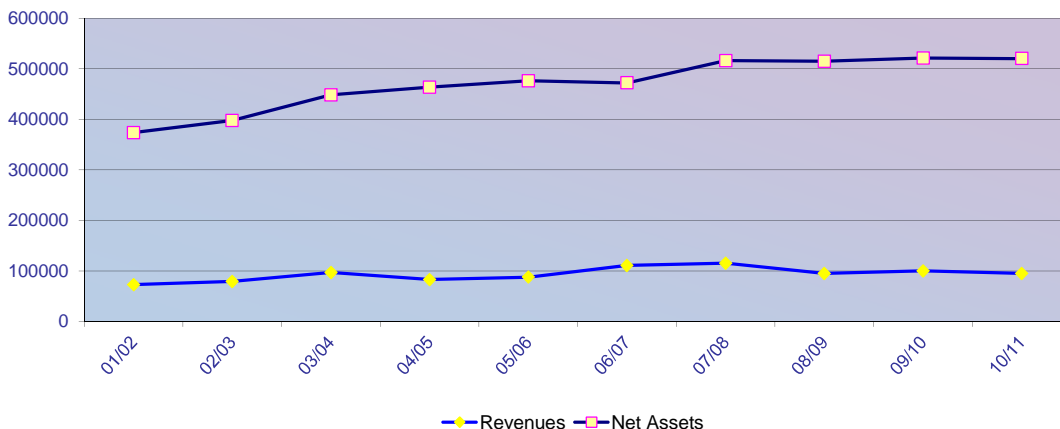
INLAND EMPIRE UTILITIES AGENCY
Historical Operating Results
Wastewater Revenue Funds' Combined Statement of Revenues, Expenses
and Changes in Fund Net Assets
Fiscal Years Ended June 30, 2002 through 2011
(Dollars in Thousands)

<u>2005/06</u>	<u>2004/05</u>	<u>2003/04</u>	<u>2002/03</u>	<u>2001/02</u>
\$ 31,716	\$ 27,090	\$ 25,579	\$ 25,253	\$ 24,767
-	1,755	1,707	1,677	1,609
<u>31,716</u>	<u>28,845</u>	<u>27,286</u>	<u>26,930</u>	<u>26,376</u>
1,143	1,052	967	1,521	875
22,694	19,194	18,677	15,790	15,876
6,235	5,851	4,749	4,663	4,037
42	1,067	-	-	-
16,607	15,483	11,997	10,937	8,514
18,261	16,160	14,178	13,614	13,555
<u>64,982</u>	<u>58,807</u>	<u>50,568</u>	<u>46,525</u>	<u>42,857</u>
<u>(33,266)</u>	<u>(29,962)</u>	<u>(23,282)</u>	<u>(19,595)</u>	<u>(16,481)</u>
3,670	2,642	2,693	3,735	4,450
20,070	16,674	21,508	19,292	17,269
20,896	27,958	28,451	23,999	20,135
6,302	2,005	12,780	935	963
(7,029)	(6,613)	(6,669)	(7,134)	(7,038)
(1,415)	(804)	(3,152)	(908)	(86)
<u>42,494</u>	<u>41,862</u>	<u>55,611</u>	<u>39,919</u>	<u>35,693</u>
<u>9,228</u>	<u>11,900</u>	<u>32,330</u>	<u>20,324</u>	<u>19,212</u>
2,493	975	221	79	1,010
75	-	1,225	-	-
(3,107)	(6,124)	(4,838)	(3,888)	(4,080)
<u>\$ 8,689</u>	<u>\$ 6,751</u>	<u>\$ 28,938</u>	<u>\$ 16,515</u>	<u>\$ 16,142</u>
413,752	407,001	378,063	361,548	345,406
<u>\$ 422,441</u>	<u>\$ 413,752</u>	<u>\$ 407,001</u>	<u>\$ 378,063</u>	<u>\$ 361,548</u>

INLAND EMPIRE UTILITIES AGENCY
Combined Schedule of Revenues, Expenses and Changes in Fund Net Assets
- All Funds -
For The Past Ten Fiscal Years
(Dollars in Thousands)

	2010/11	2009/10	2008/09	2007/08
Operating revenues				
Service charges	\$ 44,776	\$ 44,545	\$ 43,832	\$ 39,459
Other Charges	-	-	-	-
Recycled water sales	4,352	4,162	2,716	2,007
Total operating revenues	49,128	48,707	46,548	41,466
Operating expenses				
Wastewater collection	6,517	7,338	2,351	5,361
Wastewater treatment	17,208	19,016	23,640	22,429
Wastewater disposal	10,664	10,030	9,885	12,723
Administration and general	23,266	21,567	25,101	22,322
Depreciation and amortization	29,999	26,173	22,185	19,054
Operations and maintenance	3,230	2,760	5,539	2,175
Total operating expenses	90,884	86,884	88,701	84,064
Operating income (loss)	(41,756)	(38,177)	(42,154)	(42,598)
Non-Operating revenues (expenses)				
Interest income	1,179	1,715	2,796	5,006
Property tax revenue	33,419	34,355	36,325	34,451
Wastewater capital connection fees	5,398	7,753	5,753	16,626
Other non-operating revenues	6,090	7,638	3,543	17,720
Interest on long-term debt	(8,058)	(9,891)	(13,498)	(11,278)
Other non-operating expenses	(7,773)	(7,684)	(8,031)	(1,890)
Total non-operating revenues (expenses)	30,255	33,886	26,888	60,635
Income (loss) before contributions and transfers	(11,501)	(4,291)	(15,266)	18,036
Capital grants	7,587	10,387	13,924	12,373
Contributions in aid	-	-	-	-
Change in net assets	\$ (3,914)	\$ 6,096	\$ (1,342)	\$ 30,409
Net assets by component:				
Invested in capital assets, net of related debt	372,277	377,512	370,516	355,794
Restricted for Debt service & Capital construction	50,378	63,545	81,418	123,620
Unrestricted	95,800	81,313	63,170	37,032
Total net assets	\$ 518,455	\$ 522,370	\$ 515,104	\$ 516,446

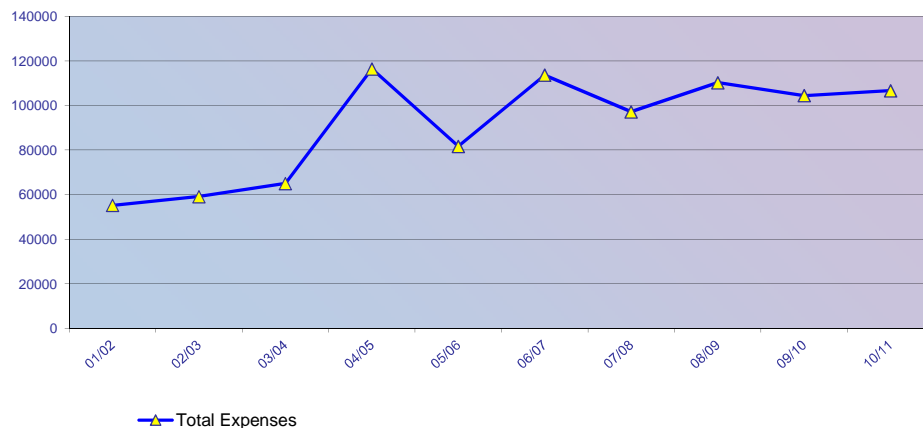
Operating & Non-Operating Revenues & Net Assets Trends
For the Past Ten Fiscal Years



