Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

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

WEDNESDAY, DECEMBER 14, 2016
9:00 A.M.

CALL TO ORDER

PUBLIC COMMENT

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

ADDITIONS TO THE AGENDA

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

1. ACTION ITEMS

A. MINUTES

The Committee will be asked to approve the Audit Committee meeting minutes from September 14, 2016.

B. IEUA FISCAL YEAR 2015/16 COMPREHENSIVE ANNUAL FINANCIAL REPORT

It is recommended that the Committee/Board

1. Approve the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year (FY) ended June 30, 2016; and

2. Direct staff to distribute the report as appropriate, to the various federal, state, and local agencies, financial institutions, bond rating agencies, and other interested parties.

2. INFORMATION ITEMS

A. MASTER SERVICE CONTRACT AUDIT (WRITTEN)

B. FOLLOW-UP REVIEW – INFORMATION TECHNOLOGY EQUIPMENT AUDIT – FAD (WRITTEN)

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

D. AUDIT COMMITTEE FINANCIAL ADVISOR CONTRACT EXTENSION (WRITTEN)

E. REPORT OF OPEN AUDIT RECOMMENDATIONS (WRITTEN)

F. INTERNAL AUDIT DEPARTMENT STATUS REPORT FOR DECEMBER 2016 (WRITTEN)

3. COMMITTEE MEMBER COMMENTS

4. COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS

5. ADJOURN

*A Municipal Water District

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

Proofed by:

DECLARATION OF POSTING

I, Sally Lee, Executive Assistant of the Inland Empire Utilities Agency, A Municipal Water District, hereby certify that a copy of this agenda has been posted by 5:30 p.m. in the foyer at the Agency's main office, 6075 Kimball Avenue, Building A, Chino, CA on Thursday, December 8, 2016.

Sally Lee

ACTION ITEM

1A

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

MINUTES
AUDIT COMMITTEE MEETING
INLAND EMPIRE UTILITIES AGENCY*
AGENCY HEADQUARTERS, CHINO, CA
WEDNESDAY, SEPTEMBER 14, 2016
9:00 A.M.

COMMITTEE MEMBERS PRESENT
Terry Catlin, Chair
Jasmin A. Hall

COMMITTEE MEMBERS ABSENT
None.

STAFF PRESENT
Christina Valencia, Chief Financial Officer/AGM
Sally Lee, Acting Executive Assistant
Teresa Velarde, Manager of Internal Audit
Peter Soelter, Senior Internal Auditor
Warren Green, Manager of Contracts and Facilities Services
Kathleen Baxter, Supervising Contracts and Programs Administrator

OTHERS PRESENT
Travis Hickey, Audit Committee Advisor

The meeting was called to order at 9:02 a.m. There were no public comments received or additions to the agenda.

ACTION ITEMS
The Committee:

- Approved the Audit Committee meeting minutes of June 8, 2016.

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

- Master Service Contracts Audit Report
- Internal Audit Department Quarterly Status Report for September 2016

GENERAL MANAGER'S COMMENTS
None.

COMMITTEE MEMBER COMMENTS
There were no Committee Member comments.

COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS
There were no Committee Member requested future agenda items.

With no further business, the meeting adjourned at 9:57 a.m.

Respectfully submitted,

Sally Lee
Acting Executive Assistant

*A Municipal Water District

APPROVED:

ACTION ITEM

1B

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Date:	December 21, 2016
To:	The Honorable Board of Directors
Through:	Audit Committee *(12/14/16)* Finance, Legal, and Administration Committee *(12/14/16)*
From:	P. Joseph Grindstaff General Manager
Submitted By:	Christina Valencia Chief Financial Officer/Assistant General Manager
	Javier Chagoyen-Lazaro Manager of Finance and Accounting
Subject:	IEUA Fiscal Year 2015/16 Comprehensive Annual Financial Report

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RECOMMENDATION

It is recommended that the Board of Directors:

1. Approve the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year (FY) ended June 30, 2016; and

2. Direct staff to distribute the report as appropriate, to the various federal, state, and local agencies, financial institutions, bond rating agencies, and other interested parties.

BACKGROUND

On March 16, 2016 the Board approved a contract with Lance, Soll & Lunghard, LLP (LSL), an independent CPA firm, for professional annual financial and single audit services for three fiscal years, with the option for an additional two fiscal years, beginning in FY 2015/16. The agreement covers the audit of the Inland Empire Utilities Agency (Agency) financial statements, review of the annual appropriations limit calculation, and audit of the Agency's federal awards in accordance with Office of Management and Budget (OMB) Circular A-133 (Single Audit).

Comprehensive Annual Financial Report (CAFR)

The Agency' CAFR for fiscal year ended June 30, 2016 was prepared in conformity with generally accepted accounting principles in the United States of America (GAAP), as set forth by the

Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the presented data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Agency. To the best of staff's knowledge, the data presented is accurate in all material respects, and reported in a manner designed to fairly present the financial position and results of operations for the various funds and account groups in the Agency. Disclosures are included within the CAFR to enable the reader to gain an understanding of the Agency's financial activities. Exhibit A is a copy of the Agency CAFR in substantially final form and was presented to the Audit and Finance, Legal and Administrative Committees on December 14, 2016.

FY 2015/16 Financial Highlights

The Agency's statement of net position for FY ended June 30, 2016, reflects $530.6 million, an increase of $37.3 million compared to the prior FY. The gain is primarily due to higher operating revenues resulting from the rates and charges adopted by the Board structured to achieve cost of service over multiple years. A higher number of new connections to the regional wastewater system, higher property tax receipts from enhanced assessed values in the Agency's service area, and lower operating expenses contributed to the increase in net position.

Water Inventory

On February 17, 2015, the Board approved the Water Storage Agreement between the Agency and Cucamonga Valley Water District (CVWD) for the purchase of up to 5,000 acre-feet (AF) of supplemental water. As of June 30, 2016, the Agency had over 2,200 AF of water inventory under the CVWD account. These water purchases will help CVWD maintain minimum Metropolitan Water of Southern California (MWD) turnout flow rate, as well as maintain the Agency's regional allocation of Tier 1 water from MWD.

Additionally, the Agency holds 225 AF of water rights per the Agreement for the Provision of Sewer and Recycled Water Service (Agreement) with the California Speedway Corporation (Speedway) executed on November 24, 2015. The Agreement was the result of a cooperative effort with the City of Fontana, Fontana Water Company, and Speedway to extend wastewater treatment and recycled water services to unincorporated areas in the vicinity of the Agency service area. Pursuant to the Agreement, Speedway can assign water rights to the Agency to pay for its share of any capital costs and connection fees for both wastewater and recycled water systems. Assuming, Speedway continues to exercise this option, water rights will increase in the future years.

Imported Water Pass-Through Sales and Purchases

FY 2015/16 is the second year the Agency is reporting the purchase and resale of imported water from MWD. This change in accounting treatment will provide a more complete account of the Agency's water related activities under the Water Resources (WW) fund. The ongoing drought and the Governor's mandatory water conservation cutbacks resulted in historically low MWD imported water deliveries of 31,714 AF; a decrease of 27,194 AF with respect to FY 2014/15. The decrease reflects the Region's successful conservation efforts in partnership with our contracting agencies in meeting the mandatory cutbacks.

Project Closures

An important part of the accuracy in the financial statements resides in the proper classification of cost between capital and non-capital expenses. The reclassification of project costs incorrectly included as "capital projects" in the Agency's jobs in progress was noted in the FY 2014/15 by the external auditors as a significant deficiency in internal control. A significant deficiency is less severe than a material weakness, yet important enough to merit attention. Staff's ongoing analysis of the job in progress category to ensure capitalization principles are appropriately applied was a key emphasis throughout FY 2015/16 and resulted in the closure of over 80 capital projects by the end of FY 2015/16. As of June 30, 2016 the total value of jobs in progress was slightly under $18 million: a historic low for the Agency.

External Auditors' Independent Audit

The Agency's independent audit firm, Lance, Soll & Lunghard, LLP (LSL) performed the annual financial audit. LSL issued an unmodified ("clean") opinion over the financial statements for the Fiscal Year ended June 30, 2016, indicating that the financial statements are presented fairly and in accordance with GAAP.

LSL found no material deficiency in internal controls over financial reporting.

The Single Audit Report is performed on a cash basis, and has been postponed until the beginning of 2017 to allow for all pending billing activity for Fiscal Year 2015/16 to be processed by the Federal Clearing House. The Single Audit will be completed to meet the March 2017 due date.

Internal Audit Department Review

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

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

Government Financial Officers Association (GFOA) CAFR Award

For the past fifteen years, the Agency has applied for and received the GFOA CAFR Award for excellence in financial reporting. The deadline to submit the FY 2015/16 CAFR is December 31, 2016.

The IEUA FY 2015/16 Comprehensive Annual Financial Report is consistent with the Agency's Business Goal of Fiscal Responsibility in providing transparent communication of the Fiscal Year activity and the net position of the different programs of the Agency.

PRIOR BOARD ACTION

On December 16, 2015, the Board of Directors approved the Agency's Comprehensive Annual Financial Report for FY 2014/15 reviewed by the Audit Committee & Finance and Administration Committee on December 9, 2015.

On March 16, 2016, the Board approved Contract No. 4600002079 with Lance, Soll & Lunghard, LLP for financial auditing and single audit services, for three fiscal years, with the option to extend two additional fiscal years, beginning in FY 2015/16.

IMPACT ON BUDGET

There is no impact on the Agency's FY 2016/17 Budget as a result of this item, since related audit service fees are budgeted in the Administrative Services (GG) Fund under Professional Services.

Attachments:
Exhibit A – FY 2015/16 Comprehensive Annual Financial Report (in substantive)