INLAND EMPIRE UTILITIES AGENCY
Combined Schedule of Revenues, Expenses and Changes in Fund Net Assets
- All Funds -
For The Past Ten Fiscal Years (continued)
(Dollars in Thousands)

2006/07	2005/06	2004/05	2003/04	2002/03	2001/02
\$ 37,964	\$ 33,837	\$ 29,194	\$ 27,509	\$ 26,586	\$ 25,781
-	-	1,755	1,707	1,677	1,608
3,254	1,147	653	589	586	1,642
41,218	34,984	31,602	29,805	28,849	29,031
1,086	1,143	1,052	967	1,521	875
25,082	22,694	19,194	18,677	15,790	15,876
7,434	6,236	5,851	4,749	4,663	4,037
24,447	23,568	20,605	14,415	13,515	11,898
18,944	18,719	16,311	14,328	13,769	13,700
7,431	67	1,688	1,788	1,367	1,606
84,424	72,427	64,701	54,924	50,625	47,992
(43,206)	(37,443)	(33,099)	(25,119)	(21,776)	(18,961)
5,325	3,868	2,903	2,874	4,246	4,657
31,018	20,070	16,674	21,508	19,292	17,269
24,671	20,895	27,958	28,451	23,999	20,135
8,645	8,007	4,195	14,288	2,848	2,013
(9,540)	(7,796)	(7,138)	(6,876)	(7,355)	(7,037)
(19,678)	(1,478)	(868)	(3,211)	(1,176)	(160)
40,441	43,566	43,724	57,034	41,854	36,877
(2,765)	6,123	10,623	10,625	20,078	20,078
13,883	6,656	4,220	17,480	3,104	9,679
-	68	26	1,482	866	188
\$ 11,118	\$ 12,847	\$ 14,869	\$ 29,587	\$ 24,048	\$ 29,945
330,897	339,320	300,869	256,642	219,305	234,640
66,071	59,447	101,162	138,875	127,349	102,648
75,224	77,673	61,563	53,208	51,193	36,511
\$ 472,192	\$ 476,440	\$ 463,594	\$ 448,725	\$ 397,847	\$ 373,799

Operating & Non-Operating Expense Trends
For the Past Ten Fiscal Years



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

Fiscal Year	CVWD*	Chino	Chino Hills	Fontana
2001/02	\$ 5,265,645	\$ 1,273,911	\$ 1,426,677	\$ 4,069,138
2002/03	15,471,378	2,656,591	3,456,762	11,624,023
2003/04	30,879,647	5,949,450	5,774,412	17,316,903
2004/05	16,709,735	4,073,882	2,848,819	10,823,845
2005/06	1,687,180	977,463	257,703	1,600,188
2006/07	2,788,920	2,416,243	911,522	2,351,750
2007/08	1,603,879	1,217,755	2,360,905	2,711,172
2008/09	1,228,895	901,211	977,018	2,288,501
2009/10	2,133,583	836,680	641,780	2,509,193
2010/11	3,713,185	1,425,146	861,408	4,128,203
Percentage	27.6%	10.6%	6.4%	30.7%

Wastewater Capital Connection Fee Agreement

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

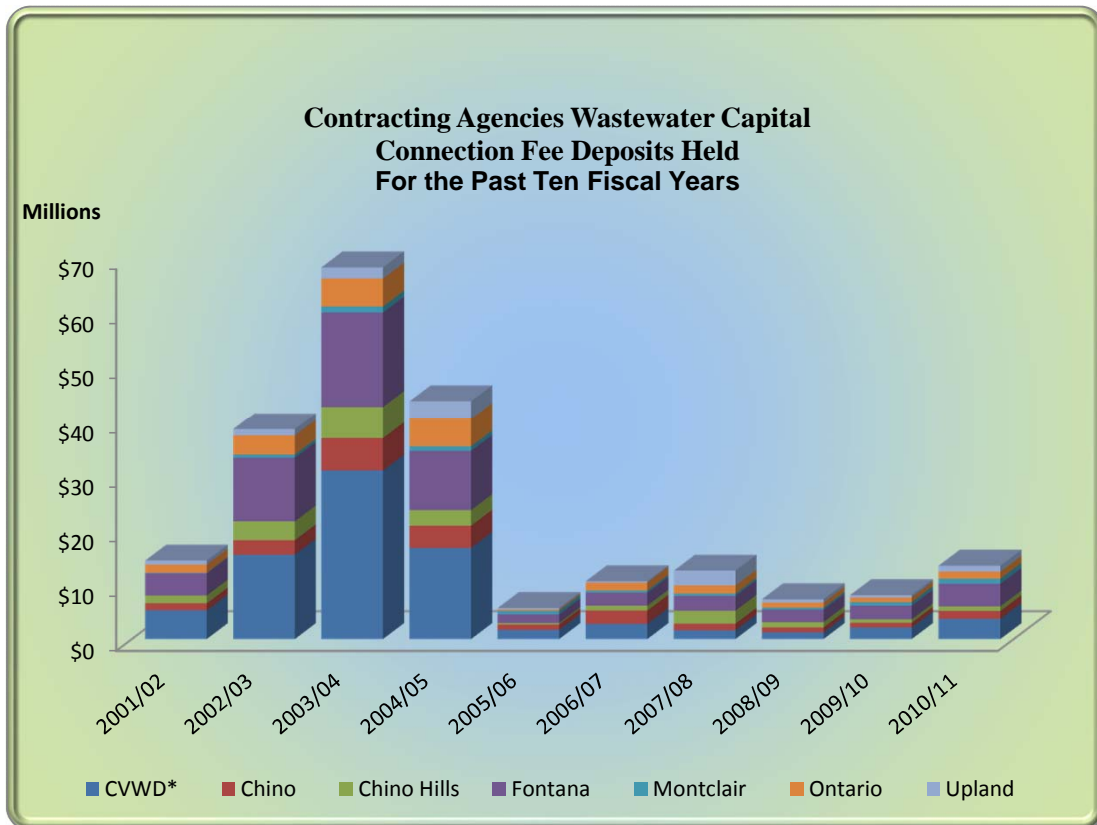
In accordance with the Chino Basin Regional Sewage Service Contract, IEUA must provide each Contracting Agency: a) a quarterly report concerning the level of Capital Capacity Reimbursement Account reserves, b) Regional wastewater capital improvement expenditures and, c) the estimated amount of Supplemental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

Connection fee payments to IEUA are calculated based on the percentage of each Contracting Agency's Reimbursement Account balance relative to the total balance of all Contracting Agency held funds. That percentage is then utilized to calculate each Contracting Agency's (pro rata) contribution of an IEUA "Capital Call" for funds from the Reimbursement Accounts. The table above represents the connection fee balances reported in the respective Contracting Agency's Annual Financial Reports. Balances reported for FY 2010/2011 are subject to further adjustment after audit.