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2016

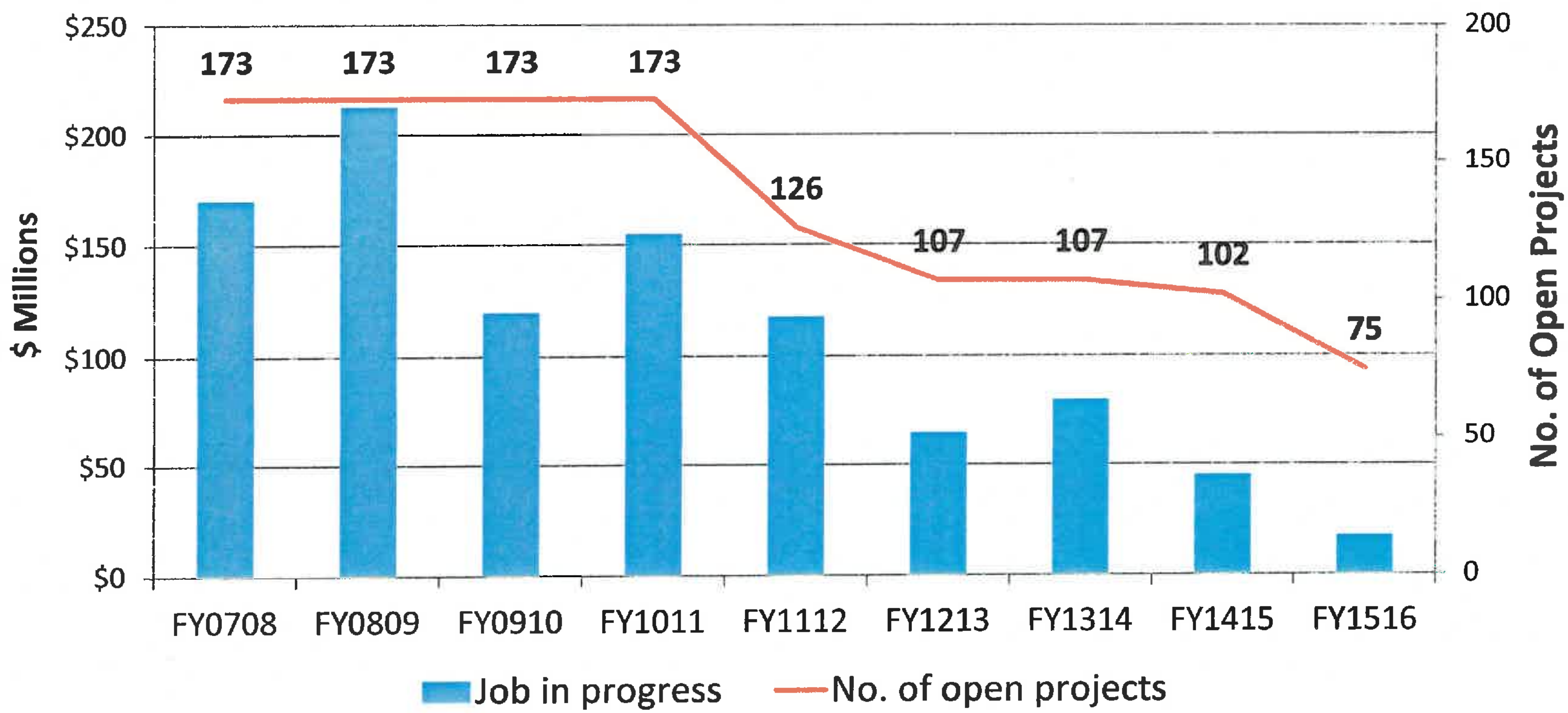
December 2016
Board Meeting

FY 2015/16 Highlights

- Established water inventory
  - Over 2,200 AF purchased from Cucamonga Valley Water District
  - 225 AF water rights from California Speedway
- Water Connection fee started January 1, 2016, $0.9 million.
- Wastewater Connection fees activity, $24.9 million
- Imported water deliveries 31,714 AF year low
- Continued funding of employee retirement liabilities
- External Auditors unmodified ("clean") opinion
- Single audit postponed until January 2018

FY 2015/16 Highlights

- ❖ 30% reduction in number of open projects
- ❖ Project closures reduced Jobs in Progress to a 9 year low



Change in Operating and Non-Operating Activities

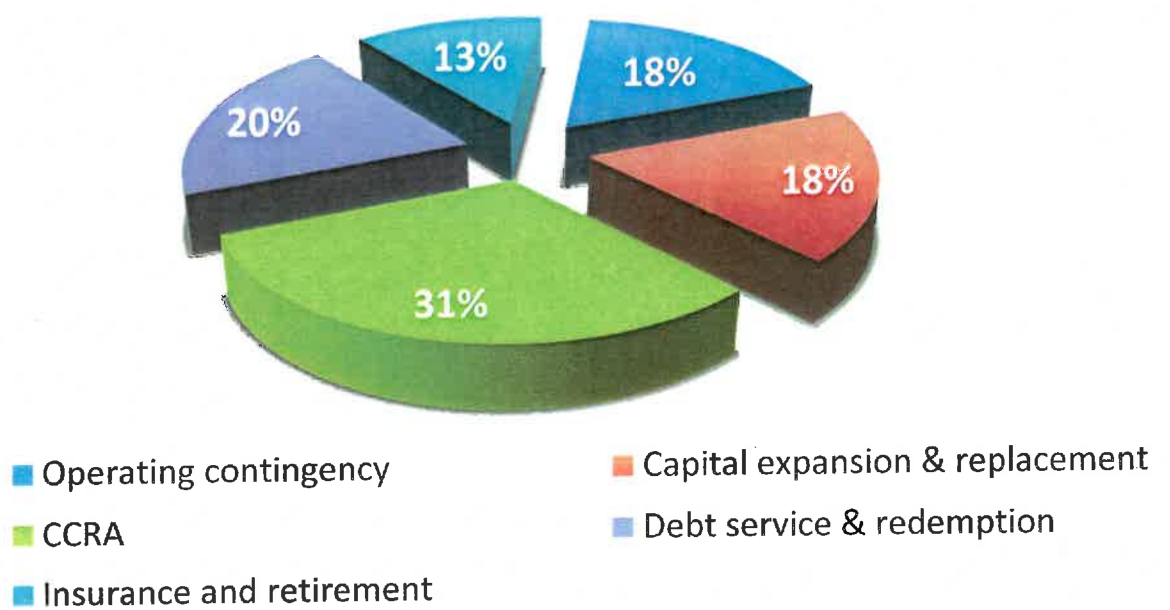
in $ million	FY 2015/16	FY 2014/15	change Amount	change %
Operating revenues	$ 99	$ 110	$ (11)	-9.8%
Operating expenses	$ (130)	$ (141)	$ 11	-7.7%
Net operating activities	**$ (31)**	**$ (31)**	**$ 0**	**-0.1%**
Non Operating revenues	$ 93	$ 70	$ 23	32.9%
Non Operating expenses	$ (25)	$ (17)	$ (8)	46.8%
Net Non Operating activities	**$ 68**	**$ 53**	**$ 15**	**28.5%**
Total increase (decrease) in net position	**$ 37**	**$ 22**	**$ 15**	**68.6%**
Beginning net position	$ 493	$ 471		
ending net position	**$ 531**	**$ 493**	**$ 37**	**7.6%**

Operating expenses includes $36.9 million depreciation and amortization.

FY 2015/16 ENDING CASH POSITION

- $44.4 million increase from prior fiscal year
  - Higher connection fees and property taxes
  - Lower than anticipated project expenditures

$175 million



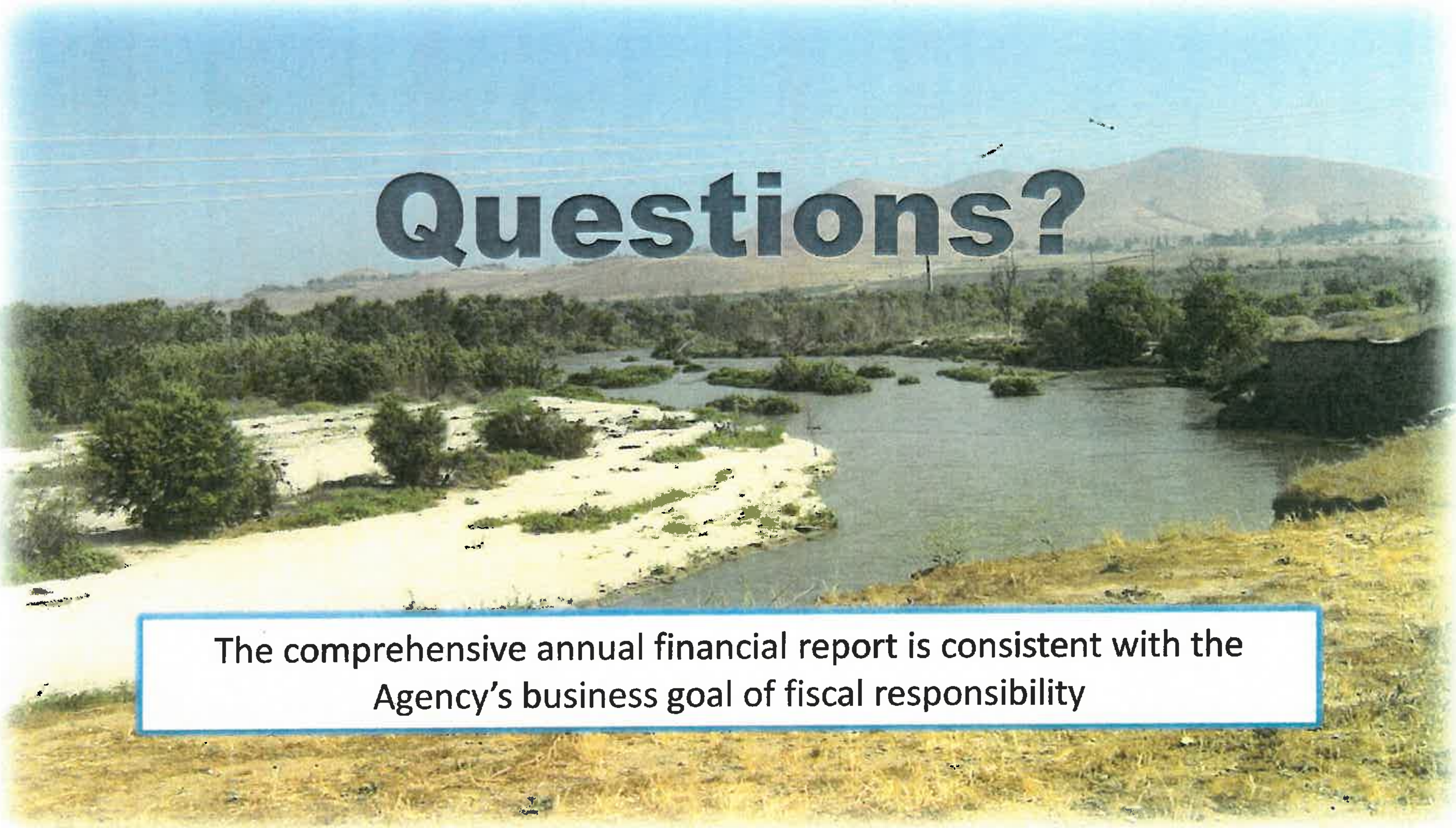

Questions?
The comprehensive annual financial report is consistent with the Agency's business goal of fiscal responsibility

Exhibit A

FY 2015/16 COMPREHENSIVE ANNUAL FINANCIAL REPORT

DRAFT

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, 2016. 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, if the fund meets both of the following conditions: 1) Exceeds 10% of fund category and 2) Exceeds 5% of the total of Assets, Liabilities, Revenues, and Expense; 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 comprised of: 1) wholesaling of potable water, and regional management of water resources; 2) production and sale of recycled water and construction of the recycled water distribution system; 3) collection and treatment of domestic wastewater and the acquisition and construction of conveyance and plant facilities; 4) organics management, digestion and marketing; 5) operation of a brine line non-reclaimable wastewater system, and 6) generation of renewable energy through biogas, solar, wind, and fuel cell.

Total revenues, including grants and subsidies, of $192,266,238 for Fiscal Year (FY) 2015/16 reported an increase of $12,199,597 compared to $180,066,641 recorded for FY 2014/15. The net increase was primarily due to: 1) $9,836,353 increase in wastewater capital connection fees as a result of an additional 1,223 units of new wastewater capital; 2) $5,527,156 increase in other non-operating revenue is primarily due to forgiveness of $4,308,104 interfund loan; 3) $4,685,110 increase in property tax receipts; 4) $3,287,518 increase in service charges due to higher rates; 5) 1,612,884 increase in capital grants; 6) $1,421,018 increase in recycled water sales due to higher rates; 7) $997,010 increase as a result of new water capital connection fees; and 8) $325,678 increase in interest income. These increases were partially offset by a decrease of $15,493,130 in imported water sales, mainly due to a drop in total deliveries as a result of the Governor's Executive Order requiring statewide reduction in water usage of 25%.

Total expenses of $154,961,829 for FY 2015/16 reported a decrease of $2,977,485 compared to $157,939,314 recorded in FY 2014/15. The overall decrease includes a decrease in operating expenses of $11,278,226 and an increase in non-operating expense of $8,300,740. The decrease in operating expenses was primarily due to: 1) a decrease of $15,493,130 in water purchases mainly due to a drop in total deliveries; 2) a decrease of $4,559,923 in administration and general expenses; and 3) a decrease of $450,647 in interest on long-term debt. These decreases were partially offset by 1) a cumulative increase of $4,676,118 in wastewater collection, treatment, and disposal costs; 2) an increase of $2,742,862 in depreciation and amortization; and 3) an increase of $1,806,494 in operation and maintenance expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued):*

The Agency's Operations – an Overview (continued):

The increase in non-operating expenses of $8,300,740 is primarily due to 1) forgiveness of $4,308,104 interfund loan; 2) an increase of $2,684,544 for retirement of obsolete assets and 3) an increase of $898,106 for capitalization of operation and maintenance (O&M) special project costs related to water conservation programs.

FINANCIAL HIGHLIGHTS

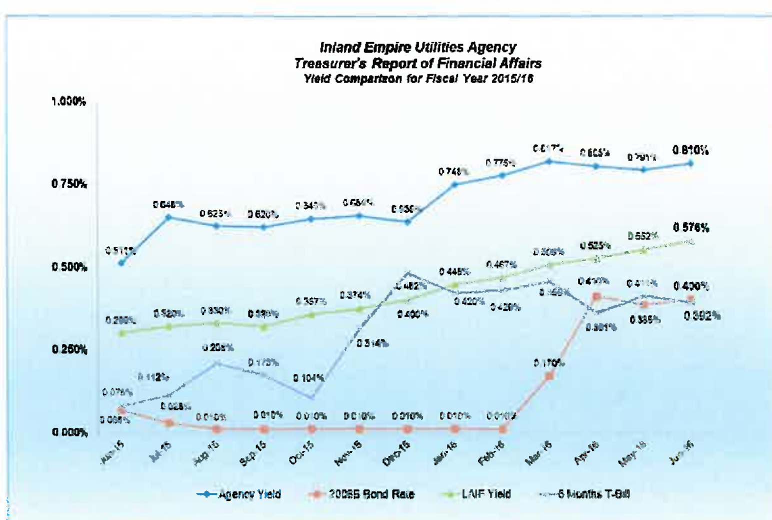
Cash and Investment Management

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 annually adopts an investment policy that is intended to remain sufficiently liquid to meet all operating requirements reasonably anticipated for six months, 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, 2016, idle funds were invested in accordance with this policy. These investments primarily consisted of United States Government Securities/Instrumentalities, state issued municipal bonds, medium term notes and deposits in a pooled investment fund administered by the State of California.

Investment Portfolio Performance

The continued US economic recovery is evident as the Agency's interest yield level rose from prior fiscal year performance. The Agency's overall portfolio rate of return increased from 0.511% in June 2015 to 0.810% by June 30, 2016.

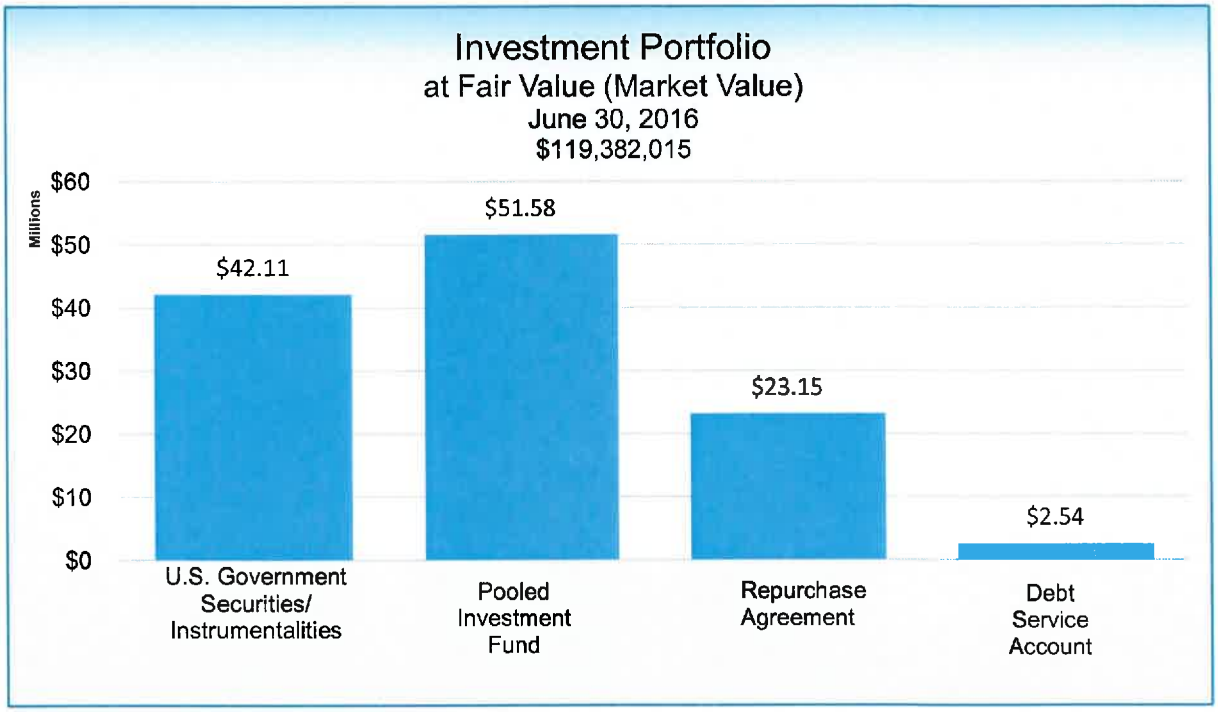
Total interest income for FY 2015/16 of $760,730 increased 74.4% compared to $436,200 in FY 2014/15, the increase in interest income is primarily due increase in the investment funds held by the Agency, and due to higher interest yield in Government-Sponsored Enterprise and pooled investments such as Local Agency Investment Fund, California Asset Management Program and CalTRUST.



FINANCIAL HIGHLIGHTS (continued):

Investment Portfolio Performance (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, 2016 and June 30, 2015 were $119,382,015 and $86,002,997 respectively.

Chino Basin Desalter Operations

Under the provisions of the Operation and Maintenance Agreement between the Agency and the Chino Basin Desalter Authority (CDA); the Agency deployed the appropriate personnel to manage the production, treatment and distribution of the water produced by the Chino I desalination facility (Chino I Desalter).

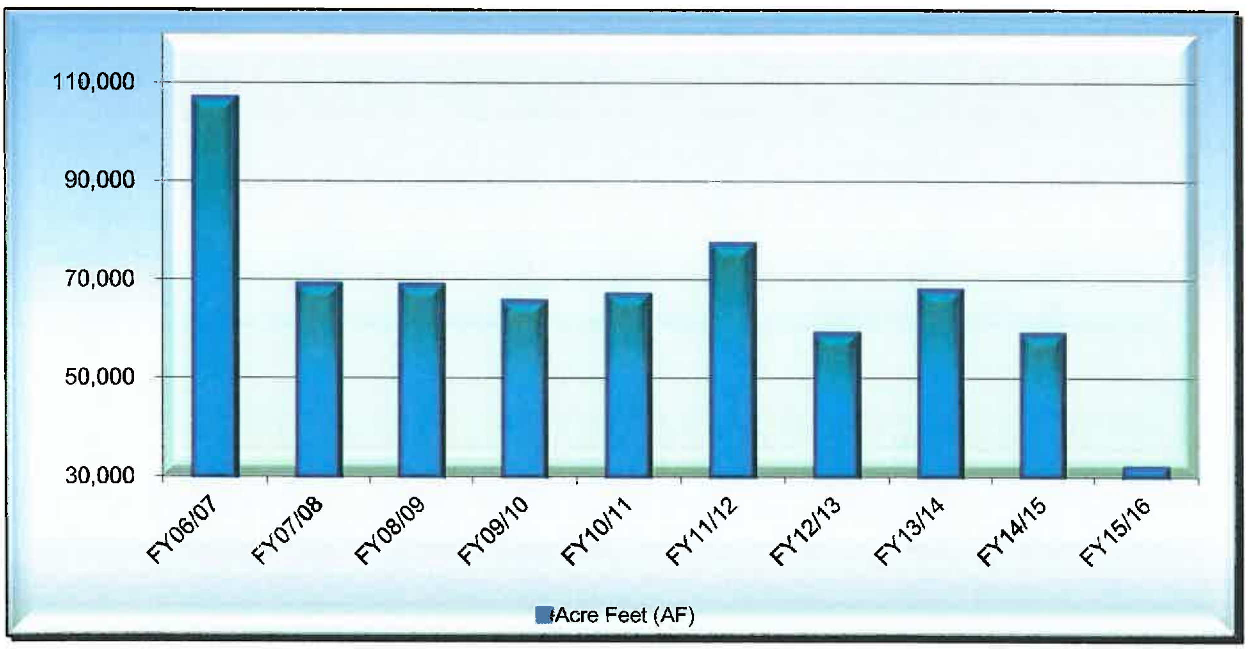
All operations and maintenance expenses related to the Chino I Desalter operations, including labor incurred by the Agency, are recorded in the Agency's Administrative Service Fund. These expenses are billed to the CDA monthly. In FY 2015/16, the total amount billed and reimbursed was $1,369,921 and reported as non-operating revenue.

FINANCIAL HIGHLIGHTS (continued):

Imported Water Deliveries

Imported water deliveries for FY 2015/16 were 31,714 acre feet (AF) compared to 58,908 AF reported in FY 2014/15, a decrease of 27,194 AF. The decrease is due to mandatory drought restrictions set by Governor Brown to cut water usage. A surcharge of $15 per AF was levied by the Agency for all imported water deliveries to support the conservation program, water resources planning, and drought related projects and activities. Below is a comparative of imported water deliveries for the past ten fiscal years; the decline of imported water deliveries beginning in FY 2007/08 is a result of water conservation measures and state legislative and regulatory requirements designed to sustain and meet future water supply needs.

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



The total operating revenue decreased by $15,869,073 in FY 2015/16 to $23,968,212 from $39,837,285 in FY 2014/15, the decrease was primarily due to lower imported water deliveries.