*Cucamonga Valley Water District

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

Fiscal Year	Montclair	Ontario	Upland	Total
2001/02	\$ 100,714	\$ 1,517,605	\$ 734,711	\$ 14,388,401
2002/03	560,484	3,531,167	1,177,653	38,478,058
2003/04	1,109,833	5,132,842	2,041,227	68,204,314
2004/05	831,738	5,137,652	3,244,291	43,669,962
2005/06	645,129	241,894	259,375	5,668,934
2006/07	400,636	1,478,984	243,823	10,591,879
2007/08	417,175	1,498,502	2,732,573	12,541,961
2008/09	372,384	921,436	605,408	7,294,853
2009/10	651,837	842,484	432,863	8,048,420
2010/11	930,082	1,282,000	1,106,443	13,446,467
Percentage	6.9%	9.6%	8.2%	100.0%



INLAND EMPIRE UTILITIES AGENCY
Wastewater Revenue Funds' Capital Requirements
For the Ten Fiscal Years Ending June 30, 2020*
(Dollars in Thousands)

<u>Project Description</u>	<u>Actual</u>	<u>Projected</u>	
	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>
<u>Replacement projects</u>			
RP-1 Flare and RP-1/RP-2 Boiler Placements	\$ -	\$ 1,323	\$ 147
TP-1 Dinsinfectionin Pump Improvements	-	450	50
RP-1 Outdoor Ligting Improvemenst	-	170	
Major Facilities Repairs/ Replacement	224	500	1,000
Plant Equipment Improvements	125	425	575
RP-1 Fuel Cell	135	100	
CCWRF Secondary Clarifier	32	290	
RP-1 Aeration Basin	467		
Collection System Upgrade	267	-	
Various Replacement Projects	441		
Total replacement projects	\$ 1,691	\$ 3,258	\$ 1,772
<u>Equipment projects</u>			
RP-1 Blower # 4 Installation			
RP-4 Wireless LAN Bridge			
Gas Cleaning Systems			
RP-1, RP-2 Carbon Canyon O&M Manual			
Uninterruptable Power Supply	68		
DCS Server Replacement	31		
DCS AB Station Upgrade	13		
RP-1 and RP-4 DCS	26		
Wireless Communication	27		
RP-1, RP-2, CCWRF Upgrade	36		
Agency-wide Security Equipment Upgrade		120	71
Rockwell Automation PLC Upgrades RP-1, RP-4 and Prado*		85	
Process Automation and Controls		40	
Various Equipment Projects	71		400
Total equipment projects	\$ 272	\$ 245	\$ 471
<u>Construction projects</u>			
RP-4 Liquid Expansion	\$ 490	\$ 500	
RP-5 System Fac Upgrade & Improvements	1,507	1,050	
RP-5 Renewable Energy			
RP-1 Dewatering Facility Expansion	13,177	5,849	
Upland Interceptor Sewer			
RP-1 Facilities Improvements	376	300	
San Bernardino Avenue Pump Station			
RP-1 Odor Control - Phase I	330	300	
CCWRP Aeration System Module			
RP-2 Dewatering Cake Storage	165	25	
RP-5 Bottleneck ID Project			
RP-1 Digester No. 3			
CCWRP Tertiary Tank Expansion			
RP-1 Asset Replacement	232	925	850
RP-2 & RP5 IPS Overflow		25	
Miscellaneous Regional Capital Construction Projects			
RP-2 Digester Gas Sys Mods			
RP-1 Food Waste Storage Pump			
RP-1 Solar Power Plant			
New Operations Laboratory	450		
HVAC & Server Room		630	70
Capital Upgrades to RP-1, RP-2, CCWRF, RP-4, & RP-5		3,740	2,060
RP-2 Digester Cleaning		350	350
Agency Wide SBS Free	167		
RP-5 & SHF Renewable Energy Facilities, Independent Review RFP		100	
RP-4 Pond Repair	179		
Facilities SCADA Master Plan	247		
RP-1 Digester Cas Condensate Sump Improvements		150	
Casing Extension for Regional & UPRR Crossing		175	
Regional Sewer Projects		100	100
Chino Creek Wetland LEED Restroom		140	
Various Construction Projects	1,048	830	732
Total construction projects	\$ 18,368	\$ 15,189	\$ 4,162
Total projected capital costs	\$ 20,331	\$ 18,692	\$ 6,405

* Source: Projections were derived from the 2011/12 IEUA Ten Year Capital Improvement Plan.

INLAND EMPIRE UTILITIES AGENCY
Wastewater Revenue Funds' Capital Requirements
For the Ten Fiscal Years Ending June 30, 2020* (continued)
(Dollars in Thousands)

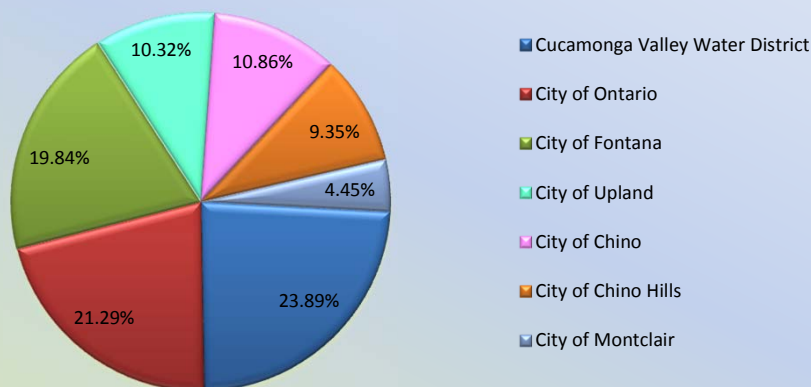
Projected							
<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>TOTAL</u>
							\$ 1,470
							500
							170
700	700	700	700	700	700	700	6,624
1,000	500	2,000	2,000	2,000	1,775	226	10,626
							235
							322
							467
							267
			500	496	416		1,853
\$ 1,700	\$ 1,200	\$ 2,700	\$ 3,200	\$ 3,196	\$ 2,891	\$ 926	\$ 22,534
							\$ -
							-
			500	496	416		1,412
							68
							31
							13
							26
							27
							36
							191
							85
							40
350	650	550	50	54	134	550	2,809
\$ 350	\$ 650	\$ 550	\$ 550	\$ 550	\$ 550	\$ 550	\$ 4,738
							\$ 990
							2,557
							-
							19,026
							-
							676
							-
							630
							-
							190
							-
							-
725	700	250	1,300	300	2,250	1,000	8,532
							25
							-
							-
							-
							450
							700
1,900	1,500	1,500	7,000	2,900	1,500	2,000	24,100
350	350	350	350	350	350	350	3,150
							167
							100
							179
							247
							150
							175
100	100	100	100	100	100	100	900
							140
500	500	500	500	500	500	500	6,110
\$ 3,575	\$ 3,150	\$ 2,700	\$ 9,250	\$ 4,150	\$ 4,700	\$ 3,950	\$ 69,194
\$ 5,625	\$ 5,000	\$ 5,950	\$ 13,000	\$ 7,896	\$ 8,141	\$ 5,426	\$ 96,466

INLAND EMPIRE UTILITIES AGENCY
Regional Wastewater Funds
Service Charge Revenue and Rates by Contracting Agency
For the Fiscal Year Ended June 30, 2011

Through hard work, commitment and discipline, the IEUA team provides the communities they live and work in with wastewater and related utility services, at some of the lowest rates in the State. The following table displays data for FY 2010/2011.