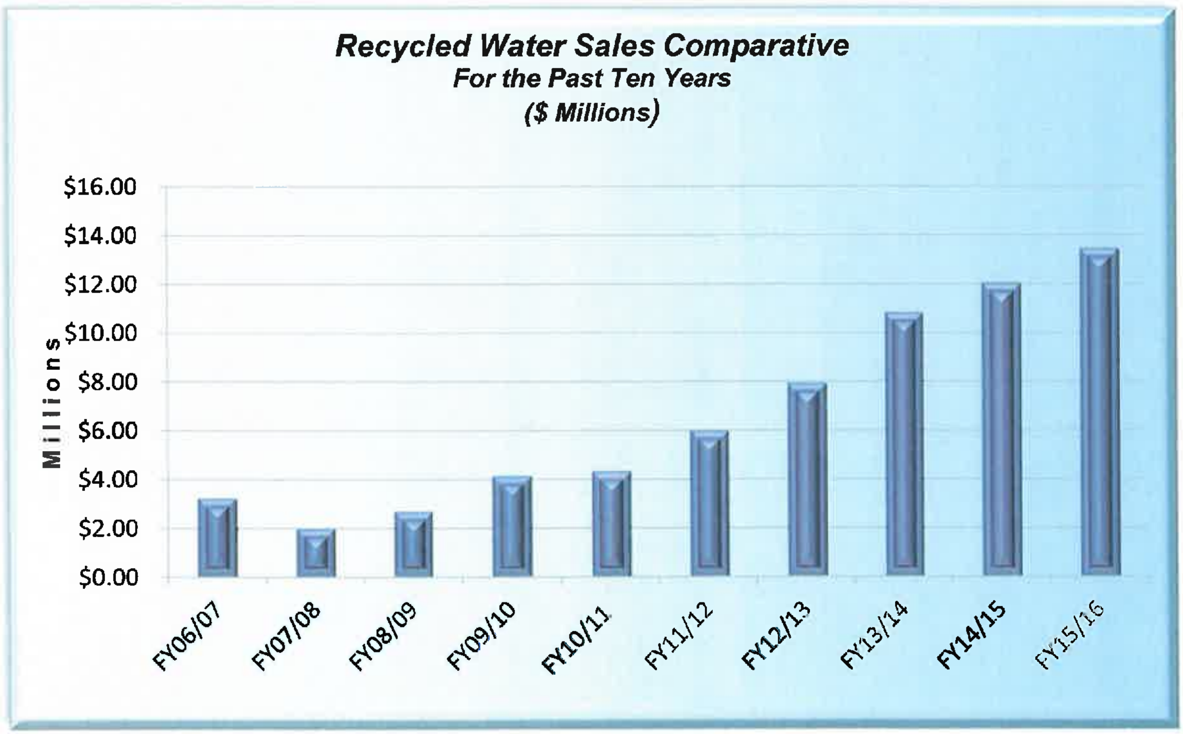
The meter service charges for FY 2015/16 increased to $4,851,385 from $4,789,827 in FY 2014/15, due to the higher number of retail water meters in FY 2015/16 2,304,696 units compared to 2,275452 units in FY 2014/15. This revenue is used to meet the Readiness to Serve (RTS) obligation from Metropolitan Water District of Southern California (MWD), and to support water use efficiency programs. Additionally, revenue from the $15 per AF administrative surcharge decrease by 50% as a result of lower imported water deliveries.

The total operating expenses decreased from $40,146,766 in FY 2014/15 to $25,949,069 in FY 2015/16, this decrease was primarily due to less imported water purchases from MWD.

FINANCIAL HIGHLIGHTS (continued):

Recycled Water Sales

Total recycled water sales increased by $1,421,018 to $13,468,182 in FY 2015/16, compared to $12,047,164 in FY 2014/15.



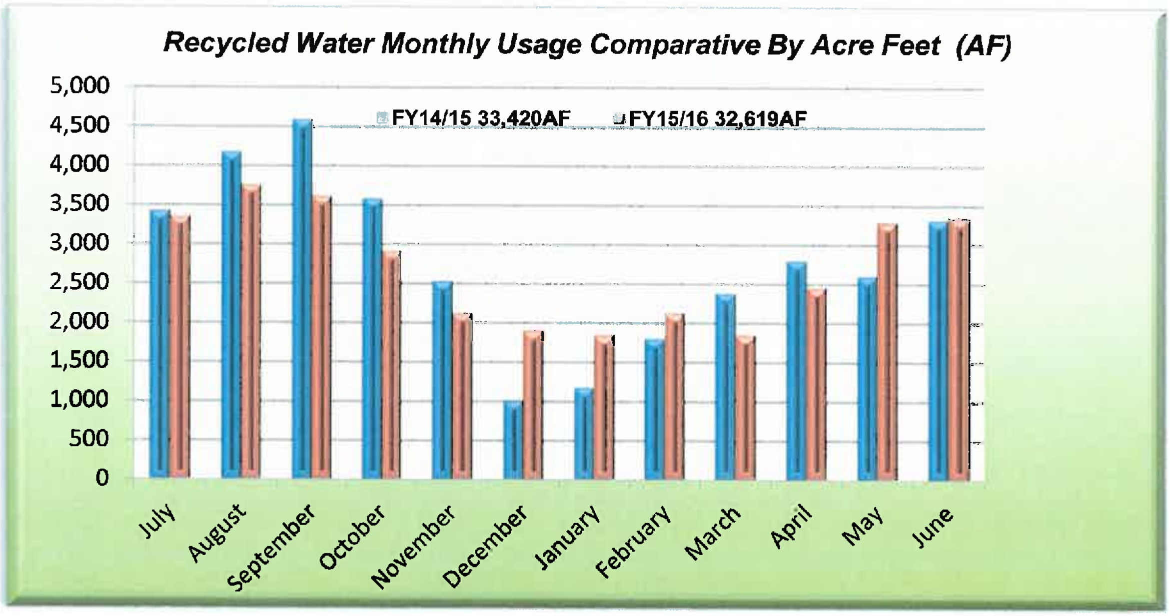
The 12% increase in revenues was primarily driven by an increase in recycled water rates for direct deliveries from $290 to $350 per acre foot (AF), effective October 1, 2015. Additionally, there was an increase in the groundwater recharge rate from $335 to $410 per AF. Included in total operating revenues was $2,079,000 for the MWD Local Project Program (LPP) rebate of $154 per AF for recycled water sales above 3,500 AF and up to 17,000 AF. The MWD rebate was the same as in FY 2014/15. Grants receipts totaled $4,370,528 in support of the Regional Recycled Water Expansion capital construction programs. Total operating expenses increased by $2,121,451 or 15%, to $16,490,498 as a result of increase in depreciation expense of $1,609,390 and increase in other operating expense of $512,061. Total interfund transfer out increased by $3,537,902, which was offset by a transfer in of $1,389,654.

Total net position at June 30, 2016 was $65,369,115, a decrease of $1,828,185. The decrease was primarily due to an increase in operations & maintenance and depreciation expenses.

FINANCIAL HIGHLIGHTS (continued):

Recycled Water Sales (continued):

A total of 32,619 AF were registered for direct and recharged recycled water deliveries, compared to 33,420 AF for last fiscal year. The demand for direct sales of recycled water decreased due to lower agriculture use and loss of customers but was partially offset with the increase in groundwater recharge deliveries.



Regional Wastewater Program Activities

The Regional Wastewater program, comprised of the Regional Wastewater Capital Improvement (RC) and Regional Wastewater Operations and Maintenance (RO) funds, reported combined total revenue of $116,983,048 in FY 2015/16, an increase of $14,780,817, or 14% over last fiscal year.

Revenues by Category – Regional Wastewater Program

For the Fiscal Year Ended June 30, 2016

(With Comparative Totals for the Fiscal Year Ended June 30, 2015)

Revenue Category	2015/16		2014/15		Increase/<Decrease> from 2014/15	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF CHANGE
Service Charges	$ 50,073,868	43.0%	$ 47,022,954	46.0%	$ 3,050,914	6.0%
Property Tax Receipts	37,231,448	32.0%	35,554,077	35.0%	1,677,371	5.0%
Wastewater Connection Fees	24,910,235	21.0%	15,073,882	15.0%	9,836,353	65.0%
Other Non-operating Revenues	4,348,713	4.0%	4,262,635	4.0%	86,078	2.0%
Interest Income	418,784	0.0%	288,683	0.0%	130,101	45.0%
Total Revenues	**$ 116,983,048**	**100.0%**	**$ 102,202,231**	**100.0%**	**$ 14,780,817**	**14.0%**

FINANCIAL HIGHLIGHTS (continued):

Regional Wastewater Program Activities (continued):

The Agency's FY 2015/16 service charges were $50,073,868, 6% higher, compared to FY 2014/15 total of $47,022,954. The increase is primarily due to an Equivalent Dwelling Unit (EDU) rate increase from $14.39 to $15.89 per EDU (effective October 1, 2015) which is partially offset by a decrease in the number of EDU's by 1.3% as a result of the Governor's Execute Order requiring statewide reduction in water usage by 25%.

Property tax receipts allocated to the Regional Wastewater Program increased from $35,554,077 in FY 2014/15 to $37,231,448 in FY 2015/16, reporting a 5% increase. The primary reason for the increase is the continuing recovery of the real estate market and improvement of assessed property values.

New EDU connection fees reported by the contracting agencies in FY 2015/16 were 4,176 units compared to 2,953 units reported in FY 2014/15, an increase of approximately 1,223 units at $5,415 per unit (effective January 1, 2016). Cucamonga Valley Water District, City of Fontana, and City of Ontario reported a combined number of new connections of approximately 66% of the Agency wide total. In addition, there was $3.1 million in new connection fees from three sewer service agreements with California Steel Industry, Prologist and Auto Club Speedway.

Other Non-Operating Revenues were $4,348,713 in FY 2015/16 compared to $4,262,635 in FY 2014/15. The increase is primarily due to an adjustment of FY14/15 electricity usage charge in error to RP-4 due to a faulty meter, and due to a decrease of contract service reimbursements from San Bernardino County Regional Park for O&M Cost related to the dechlorination station.

Interest income increased from $288,683 in FY 2014/15 to $418,784 in FY 2015/16 due to increased balances held by the program.

Expenses by Category – Regional Wastewater Program

For the Fiscal Year Ended June 30, 2016

(With Comparative Totals for the Fiscal Year Ended June 30, 2015)

Expense Category	2015/16		2014/15		Increase/<Decrease> from 2014/15	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF CHANGE
Wastewater Collection	$ 1,377,333	2.0%	$ 805,353	1.0%	$ 571,980	71.0%
Wastewater Treatment	21,104,320	25.0%	19,001,130	23.0%	2,103,190	11.0%
Wastewater Disposal	11,148,524	13.0%	7,996,871	10.0%	3,151,653	39.0%
Total Wastewater Expenses	**33,630,177**	**40.0%**	**27,803,354**	**34.0%**	**5,826,823**	**21.0%**
Administration & General	14,801,870	17.0%	20,262,896	25.0%	(5,461,026)	(27.0)%
Depreciation & Amortization	24,071,692	28.0%	23,154,752	28.0%	916,940	4.0%
Interest on long-term debt	6,049,290	7.0%	6,368,586	8.0%	(319,296)	(5.0)%
Other nonoperating exp	6,371,221	8.0%	4,523,072	5.0%	1,848,149	41.0%
Total Expenses	**84,924,250**	**100.0%**	**82,112,660**	**100.0%**	**2,811,590**	**3.0%**

FINANCIAL HIGHLIGHTS (continued):

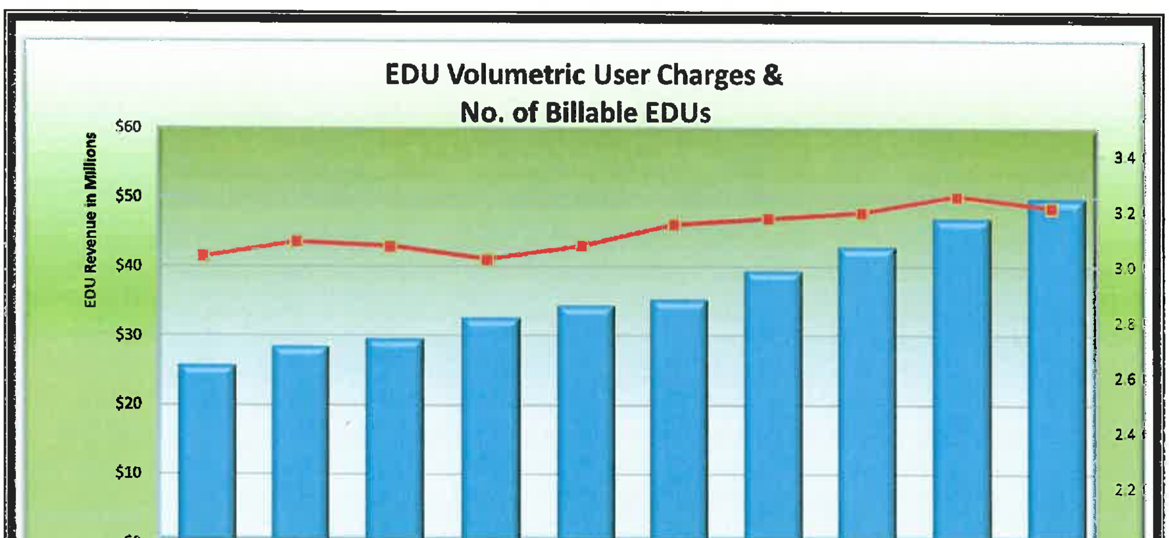
Regional Wastewater Program Activities (continued):

Total expenses for FY 2015/16 were $84,924,250 or a 3% increase compared to FY 2014/15 actual of $82,112,660. Total wastewater collection, treatment, and disposal costs increased by $5,826,823, primarily the result of an increase in work orders assigned to operations and maintenance (O&M) to maintain processes in good condition and higher chemical cost. The $5,461,028 decrease in administration and general costs was primarily due to a reduction in work orders assigned to administration and general.

Total other non-operating expenses of $6,371,221 represent a 41% increase compared to FY 2014/15 actual of $4,523,072. The increase in this category is primarily due to 1) a Inland Empire Regional Composting Authority (IERCA) investment loss; 2) an increase for Contributions in Aid for the clean-up of the So Archibald Plume Project; 3) Loss on disposal/retirement of assets; and 4) the reclassification of prior year project costs from capital to O&M expenses. The reclassification was identified as part of the fiscal year-end process of closing projects completed during the fiscal year.

A final evaluation was performed by Finance and Accounting to determine whether the actual project costs were capital or O&M in nature. This is particularly important for replacement and refurbishment related projects in excess of the $5,000 established capitalization threshold, and determined to either enhance the functionality or extend the original useful life of the assets, which are capitalized. Project costs not meeting these criteria are classified as O&M expenses.

Comparative EDU Volumetric Revenues



	FY 06/07	FY 07/08	FY 08/09	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14	FY 14/15	FY 15/16
EDU Rate	$8.44	$9.19	$9.62	$10.75	$11.14	$11.14	$12.39	$13.39	$14.39	$15.89
Dollars	$25,638,891	$28,406,759	$29,569,994	$32,526,058	$34,256,970	$35,127,592	$39,338,356	$42,778,892	$46,837,147	$49,808,859
Units	3,037,783	3,091,051	3,073,804	3,025,680	3,075,132	3,153,285	3,175,009	3,194,839	3,254,840	3,212,917

FINANCIAL HIGHLIGHTS (continued):

Non-reclaimable Wastewater Treatment

The Non-reclaimable Wastewater (NRW) System provides pipelines and pump stations to export the high-salinity industrial wastewater generated within the Agency's service area for treatment and eventual discharge to the Pacific Ocean. The NRW collection system is physically separated from the Regional Wastewater System to ensure further compliance with the Regional Board and state regulation related to environmental criteria. By diverting high nitrogen brine to the NRW system and away from Regional Wastewater, the quality of the recycled water is improved for local use and also helps ensure that the Agency complies with final effluent permit requirements. The NRW system is operated by the Agency and is comprised of two sectors namely the North and South systems. The North system conveys wastewater to sewer lines owned and operated by the Sanitation Districts of Los Angeles County (SDLAC). Flows in the South system, known as Inland Empire Brine Line (IEBL), are conveyed through pipelines owned by the Santa Ana Watershed Project Authority (SAWPA) to the County Sanitation Districts of Orange County (CSDOC) facility. Both systems discharge to the Pacific Ocean.

Pass through rates are adopted annually for volumetric, capacity, and excessive strength charges to allow the Agency to recover rates billed by SDLAC (North) and SAWPA (South). As a result, North and South Systems have different rate structures. These agency program costs are recovered as follows:

- North System – prorated based on the number of capacity units issued per customer
- South System – a 50% operating surcharge is imposed on volumetric, capacity and strength charges

The Agency and SDLAC entered into a new NRWS Wastewater Disposal agreement effective July 1, 2014, with 30-year term and four additional five year extensions. Under the new Agreement, the pass-through rates from SDLAC are expected to be more stable and predictable, making it easier for NRW industries to effectively plan for their annual budgets. The ability to acquire wastewater discharge rights as capacity units and connect to the system will also be more attractive to new industries as they now have the option to purchase or lease discharge rights rather than make a mandatory purchase as required under the prior agreement.

Total service charges in FY 2015/16, for the North and South systems, increased $612,547 to $11,854,847, compared to $11,242,300 reported in FY 2014/15. The increase in revenues is primarily due to an increase in monthly volumetric fees for the North system customers from $835.80 to $948.00 per million gallons of discharge, increase in non-compliance fees, and capacity purchase from Eastside Water Treatment.

Total operating expenses in FY 2015/16 decreased $1,341,896 to $8,750,446 compared to $10,092,342 in FY 2014/15. The decrease in operating expenses is mainly due to reduction in wastewater collection fees and lower strength discharges by industries in the North system. The net position balance at June 30, 2016, increased $2,871,659 to $24,890,236.

FINANCIAL HIGHLIGHTS (continued):

Non-reclaimable Wastewater Treatment (continued):

NRW Pass through Rates

For the Fiscal Year Ended June 30, 2016

Rate Description	2014/15	2015/16
North System		
Monthly Capital Improvement Fee	$90.00	$90.00
Monthly Volumetric Fee	$835.80	$948.00
Total Suspended Solids (TSS)	$418.22	$433.00
Chemical Oxygen Demand (COD)	$147.84	$210.00
Peak Flow Fee	$317.54	$360.00
4R Capital Fee	$212.60	$212.60
South System		
Monthly Capital Improvement Fee	$90.00	$90.00
Monthly Capacity Unit Fee	$334.43	$351.17
Monthly Volumetric Fee	$777.00	$817.00
Total Suspended Solids (TSS)	$411.00	$420.00
Biochemical Oxygen Demand (BOD)	$295.00	$301.00

A total of 51 users were connected to the NRW System (North and South) during FY 2015/16, with a total flow of 1,704 million gallons.

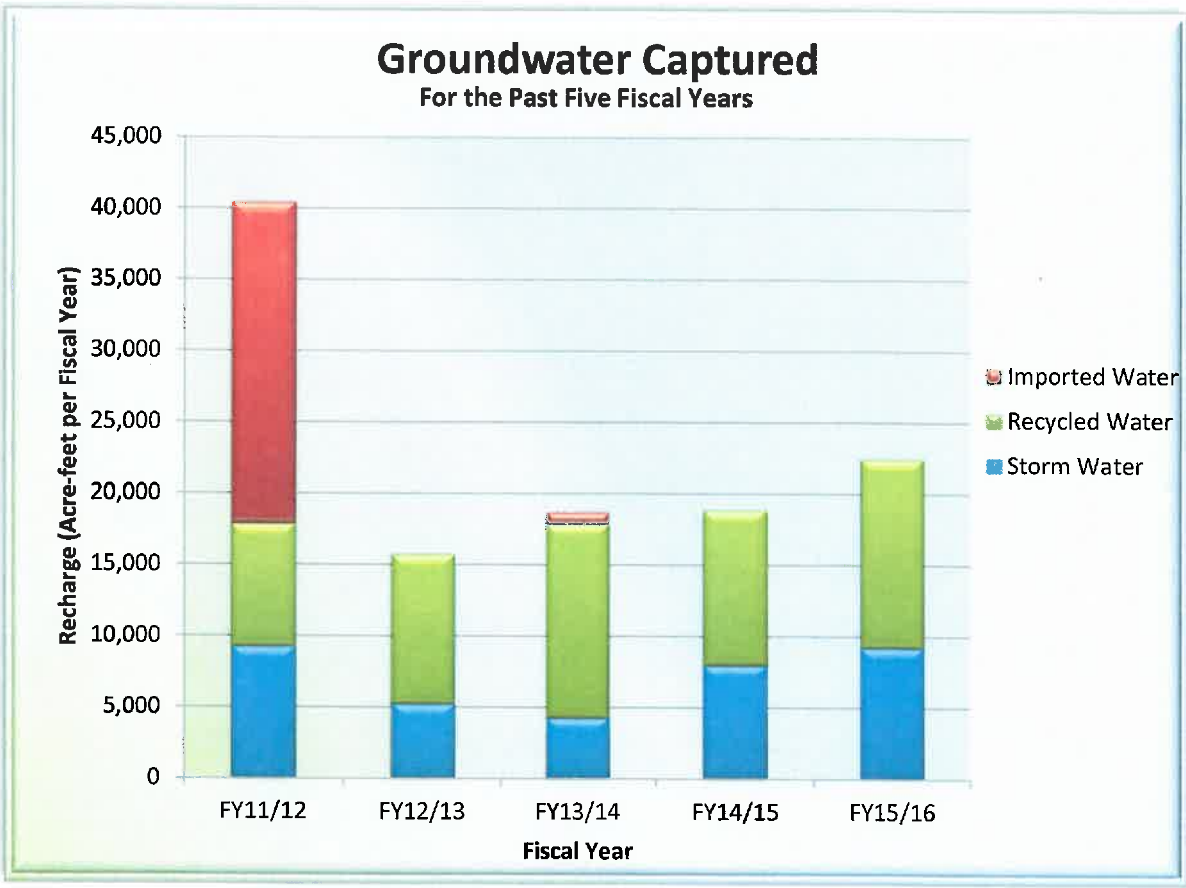
Recharge Water Fund

The Recharge Water Fund records the activities related to the operation and maintenance of the nineteen 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, with the Agency funding its pro-rata share of costs based on recharged deliveries of recycled water.

Total operating expenses recorded in FY 2015/16 were $2,673,208 compared to $2,435,603 in FY 2014/15, resulting in an increase of $237,605. The increase was due to higher expenses for professional and contract services related to midge fly treatment services at Turner, Ely, San Sevaine, and Victoria Basins. At June 30, 2016, total net position was $32,286,312 an increase of $117,872 over the prior fiscal year.

FINANCIAL HIGHLIGHTS (continued):

Recharge Water Fund (continued):



FINANCIAL HIGHLIGHTS (continued):

Revenues

Combined revenues and other funding sources for the fiscal year totaled $192,266,238, an increase of $12,199,597, compared to the prior fiscal year. The following table presents a comparison of revenues and other funding sources by category for fiscal years 2015/16 and 2014/15.