Contracting Agency	Total EDU's	Rate	Service Charge Revenue	% of Service Charge Revenue
Cucamonga Valley Water District	733,999	11.14	\$ 8,176,749.00	23.89%
City of Ontario	654,145	11.14	7,287,175	21.29%
City of Fontana	609,532	11.14	6,790,186	19.84%
City of Upland	317,007	11.14	3,531,458	10.32%
City of Chino	333,668	11.14	3,717,062	10.86%
City of Chino Hills	287,105	11.14	3,198,350	9.35%
City of Montclair	136,633	11.14	1,522,092	4.45%
Total Contracting Agencies' Service Charge Revenue	3,072,089		\$ 34,223,072.00	100.00%

Total Service Charge Revenue by Contracting Agency
For the Fiscal Year Ended June 30, 2011

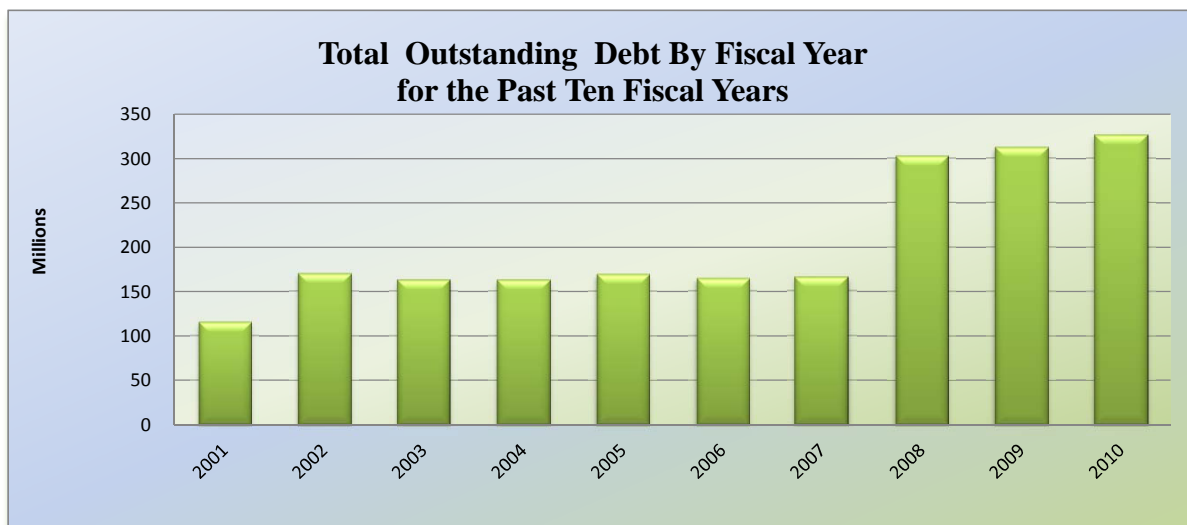


INLAND EMPIRE UTILITIES AGENCY

Ratios of Outstanding Debt For the Past Ten Fiscal Years

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

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



(1) Refer to the Schedule of Demographic and Economic Statistics on page 132 for personal income and population data.

(2) Source: Inland Empire Utilities Agency - Fiscal Management Department

INLAND EMPIRE UTILITIES AGENCY
Agency System Subordinate Debt Coverage Ratio
For Fiscal Years Ended June 30, 2011
(With Comparative Totals for the Fiscal Year Ended June 2010)

	2011	2010
<u>Revenues:</u>		
Wastewater System Service Charges	\$ 34,771,736	\$ 33,226,273
Wastewater Capital Connection Fees	5,398,047	7,753,057
Property Tax	33,419,237	34,355,385
NRW System Service Charges	6,772,637	8,881,646
Interest	1,062,216	1,580,151
Recycled Water Sales	4,352,800	4,162,140
Desalter/Composter Services	3,572,954	3,586,584
Other	1,819,412	2,564,773
Total Revenues	<u>\$ 91,169,039</u>	<u>\$ 96,110,009</u>
<u>Operation and Maintenance Costs:</u>		
Wastewater Treatment	\$ 17,208,487	\$ 19,016,466
Administration and General	20,465,087	19,534,233
Wastewater Disposal	10,663,787	10,029,605
Wastewater Collection	6,517,257	7,263,946
Operations and maintenance	2,599,721	2,571,132
Desalter/Composter Services	3,572,954	3,586,584
Other	3,710,497	1,020,527
Total Operation and Maintenance Costs:	<u>\$ 64,737,790</u>	<u>\$ 63,022,493</u>
Revenues Available to Pay Senior Debt Service	<u>\$ 26,431,249</u>	<u>\$ 33,087,516</u>
<u>Senior Obligation Debt Service</u>		
1994 Installment Payments	\$ 4,797,581	\$ 6,438,513
1999 Installment Payments	0	1,115,019
Total Senior Obligation Debt Service	<u>\$ 4,797,581</u>	<u>\$ 7,553,532</u>
Senior Obligation Debt Service Coverage	<u>5.51</u>	<u>4.38</u>
Net Revenues	<u>\$ 21,633,668</u>	<u>\$ 25,533,984</u>
<u>Parity Obligation Debt Service</u>		
2005A Installment Purchase Payments	\$ 2,219,988	\$ 2,282,538
2008A Installment Payments	6,250,000	6,250,000
2008B Installment Payments	1,652,879	1,632,529
2010A Installment Payments	963,686	0
Total Parity Obligation Debt Service	<u>\$ 11,086,553</u>	<u>\$ 10,165,067</u>
Parity Obligation Debt Service Coverage	<u>1.95</u>	<u>2.51</u>
Net Revenues	<u>\$ 10,547,115</u>	<u>\$ 15,368,917</u>
<u>Subordinate Obligations</u>		
State Revolving Fund Loan	\$ 2,508,144	\$ 2,490,003
SAWPA Sari Capacity Purchase	267,188	267,188
City of Fontana	482,578	438,888
Total Subordinate Obligations	<u>\$ 3,257,910</u>	<u>\$ 3,196,079</u>
Other Debt Service Coverage	<u>3.24</u>	<u>4.81</u>
Remaining Net Revenue	<u><u>\$ 7,289,205</u></u>	<u><u>\$ 12,172,838</u></u>
Revenues available after O&M expenses	<u>\$ 26,431,249</u>	<u>\$ 33,087,516</u>
Total debt service	<u>\$ 19,142,044</u>	<u>\$ 20,914,678</u>
Total debt coverage ratio	<u><u>1.38</u></u>	<u><u>1.58</u></u>

INLAND EMPIRE UTILITIES AGENCY
Agency System Subordinate Debt Coverage Ratio
For Fiscal Years Ended June 30, 2011 (*continued*)
(With Comparative Totals for the Fiscal Year Ended June 2010)

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

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

In February 2008, the Chino Basin Regional Financing Authority issued Revenue Bonds, Series 2008A. The Bonds were primarily used for improvements to the wastewater recycled water and non-reclaimable wastewater facilities.

In July 2010, the Chino Basin Regional Financing Authority issued Refunding Revenue Bonds, Series 2010A. The Bonds were primarily used to refund the outstanding Chino Basin Regional Financing Authority Revenue Bond Series 1994.

In addition, the Agency wastewater funds are required to maintain operating reserves sufficient to cover four (4) months of budgeted operating and maintenance expenses.