For the Fiscal Year Ended June 30, 2016

(With Comparative Totals for the Fiscal Year Ended June 30, 2015)

Revenue & Other Funding Sources	2015/16 AMOUNT	2015/16 % OF TOTAL	2014/15 AMOUNT	2014/15 % OF TOTAL	Increase/<Decrease> from 2014/15 AMOUNT	Increase/<Decrease> from 2014/15 % OF CHANGE
Service Charges	$ 67,243,134	35.0%	$ 63,955,616	36.0%	$ 3,287,518	5.0%
Water Sales	18,653,793	10.0%	34,146,923	19.0%	(15,493,130)	(45.0)%
Recycled Water Sales	13,468,182	7.0%	12,047,164	7.0%	1,421,018	12.0%
Interest Income	761,878	1.0%	436,200	1.0%	325,678	75.0%
Property Tax Receipts	45,631,113	23.0%	40,946,003	22.0%	4,685,110	11.0%
Water Capital Connection Fees	997,010	1.0%	-	0.0%	997,010	100.0%
Wastewater Connection Fees	24,910,235	13.0%	15,073,882	8.0%	9,836,353	65.0%
Other Non-operating Revenues	13,070,445	6.0%	7,543,289	4.0%	5,527,156	73.0%
Capital Grants	7,530,448	4.0%	5,917,564	3.0%	1,612,884	27.0%
Total Revenues & Contributions	**$ 192,266,238**	**100.0%**	**$ 180,066,641**	**100.0%**	**$ 12,199,597**	**7.0%**

Water Sales

Decrease is due to reduced deliveries from 58,908 AF to 31,714 AF as a result of the Governor's Executive Order requiring statewide water reduction of 25%.

Wastewater Connection Fees

Increase is primarily due to a 41% increase in new connections from 2,953 units in FY 2014/15 to 4,176 units in FY 2015/16 and a fee increase from $5,107 to $5,415 per connection.

Recycled Water Sales

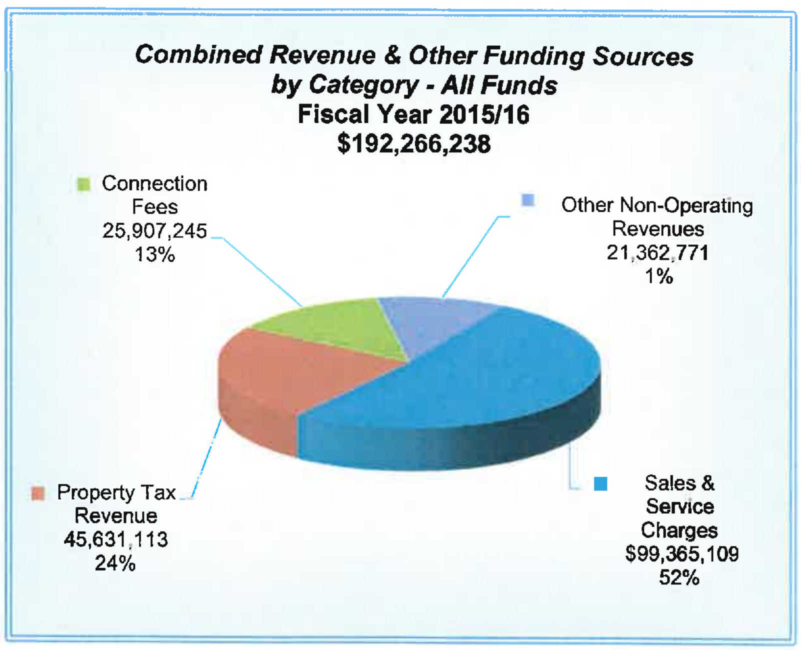
Increase is primarily due to a $75/AF increase in direct rates, from $335 to $410 per AF.

Service Charges

Increase is primarily due to a volumetric fee increase from $14.39 to $15.89 per EDU and higher strength fees for the NRW system.

Capital Grants

Secured a significant amount in grant funding to support recycled water capital investments.



FINANCIAL HIGHLIGHTS (continued):

Expenses

Combined expenses for the fiscal year totaled $154,961,829, a decrease of $2,977,485, compared to the prior fiscal year. The following table presents a comparison of expenses by category for fiscal years 2015/16 and 2014/15.

Combined Expenses by Category - All Funds
For the Fiscal Year Ended June 30, 2016
(With Comparative Totals for the Fiscal Year Ended June 30, 2015)

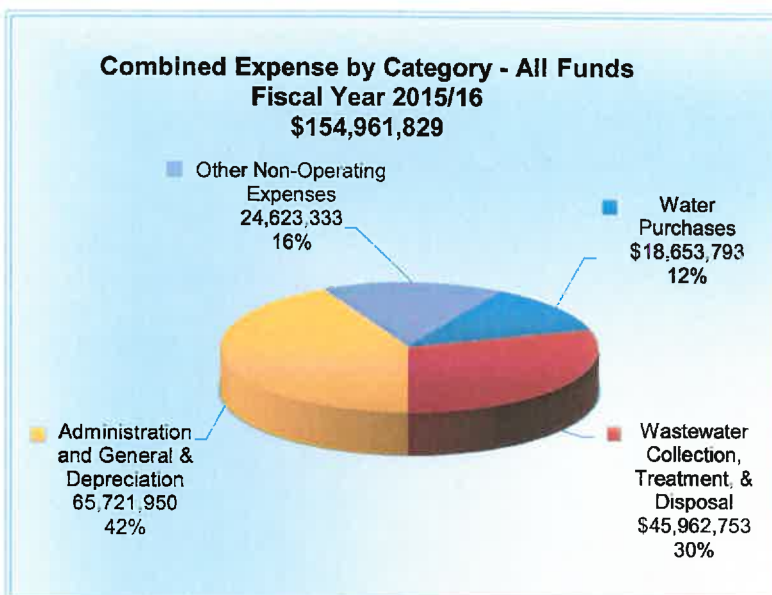
Expense Category	2015/16		2014/15		Increase/<Decrease> from 2014/15	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF CHANGE
Water Purchases	$ 18,653,793	12.0%	$ 34,146,923	22.0%	$ (15,493,130)	(45.0)%
Wastewater Collection	7,510,150	5.0%	8,088,875	5.0%	(578,725)	(7.0)%
Wastewater Treatment	21,104,320	14.0%	19,001,130	12.0%	2,103,190	11.0%
Wastewater Disposal	11,148,524	7.0%	7,996,871	5.0%	3,151,653	39.0%
Operations and Maintenance	6,199,759	4.0%	4,393,265	3.0%	1,806,494	41.0%
Administration and General	28,866,058	18.0%	33,425,981	20.0%	(4,559,923)	(14.0)%
Depreciation and Amortization	36,855,892	24.0%	34,113,030	22.0%	2,742,862	8.0%
Interest on Long-Term Debt	9,142,219	6.0%	9,592,866	6.0%	(450,647)	(5.0)%
Other Non-Operating Expenses	15,481,114	10.0%	7,180,373	5.0%	8,300,741	116.0%
Total Expenses	**$ 154,961,829**	**100.0%**	**$ 157,939,314**	**100.0%**	**$ (2,977,485)**	**144.0%**

Water Purchases
Decrease is due to the drought and the Governor's Executive Order requiring statewide water reductions of 25%.

Wastewater Treatment/Disposal
Increase is due to higher work orders in operation and maintenance to maintain processes in good condition. FY 2014/15 amounts are not associated with the administration and general amount.

Administration and General
Decrease is due to reduction in work orders assigned to administration and general

Non-operating Expenses
Increase is primarily due to forgiveness of an interfund loan from the Administrative Services Fund to the Water Resources Fund, retirement of obsolete assets, and capitalization of O&M project costs related to water conservation programs.



FINANCIAL HIGHLIGHTS (continued):

Changes in Financial Conditions of the Agency

Combined Net Position-All Funds
For the Fiscal Year Ended June 30, 2016
(With Comparative Totals for the Fiscal Year Ended June 30, 2015)

	FY 2015/16	FY 2014/15	Increase/<Decrease> from FY 2014/15	
Assets				
Current assets	$ 156,914,352	$ 140,136,167	$ 16,778,185	12.0%
Restricted assets	57,746,164	44,990,323	12,755,841	28.4%
Capital assets	639,223,080	655,163,227	(15,940,147)	(2.4)%
Other assets	81,400,317	85,086,463	(3,686,146)	(4.3)%
Total Assets	935,283,913	925,376,180	9,907,733	1.1%
Deferred Outflows of Resources				
Deferred loss on refunding	946,974	1,102,641	(155,667)	(14.1)%
Deferred outflow-net pension liability	10,678,084	8,354,702	2,323,382	27.8%
Total deferred outflows	11,625,058	9,457,343	2,167,715	22.9%
Liabilities				
Current liabilities	39,342,446	47,244,777	(7,902,331)	(16.7)%
Non-current liabilities	373,920,094	386,369,706	(12,449,612)	(3.2)%
Total liabilities	413,262,540	433,614,483	(20,351,943)	(4.7)%
Deferred Inflows of Resources				
Deferred inflow-net pension liability	3,052,067	7,929,085	(4,877,018)	(61.5)%
Total deferred inflows	3,052,067	7,929,085	(4,877,018)	(61.5)%
Net Position				
Net investment in capital assets	325,272,927	332,066,908	(6,793,981)	(2.0)%
Restricted	82,064,270	67,080,838	14,983,432	22.3%
Unrestricted	123,257,167	94,142,209	29,114,958	30.9%
TOTAL NET POSITION	**$ 530,594,364**	**$ 493,289,955**	**$ 37,304,409**	**7.6%**

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

- The $16.8 million increase in Current Assets is due to the $17.9 million rise in Cash and Investments in the Regional Wastewater Capital Improvement (RC) Fund.
- The Restricted assets increase of $12.8 million is primarily due to wastewater capital connection deposits held by contracting Agencies.
- The Deferred Outflow of Resources related to net pension liability decreased $4.8 million mainly due to net differences between projected and actual earnings on pension plan investments of $5.1 million.

FINANCIAL HIGHLIGHTS (continued):

Changes in Financial Conditions of the Agency (continued):

Combined Schedule of Revenues, Expenses and Changes in Net Position - All Funds
For the Fiscal Year Ended June 30, 2016
(With Comparative Totals for the Fiscal Year Ended June 30, 2015)

Item Category	FY 2015/16		FY 2014/15		Increase/<Decrease> from FY 2014/15	
	Amount	% of Total	Amount	% of Total	Amount	% of Change
Total Revenue	$ 184,735,790	34.8%	$ 174,149,077	35.4%	$ 10,586,713	6.1%
Total Expenses	154,961,829	29.2%	157,939,314	32.0%	(2,977,485)	(1.9)%
Excess (deficiency) before contrib.	29,773,961	5.6%	16,209,763	3.3%	13,564,198	(83.7)%
Capital Grants	7,530,448	1.4%	5,917,564	1.1%	1,612,884	27.3%
Change in Net Position	37,304,409	7.0%	22,127,327	4.5%	15,177,082	(68.6)%
Prior Period Adjustment	-	0.0%	(1,418,441)	(0.3)%	1,418,441	100.0%
Beginning Net Position	493,289,955	93.0%	472,581,069	95.8%	20,708,886	4.4%
Ending Net Position	**$ 530,594,364**	**100.0%**	**$ 493,289,955**	**100.0%**	**$ 37,304,409**	**7.6%**

The prior period adjustment of $1,418,441 is related to prior year project costs re-classed from capital to operations and maintenance identified during the project closure review.

Capital Assets

The Agency had total net capital assets of $639,223,080 in FY 2015/16, compared to $655,163,227 in FY 2014/15. The $15,940,147 decrease is due to an increase in accumulated depreciation, partially offset by $19,174,785 in new capital project cost.