- The amended budget FY 20010/11 for operating and maintenance expenses for four months was \$24,140,569.
- As of the Fiscal Year Ended June 30, 2011, the Agency had designated debt service reserves of \$4,809,250, which has been included in Net Assets invested in capital assets, net of related debt.

INLAND EMPIRE UTILITIES AGENCY
Computation of Direct and Overlapping Bonded Debt
As of June 30, 2011

2010/2011 Assessed Valuation: \$53,964,729,664 (after deducting \$26,763,489,845 Redevelopment Incremental Valuation)

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable (1)</u>	<u>Debt 6/30/11</u>
Metropolitan Water District	3.026%	\$ 6,889,294
Chaffey Community College District	99.571	149,564,564
San Bernardino Community College District	0.223	961,174
Chino Valley Unified School District	100.	141,329,999
Colton Joint Unified School District	2.232	4,034,727
Fontana Unified School District	97.178	278,214,144
Rialto Unified School District	0.115	90,295
Upland Unified School District	99.760	91,562,902
Chaffey Union High School District	99.705	92,984,883
Alta Loma School District	99.790	17,623,115
Central School District	100.	22,450,210
Mountain View School District & School Facilities Improvement District No.	100.	14,719,416
Ontario-Montclair School District	100.	52,599,903
Inland Empire Utilities Agency	100.	0 (2)
City of Chino Community Facilities Districts	100.	126,715,000
City of Chino Hills Community Facilities Districts	100.	60,700,000
Etiwanda School District Community Facilities Districts	100.	105,390,000
Upland Unified School District Community Facilities District No. 99-1	100.	4,596,000
City of Fontana Community Facilities Districts	4.930-100.	76,131,648
Mountain View School District Community Facilities District	100.	3,550,000
San Bernardino County Community Facilities Districts No. 2002-1	100.	23,060,000
City of Ontario Community Facilities District	100.	9,925,000
City of Rancho Cucamonga Community Facilities Districts	100.	100,540,000
City of Upland Community Facilities Districts	100.	42,685,000
City of Chino Hills 1915 Act Bonds	100.	3,505,000
City of Ontario 1915 Act Bonds	100.	11,995,000
City of Rancho Cucamonga 1915 Act Bonds	100.	2,565,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		<u>\$1,444,382,274</u>
<u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
San Bernardino County General Fund Obligations	47.365%	\$ 307,552,786
San Bernardino County Pension Obligations	47.365	285,026,272
San Bernardino County Flood Control General Fund Obligations	47.365	52,838,026
Chaffey Community College District Certificates of Participation	99.571	12,387,296
Chino Valley Unified School District Certificates of Participation	100.	31,515,000
Colton Joint Unified School District Certificates of Participation	2.232	130,460
Fontana Unified School District Certificates of Participation	97.178	49,633,664
Rialto Unified School District Certificates of Participation	0.115	15,979
Upland Unified School District Certificate of Participation	99.760	1,072,420
Cucamonga School District Certificate of Participation	100.	11,270,000
City of Chino Hills	100.	21,445,000
City of Fontana Certificates of Participation	91.780	54,297,048
City of Montclair General Fund Obligations	100.	28,315,000
City of Ontario General Fund Obligations	100.	61,995,000
Other City General Fund Obligations	5.819&100.	1,534,915
West Valley Vector Control District Certificates of Participation	100.	3,450,000
TOTAL NET OVERLAPPING GENERAL FUND		<u>\$ 922,478,866</u>
NET COMBINED TOTAL DEBT		<u>\$2,366,861,140</u> (8)

INLAND EMPIRE UTILITIES AGENCY
Computation of Direct and Overlapping Bonded Debt *(continued)*
As of June 30, 2011

Ratios to 2010-11 Assessed Valuation:

Direct Debt	0.00%
Total Direct and Overlapping Tax and Assessment Debt.....	1.79%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt.....	4.39%
<u>State School Building Aid Repayable As Of 6/30/11:</u>	\$0

Source: California Municipal Statistics, Inc.

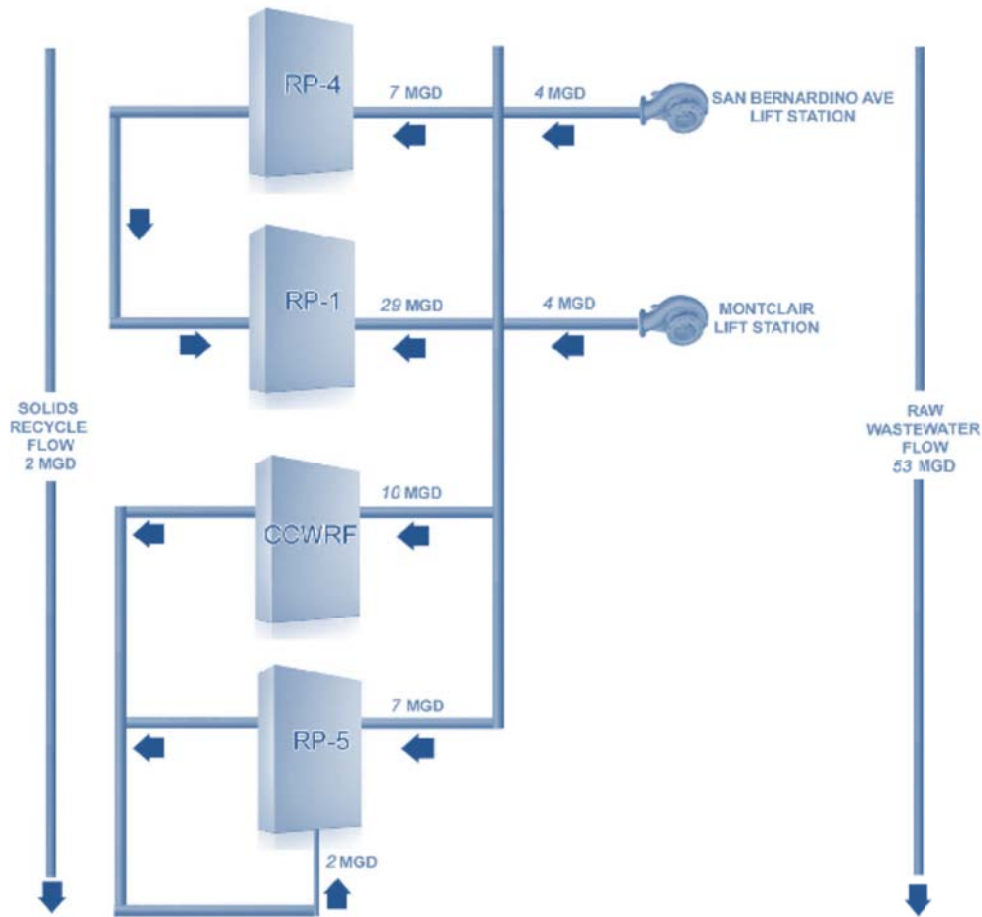
Footnotes:

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

INLAND EMPIRE UTILITIES AGENCY
Operating Indicators - Wastewater Facilities
Design Capacity and Average Flow
As of June 30, 2011

Currently, the Agency operates four wastewater treatment plants: Regional Plant No. 1 (RP-1) is located in the City of Ontario, Carbon Canyon Water Recycling Facility (CCWRF) is located in the City of Chino, Regional Plant No. 4 (RP-4) is located in the northeast service area in the City of Rancho Cucamonga and Regional Plant No. 5 (RP-5) located in the unincorporated area of the City of Chino.