FINANCIAL HIGHLIGHTS (continued):

Capital Assets (continued):

Capital Asset Summary – All Funds
For the Fiscal Year Ended June 30, 2016
(With Comparative Totals for the Fiscal Year Ended June 30, 2015)

Asset Category	2015/16	2014/15	Increase/<Decrease> from 2014/15	% of Change
Land	$ 14,067,874	$ 14,067,874	$ -	0.0%
Land Improvements	29,871,098	29,863,055	8,043	0.0%
Structures and Improvements	731,587,506	704,331,463	27,256,043	3.9%
Equipment	221,258,924	203,549,709	17,709,215	8.7%
Capacity Rights	14,826,587	14,826,589	(2)	0.0%
Water Rights	133,650	-	133,650	0.0%
Computer Software	11,165,450	10,937,114	228,336	2.1%
Jobs in Progress	17,632,197	43,792,697	(26,160,500)	(59.7%)
Sub-total	**1,040,543,286**	**1,021,368,501**	**19,174,785**	**1.9%**
Less: Accumulated Depreciation & Amortization	(401,320,206)	(366,205,274)	(35,114,932)	9.6%
Net Capital Assets	**$ 639,223,080**	**$ 655,163,227**	**$ (15,940,147)**	**-2.4%**

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

Debt Management

At June 30, 2016, the Agency had outstanding principal bond debt of $194,200,000.

Bond Issue	Principal	Premium (discount)	Outstanding on 06/30/16
2008A Revenue Bonds	$ 125,000,000	$ 3,720,988	$ 128,720,988
2008B Variable Rate	42,195,000	-	42,195,000
2010A Revenue Bonds	27,005,000	1,707,563	28,712,563
TOTAL	**$ 194,200,000**	**$ 5,428,551**	**$ 199,628,551**

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

Additionally, the Agency had outstanding Notes and Loans Payable at June 30, 2016:

1) A note from the Santa Ana Watershed Project Authority (SAWPA) pertaining to the purchases of pipeline capacity, with an outstanding balance of $489,861.

2) Various State Revolving Fund (SRF) loans from the State Water Resources Control Board (SWRCB), with an outstanding balance of $107,450,944.

FINANCIAL HIGHLIGHTS (continued):

Debt Management (continued):

3) A loan from the City of Fontana for the Agency's cost share of the San Bernardino Regional Lift Station and Force Main capital project with an outstanding balance of $6,004,112.

4) A reimbursement agreement with SDLAC for the Agency's proportionate share of 4R's (Relocation, Reconstruction, Repair or Replacement) capital charges, funded with SRF loans with an outstanding balance of $2,788,113.

In June 2016, the Agency's credit rating for long-term debt was affirmed by two major credit rating agencies:

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

Contacting the Agency's Financial Management

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

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, 2016, 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. The Administrative Service Fund is used to monitor the general and administrative expenses of the Agency.

The Basic Financial Statements consist of:

1) Statement of Net Position – the statement denotes the increase/(decrease) of net assets of the Agency.

2) Statement of Revenues, Expenses and Changes in Net Position – the statement shows all revenue and expense sources recorded for the period, and their effects on the net assets of the Agency.

3) Statement of Cash Flows – the statement reflects the Agency's financial activities and their effect on cash. It also denotes the cash position of the Agency at the end of the fiscal period.

4) Notes to the Basic Financial Statements.

INLAND EMPIRE UTILITIES AGENCY
Statement of Net Position
June 30, 2016
(With Comparative Totals for June 30, 2015)

	Enterprise Funds	
ASSETS	Regional Wastewater	Recycled Water
Current assets		
Cash and investments (note 3)	$ 69,842,677	$ 11,372,754
Accounts receivable	10,586,862	9,699,821
Interest receivable	270,767	15,560
Taxes receivable	348,803	20,224
Other receivables	254,040	85,735
Inventory	-	-
Water inventory (note 17)	-	-
Prepaid items	1,200	3,500
Net OPEB (note 1d.)	-	-
Total current assets	81,304,349	21,197,594
Restricted assets (note 3)		
Deposits held by governmental agencies	55,201,435	-
Assets held with trustee/fiscal agent	1,685,460	-
Total restricted assets	56,886,895	-
Noncurrent assets		
Capital assets (note 7)		
Land	14,047,045	-
Jobs in progress	13,175,594	2,929,514
Capital assets, net of accumulated depreciation	341,321,221	185,244,010
Intangible assets, net of accumulated amortization	5,412,667	651,509
Total capital assets	373,956,527	188,825,033
Other assets		
Long-term agreements (note 11)	45,167,514	-
Long-term receivables (note 10)	3,947,279	1,094,508
Advances to other funds (note 14)	13,500,000	-
Prepaid bond insurance	406,202	134,312
Prepaid interest -SRF loans	963,608	1,154,162
Total other assets	63,984,603	2,382,982
Total noncurrent assets	437,941,130	191,208,015
Total assets	576,132,374	212,405,609
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	946,974	-
Deferred outflow related to net pension liability	7,916,176	954,415
Total deferred outflows of resources	8,863,150	954,415

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

Water Resources	Non-Major	Totals 2016	Totals 2015
$ 6,842,536	$ 29,903,334	$ 117,961,301	$ 86,311,686
5,356,382	8,367,949	34,011,014	50,781,052
3,575	584,141	874,043	687,783
-	32,615	401,642	346,159
-	62,238	402,013	223,341
-	1,558,521	1,558,521	1,660,129
1,350,043	-	1,350,043	-
-	103,916	108,616	126,017
-	247,159	247,159	-
13,552,536	40,859,873	156,914,352	140,136,167
-	-	55,201,435	41,023,148
-	859,269	2,544,729	3,967,175
-	859,269	57,746,164	44,990,323
-	20,829	14,067,874	14,067,874
-	1,527,089	17,632,197	43,792,697
19,382	69,718,190	596,302,803	585,063,217
20,008	5,136,022	11,220,206	12,239,439
39,390	76,402,130	639,223,080	655,163,227
-	-	45,167,514	45,577,499
-	-	5,041,787	3,814,580
-	15,000,000	28,500,000	32,808,104
-	32,732	573,246	598,170
-	-	2,117,770	2,288,110
-	15,032,732	81,400,317	85,086,463
39,390	91,434,862	720,623,397	740,249,690
13,591,926	133,154,004	935,283,913	925,376,180
-	-	946,974	1,102,641
451,493	1,356,000	10,678,084	8,354,702
451,493	1,356,000	11,625,058	9,457,343

(continued)

INLAND EMPIRE UTILITIES AGENCY
Statement of Net Position (Continued from previous page)
June 30, 2016
(With Comparative Totals for June 30, 2015)

	Enterprise Fund Types	
LIABILITIES	Regional Wastewater	Recycled Water
Current liabilities		
Accounts payable	$ 3,769,469	$ 451,148
Accrued liabilities	31,083	22,628
Compensated absences (note 1)	-	-
Retentions payable	100,897	188,524
Notes payable, due within one year (note 12)	1,906,841	3,918,543
Long-term debt, due within one year (note 12)	5,367,542	-
Interest payable	1,323,443	1,420,795
Retention deposits and escrows	-	-
Total current liabilities	12,499,275	6,001,638
Noncurrent liabilities		
Compensated absences (note 1)	-	-
Long-term debt, due in more than one year (note 12)	142,447,402	30,159,329
Notes payable, due in more than one year (note 12)	28,630,573	79,143,491
Advances from other funds (note 14)	-	28,500,000
Other noncurrent liabilities	-	355,771
Net pension liability (note 5)	28,519,226	3,530,352
Net OPEB liability (note 1d.)	-	-
Total noncurrent liabilities	199,597,201	141,688,943
Total liabilities	212,096,476	147,690,581
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow related to net pension liability	2,277,772	300,328
Total deferred inflows of resources	2,277,772	300,328
NET POSITION		
Net Investment in capital assets	197,156,329	75,603,669
Restricted for:		
Capital construction	55,201,435	-
SRF Loan debt service	1,447,479	6,265,167
Bond operating contingency requirement	16,144,016	-
Total restricted	72,792,930	6,265,167
Unrestricted	100,672,017	(16,499,721)
Total net position	$ 370,621,276	$ 65,369,115

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

Water Resources	Non-Major	Totals 2016	Totals 2015
$ 4,593,888	$ 9,985,690	$ 18,800,195	$ 25,556,171
691,674	2,012,616	2,758,001	3,724,495
-	1,939,639	1,939,639	1,606,386
10,296	-	299,717	964,656
-	832,004	6,657,388	6,666,109
-	647,458	6,015,000	5,810,000
-	128,268	2,872,506	2,749,490
-	-	-	167,470
5,295,858	15,545,675	39,342,446	47,244,777
-	2,978,684	2,978,684	2,732,734
-	21,006,820	193,613,551	200,127,428
-	2,301,578	110,075,642	112,434,954
-	-	28,500,000	32,808,104
-	-	355,771	267,184
1,379,162	4,967,706	38,396,446	36,707,778
-	-	-	1,291,524
1,379,162	31,254,788	373,920,094	386,369,706
6,675,020	46,800,463	413,262,540	433,614,483
60,722	413,245	3,052,067	7,929,085
60,722	413,245	3,052,067	7,929,085
39,390	52,473,539	325,272,927	331,855,633
-	-	55,201,435	41,023,148
-	-	7,712,646	6,609,876
-	3,006,173	19,150,189	19,447,814
-	3,006,173	82,064,270	67,080,838
7,268,287	31,816,584	123,257,167	94,353,484
$ 7,307,677	$ 87,296,296	$ 530,594,364	$ 493,289,955

INLAND EMPIRE UTILITIES AGENCY
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2016
(With Comparative Totals for June 30, 2015)

	Enterprise Fund Types	
	Regional Wastewater	Recycled Water
OPERATING REVENUES		
Service charges	$ 50,073,868	$ -
Water Sales	-	-
Recycled water sales	-	13,468,182
Total operating revenues	50,073,868	13,468,182
OPERATING EXPENSES		
Water Purchases	-	-
Wastewater collection	1,377,333	-
Wastewater treatment	21,104,320	-
Wastewater disposal	11,148,524	-
Operations and maintenance	-	4,788,211
Administration and general	14,801,870	3,211,019
Depreciation and amortization	24,071,692	8,491,268
Total operating expenses	72,503,739	16,490,498
Operating income (loss)	(22,429,871)	(3,022,316)
NONOPERATING REVENUES (EXPENSES)		
Interest income	418,784	106,314
Property tax revenue	37,231,448	2,161,509
Water capital connection fees	-	997,010
Wastewater capital connection fees	24,910,235	-
Other nonoperating revenues	4,348,713	688,741
Interest on long-term debt	(6,049,290)	(2,625,576)
Other nonoperating expenses	(6,371,221)	(307,460)
Total nonoperating revenues (expenses)	54,488,669	1,020,538
Income (loss) before capital contributions and transfers	32,058,798	(2,001,778)
TRANSFERS AND CAPITAL CONTRIBUTIONS		
Transfers in (note 15)	6,984,888	1,389,654
Transfers out (note 15)	(6,335,390)	(5,586,589)
Capital grants	1,766,918	4,370,528
Change in net position	34,475,214	(1,828,185)
Total net position - beginning		
Prior period adjustment (note 18)		
Total net position - beginning, as restated	336,146,062	67,197,300
Total net position - ending	$ 370,621,276	$ 65,369,115