IEUA Wastewater Flows

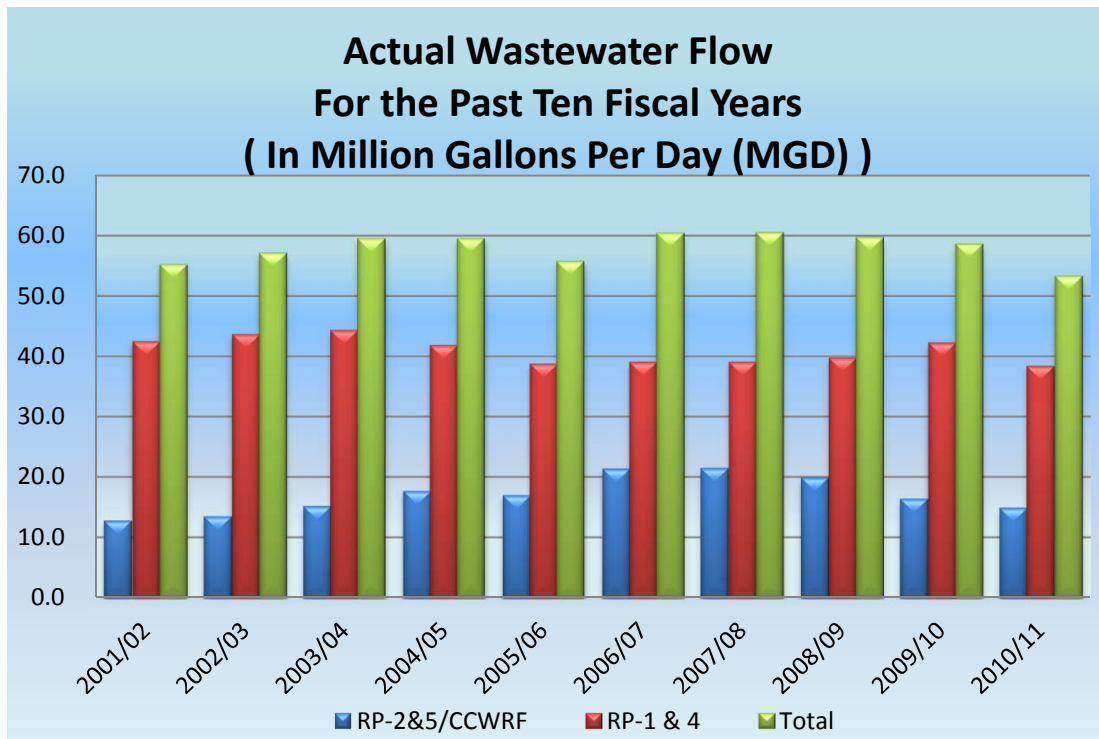


The following table presents the current design capacities and flows of the Agency's wastewater treatment as of June 30, 2011:

Facility	Design Capacity (MGD)	Average Flow (MGD)	Average Flow as % of Design Capacity
RP-1	44.0	28.0	63.6%
RP-5	15.0	7.8	52.0
RP-4	14.0	10.4	74.3
CCWRF	11.4	7.1	62.3
Total	84.4	53.3	63.2%

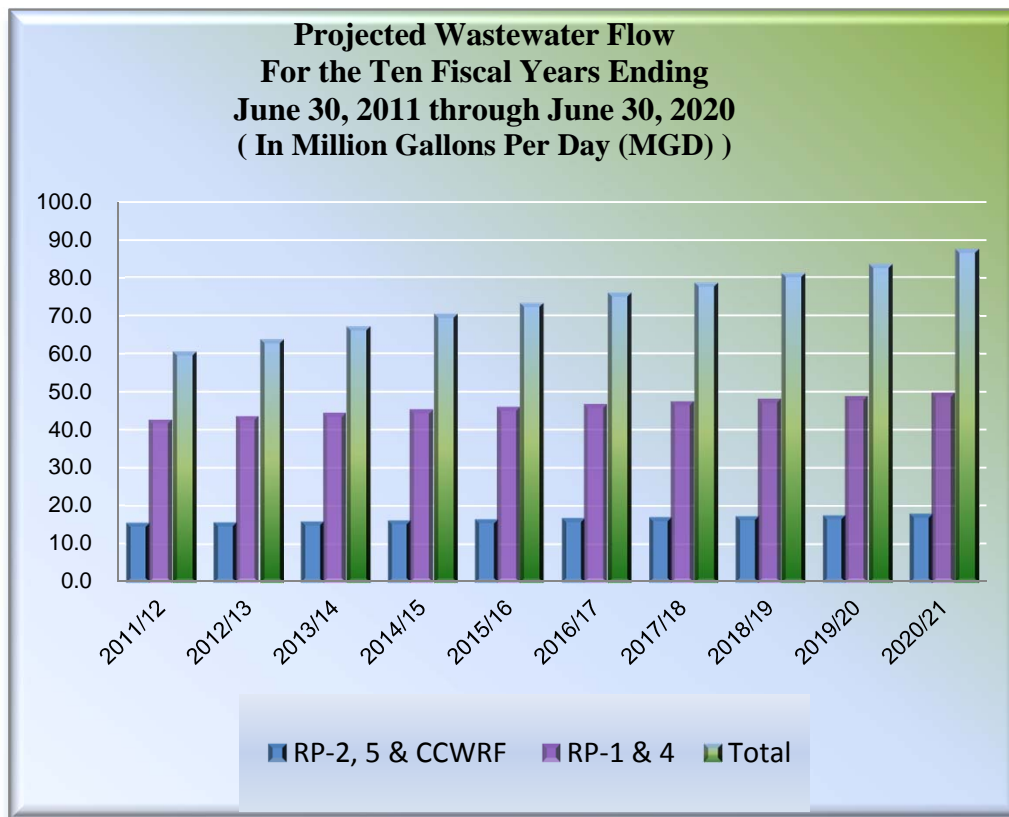
INLAND EMPIRE UTILITIES AGENCY
Operating Indicators - Actual Wastewater Flow
For the Past Ten Fiscal Years
(In Million Gallons Per Day (MGD))

Fiscal Year	RP-1 & 4 (MGD)	RP-2&5/CCWRF (MGD)	Total (MGD)
2001/02	42.5	12.8	55.3
2002/03	43.7	13.5	57.2
2003/04	44.4	15.2	59.6
2004/05	41.9	17.7	59.6
2005/06	38.8	17.0	55.8
2006/07	39.1	21.4	60.5
2007/08	39.1	21.5	60.6
2008/09	39.8	20.0	59.8
2009/10	42.3	16.4	58.7
2010/11	38.4	14.9	53.3



INLAND EMPIRE UTILITIES AGENCY
Operating Indicator - Projected Wastewater Flow
For the Ten Fiscal Years Ending June 30, 2012 through June 30, 2021*
(In Million Gallons Per Day (MGD))

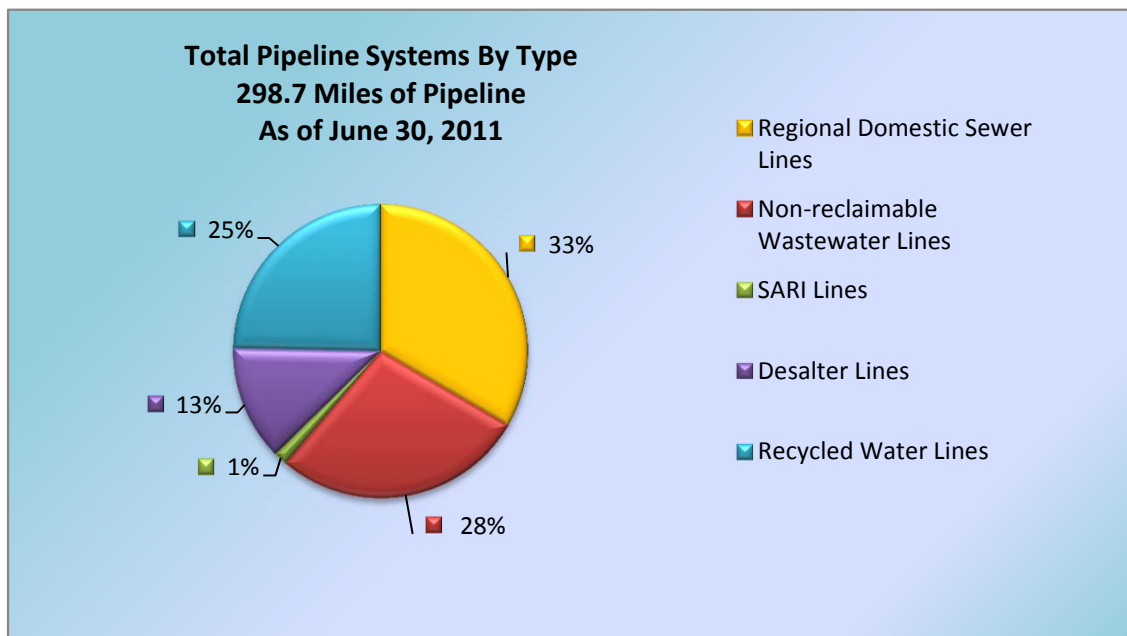
Fiscal Year	RP-1 & 4 (MGD)	RP-2, 5 & CCWRF (MGD)	Total (MGD)
2011/12	40.7	15.7	56.4
2012/13	40.9	15.9	56.8
2013/14	41.0	16.1	57.1
2014/15	41.1	16.4	57.5
2015/16	41.3	16.7	58.0
2016/17	41.5	16.9	58.4
2017/18	41.8	17.2	59.0
2018/19	42.1	17.5	59.6
2019/20	42.4	17.7	60.1
2020/21	42.7	18.1	60.8



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

INLAND EMPIRE UTILITIES AGENCY
Operating and Capacity Indicators - Pipeline Systems By Type
As of June 30, 2011

Pipeline Types	Miles of Pipeline	Percentage of Pipelines
Regional Domestic Sewer Lines	99.7	33%
Non-reclaimable Wastewater Lines	83.2	28%
SARI Lines	4.3	1%
Desalter Lines	37.8	13%
Recycled Water Lines	73.7	25%
Total Miles of Pipeline By Type	298.7	100%



Source: IEUA FY 2011/12 Budget

No data available prior to most recent information.

INLAND EMPIRE UTILITIES AGENCY
Operating Indicators - FY 2010/11 Staffing Allocations
As of June 30, 2011

Total staffing positions by Program: 279

FTE

Regional Wastewater Operations	149.1
Regional Wastewater Capital Programs	38.2
Recycled Water Programs	29.5
Inland Empire Regional Composting Authority Operations	25.0
Non-reclaimable Wastewater System Programs	16.6
Chino Basin Desalter Operations & Capital Programs	7.9
Recharge Water Programs	3.2
Water Related Activities & Conservation Programs	3.8
General Administration	5.7
Total Staffing in FTE *	279.0

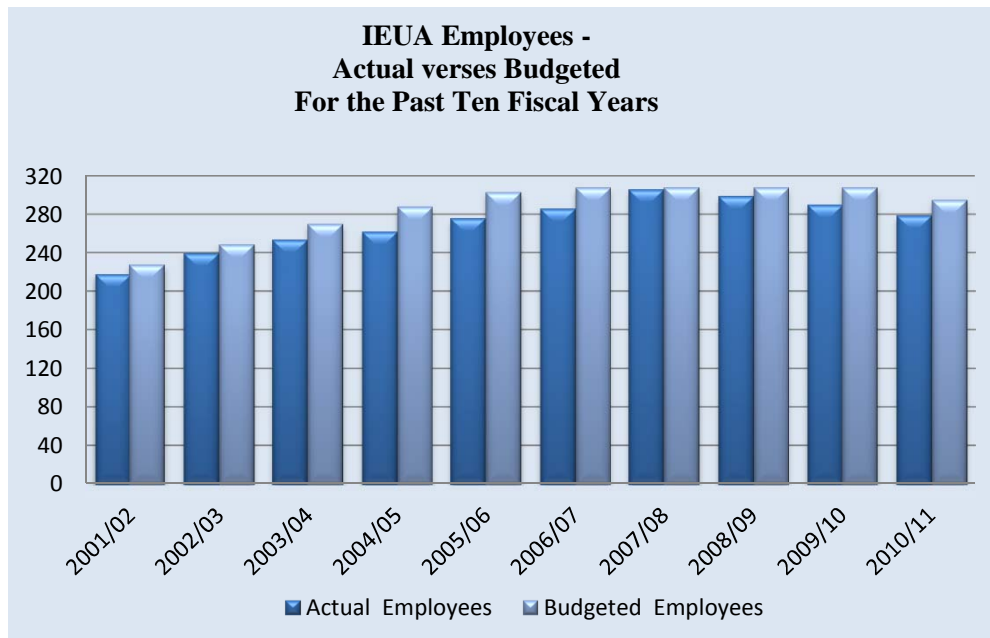
Source: IEUA FY 2010/11 Adopted Budget, IEUA June 2011 Position Control Report

Budgeted employee = 295, Actual FTE = 279

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

INLAND EMPIRE UTILITIES AGENCY
Operating Indicators - Staffing Actuals verses Budgeted Positions
For the Past Ten Fiscal Years

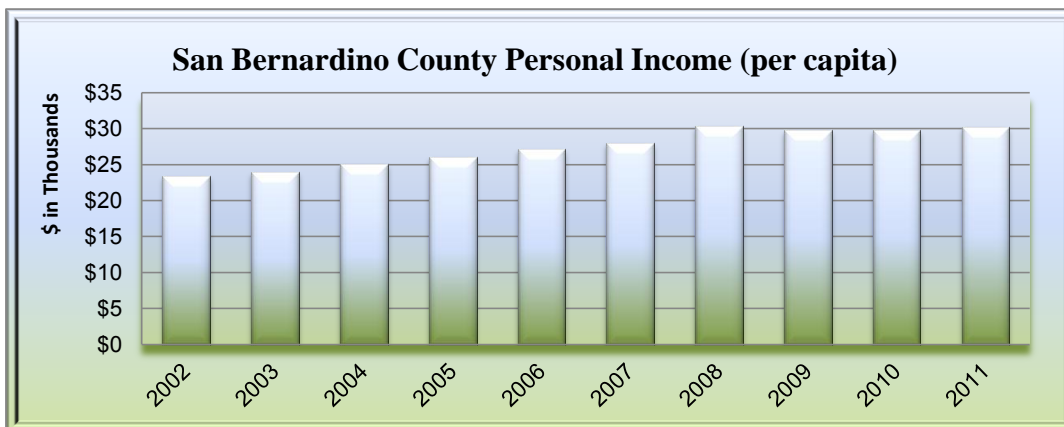
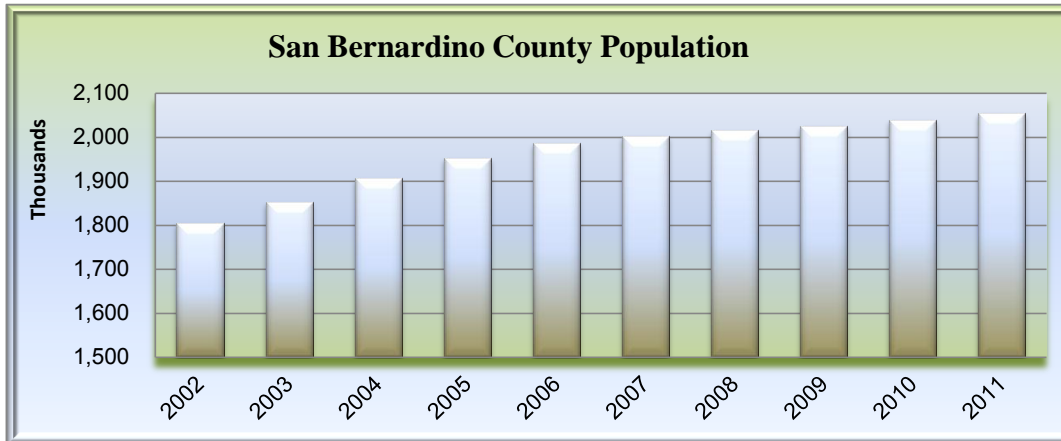
Fiscal Year	Actual Employees	Budgeted Employees
2001/02	218	228
2002/03	240	249
2003/04	254	270
2004/05	262	288
2005/06	276	303
2006/07	286	308
2007/08	306	308
2008/09	299	308
2009/10	290	308
2010/11	279	295



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

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

San Bernardino County (1)			
Year	Population	Personal Income (billions)	Personal Income (per capita)
2002	1,804,283	42.1	23,356
2003	1,853,248	44.5	23,987
2004	1,907,138	47.9	25,128
2005	1,953,229	50.9	26,068
2006	1,987,505	53.9	27,134
2007	2,002,208	56.1	28,024
2008	2,015,355	60.9	30,363
2009	2,024,760	59.7	29,859
2010	2,038,448	60.8	29,848
2011 (2)	2,053,974	63.6	30,245



Footnotes:

- (1) The Agency has chosen to use the County data since it believes that the County data is representative of the conditions and experience of the Agency.
- (2) Data estimated for the time period.

INLAND EMPIRE UTILITIES AGENCY

Demographic and Economic Statistics

Area's Largest Public and Private Employers

Firm	Location	Number of Employees
Ontario International Airport	Ontario	7,510
Kaiser Medical Center	Fontana	5,682
Fontana Unified School District	Fontana	3,953
Chino Valley Unified School District	Chino	3,200
California Institution for Men	Chino	2,327
San Antonio Community Hospital	Upland	1,900
Chaffey Community College District	Rancho	1,385
North American Medical Management	Ontario	1,304
City of Ontario	Ontario	1,075
California Steel Industries, Inc.	Fontana	956

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



City of Ontario



San Antonio Community Hospital



Fontana Medical Center



Ontario International Airport

Footnote: No data available prior to most recent information.

Corporate Information

Inland Empire Utilities Agency

Mailing Address:

Post Office Box 9020

Chino Hills, CA 91709

◆ **GENERAL COUNSEL**

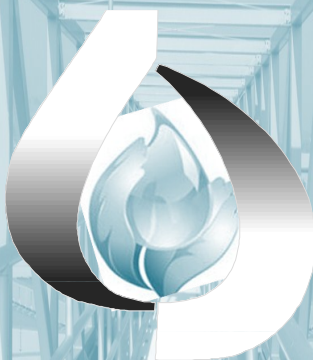
Jean Cihigoyenetché

**Cihigoyenetché, Grossberg and
Clouse**

◆ **LABOR COUNSEL**

Liebert Cassidy Whitmore

Los Angeles, California



◆ **AUDITOR**

White Nelson

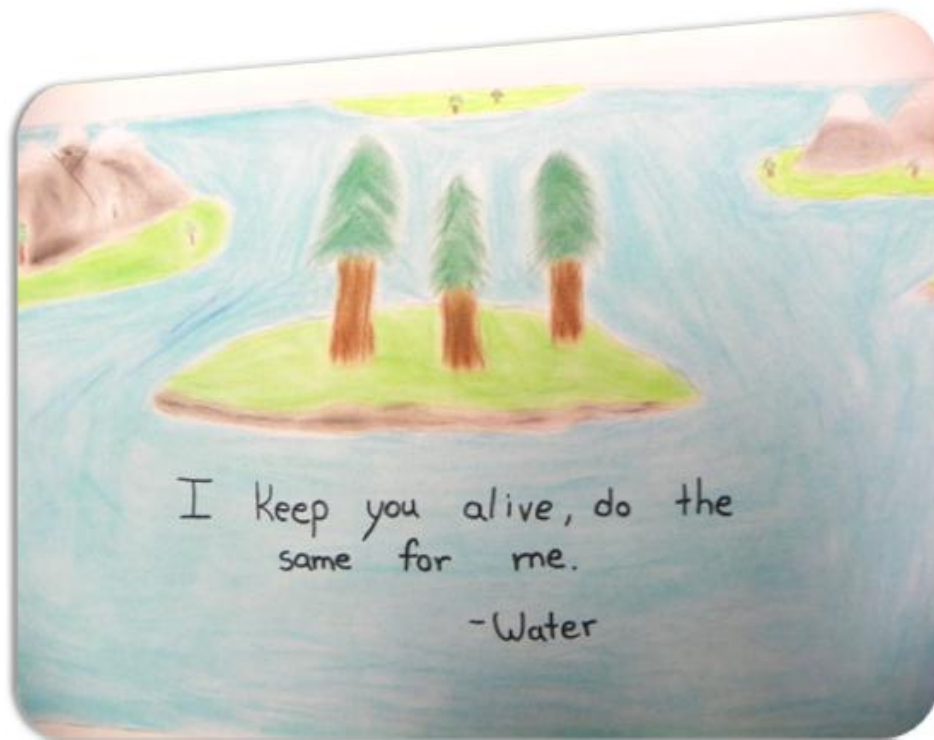
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Comprehensive Annual Financial Report**



Artist: Emily Ngo, Fifth Grade

Cal Aero Preserve Academy - Chino

Second Place Winner - Kindergarten - Fifth Grade Category

Inland Empire Utilities Water District



Be Water Smart

**Think
In Terms of Tomorrow**



Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

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