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

Water Resources	Non-Major	Totals 2016	Totals 2015
$ 5,314,419	$ 11,854,847	$ 67,243,134	$ 63,955,616
18,653,793	-	18,653,793	34,146,923
-	-	13,468,182	12,047,164
23,968,212	11,854,847	99,365,109	110,149,703
18,653,793	-	18,653,793	34,146,923
-	6,132,817	7,510,150	8,088,875
-	-	21,104,320	19,001,130
-	-	11,148,524	7,996,871
1,411,548	-	6,199,759	4,393,265
5,878,361	4,974,808	28,866,058	33,425,981
5,367	4,287,565	36,855,892	34,113,030
25,949,069	15,395,190	130,338,496	141,166,075
(1,980,857)	(3,540,343)	(30,973,387)	(31,016,372)
40,107	196,673	761,878	436,200
4,295,184	1,942,972	45,631,113	40,946,003
-	-	997,010	-
-	-	24,910,235	15,073,882
4,335,340	3,697,651	13,070,445	7,543,289
-	(467,353)	(9,142,219)	(9,592,866)
(1,960,692)	(6,841,741)	(15,481,114)	(7,180,373)
6,709,939	(1,471,798)	60,747,348	47,226,135
4,729,082	(5,012,141)	29,773,961	16,209,763
294,955	3,265,554	11,935,051	3,459,302
-	(13,072)	(11,935,051)	(3,459,302)
1,393,002	-	7,530,448	5,917,564
6,417,039	(1,759,659)	37,304,409	22,127,327
			472,581,069
			(1,418,441)
890,638	89,055,955	493,289,955	471,162,628
$ 7,307,677	$ 87,296,296	$ 530,594,364	$ 493,289,955

INLAND EMPIRE UTILITIES AGENCY
Statement of Cash Flows
For the Fiscal Year ended June 30, 2016
(With Comparative Totals for June 30, 2015)

	Enterprise Funds	
	Regional Wastewater	Recycled Water
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 49,227,299	$ 25,554,179
Cash received from interfund services provided	-	-
Cash payments to suppliers for goods and services	(22,099,532)	(7,189,425)
Cash payments to employees for services	(10,848,574)	(1,271,938)
Cash payments for interfund services used	(19,530,953)	(3,154,129)
Net cash provided by (used for) operating activities	(3,251,760)	13,938,687
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in	6,984,888	1,389,654
Transfers out	(6,335,390)	(5,586,589)
Contract reimbursement from others	4,348,713	688,741
Tax revenues	37,183,256	2,158,718
Collection of long-term receivable	(1,312,942)	85,735
Cash paid to others	(5,301,127)	(338,867)
Investment in IERCA	-	-
Advances from other funds	-	-
Advances to other funds	-	-
Net cash provided by (used for) noncapital financing activities	35,567,398	(1,602,608)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(13,349,434)	(5,098,558)
Proceeds from State Revolving Funds	1,449,597	2,848,480
Connection fees on deposit held by members	24,910,235	-
Water Connection Fees	-	997,010
Capital grants received	1,766,918	4,370,528
Principal paid on capital debt	(6,186,543)	-
Interest paid on capital debt	(5,842,539)	(2,317,495)
Payments on State Revolving Funds	(1,338,839)	(3,962,026)
Bond administration fees	(660,106)	(38,182)
Contractor deposits collected	-	-
Net cash provided by (used for) capital and related financing activities	749,289	(3,200,243)

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

Water Resources	Non-Major	Totals 2016	Totals 2015
$ 22,675,870	$ 17,666,115	$ 115,123,463	$ 96,391,720
-	26,372,772	26,372,772	25,642,003
(23,793,848)	(18,430,434)	(71,513,239)	(70,224,402)
(792,682)	(24,865,571)	(37,778,765)	(44,355,638)
(1,335,380)	(1,289,083)	(25,309,545)	(24,774,098)
(3,246,040)	(546,201)	6,894,686	(17,320,415)
294,955	3,265,554	11,935,051	3,459,302
-	(13,072)	(11,935,051)	(3,459,302)
27,236	2,587,758	7,652,448	7,360,810
4,295,184	1,938,472	45,575,630	41,077,212
-	-	(1,227,207)	251,249
(1,960,692)	(2,418,566)	(10,019,252)	(6,934,557)
-	-	-	864,374
-	-	-	14,808,104
-	-	-	(14,808,104)
2,656,683	5,360,146	41,981,619	42,619,088
-	(2,456,882)	(20,904,874)	(51,469,739)
-	-	4,298,077	24,541,466
-	-	24,910,235	15,073,882
-	-	997,010	-
1,393,002	-	7,530,448	5,917,564
-	(1,440,092)	(7,626,635)	(23,957,150)
-	(593,327)	(8,753,361)	(8,374,274)
-	-	(5,300,865)	(4,105,255)
-	(7,882)	(706,170)	(248,416)
-	(72,324)	(72,324)	(393)
1,393,002	(4,570,507)	(5,628,459)	(42,622,315)

(Continued)

INLAND EMPIRE UTILITIES AGENCY
Statement of Cash Flows (Continued from previous page)
For the Fiscal Year ended June 30, 2016
(With Comparative Totals for June 30, 2015)

	Enterprise Funds	
	Regional Wastewater	Recycled Water
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	$ 317,556	$ 91,902
Purchase of investments	-	-
Net cash provided by (used for) investing activities	317,556	91,902
Net increase (decrease) in cash and cash equivalents	33,382,483	9,227,738
Cash and cash equivalents - beginning	93,347,090	2,145,016
Cash and cash equivalents - ending	$ 126,729,573	$ 11,372,754
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income (loss)	$ (22,429,871)	$ (3,022,316)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation and amortization	24,071,692	8,491,268
Changes in assets and liabilities		
(Increase) decrease in		
Accounts receivable	(662,184)	12,061,709
Water inventory	-	-
Other receivables	-	-
Short-term receivable	(184,385)	24,288
Inventory	-	-
Prepaid items	-	-
Increase (decrease) in		
Deferred outflow related to net pension liability	(1,706,493)	(178,656)
Accounts payable	193,830	(2,563,206)
Accrued liabilities	(10,603)	(50,267)
Net pension liability	1,235,949	121,925
Deferred inflow related to net pension liability	(3,615,568)	(435,911)
Other liabilities	-	88,587
Change in contractor deposits	(144,127)	(598,734)
Compensated absences	-	-
Net cash provided by (used for) operating activities	$ (3,251,760)	$ 13,938,687

Water Resources	Non-Major	Totals 2016	Totals 2015
$ 40,770	$ 125,393	$ 575,621	$ 477,301
-	581,991	581,991	(61,472)
40,770	707,384	1,157,612	415,829
844,415	950,822	44,405,458	(16,907,813)
5,998,121	29,811,782	131,302,009	148,209,822
$ 6,842,536	$ 30,762,604	$ 175,707,467	$ 131,302,009
$ (1,980,857)	$ (3,540,343)	$ (30,973,387)	$ (31,016,372)
5,367	4,287,565	36,855,892	34,113,030
57,701	5,829,843	17,287,069	(13,828,372)
(1,350,043)	-	(1,350,043)	-
-	-	-	28,503
-	(18,575)	(178,672)	41,886
-	101,608	101,608	(43,841)
-	17,401	17,401	(9,172)
(170,232)	(243,485)	(2,298,866)	(4,621,119)
93,598	(4,480,198)	(6,755,976)	1,894,089
178,466	(1,084,091)	(966,495)	(322,762)
143,395	(643,845)	857,424	(6,679,644)
(206,211)	187,399	(4,070,291)	5,741,809
-	(1,538,683)	(1,450,096)	(2,984,475)
(17,224)	-	(760,085)	71,049
-	579,203	579,203	294,976
$ (3,246,040)	$ (546,201)	$ 6,894,686	$ (17,320,415)

(Continued)

INLAND EMPIRE UTILITIES AGENCY
Statement of Cash Flows - (Continued from previous page)
For the Fiscal Year Ended June 30, 2016
(With Comparative Totals for June 30, 2015)

	Enterprise Funds	
	Regional Wastewater	Recycled Water
RECONCILIATION OF CASH & CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION:		
Cash and short-term investments	$ 69,842,678	$ 11,372,754
Restricted assets	56,886,895	-
Cash & cash equivalents at end of year	$ 126,729,573	$ 11,372,754

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

Water Resources	Non-Major	Totals 2016	Totals 2015
$ 6,842,536	$ 29,903,334	$ 117,961,302	$ 86,311,686
-	859,269	57,746,164	44,990,323
$ 6,842,536	$ 30,762,603	$ 175,707,466	$ 131,302,009

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

June 30, 2016

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

Subject to the limitation imposed by the Constitution of California, and pursuant to its charter, all powers of the Agency are vested in a five-member Board of Directors. Each Director serves a four-year term and is elected by and represents the voters of a specific geographic area within the Agency's boundaries, identified as a Division. As of June 30, 2016, the Agency's staff is led by the Board-appointed General Manager, Executive Manager of Policy Development/Assistant General Manager (AGM), Executive Manager of Operations/AGM, Executive Manager of Engineering/AGM, and the Chief Financial Officer/AGM. The Agency's staff consisted of 290 regular authorized positions, of which 266 were filled as of June 30, 2016. The Board also appointed legal counsel and independent auditors to serve as consultants to Agency staff.

The accounting policies of the Agency conform to accounting principles generally accepted in the United States of America as they relate to governmental units (Special Districts). The Agency applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

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

b. Fund Financial Statements

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing goods and services related to the fund's ongoing operations. The principal operating revenues of the Agency's enterprise funds include: service charges for the treatment of domestic wastewater flows based on Equivalent Dwelling Units (EDU's) connected to the Contracting Agencies local collection systems, user charges for the export of high-salinity and industrial wastewater generated within the Agency's service area and eventual discharge to the Pacific Ocean recorded in the Non-Reclaimable Wastewater (NRW) Fund, imported water acre foot surcharge for the agency's administrative and operational cost associated with the delivery of imported water supplies and water resource development and planning activities, water meter service charge to meet the Agency's readiness-to-serve (RTS) obligation pass through from Metropolitan Water District and to help support a portion of the Agency's ground water recharge program, and the sale of recycled water. The principal operating expenses include the costs associated with the primary and secondary treatment of domestic wastewater delivered to the regional sewage system, treatment and export costs of industrial waste delivered to the NRW North and South systems, biosolids recycling and direct and recharged deliveries of recycled water. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

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

Enterprise Funds

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

The Regional Wastewater Capital Improvement Fund

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

Regional Wastewater Operations and Maintenance Fund

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

Recycled Water Fund

The Recycled Water (WC) Fund records the revenues and expenses associated with the operations and maintenance of the facilities used to distribute recycled water supplied from the Agency's water recycling plants. Additionally, the Recycled Water Fund records all of the costs associated with the construction and financing of recycled water capital projects. In response to the potential shortage and reduction of imported water supplies, the Agency adopted the Recycled Water Business Plan (RWBP) in December 2007. A key goal of the RWBP is to increase the connected demand for recycled water to 50,000 acre foot per year (AFY) with the expansion of the Regional Recycled Water Distribution System. This goal is anticipated to be reached by fiscal year 2024/25. Recycled water provides a cost effective and more reliable local water supply and is a key source to the Agency's goal of drought proofing its service area by 2030.

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

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

Enterprise Funds (continued):

Water Resources Fund

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

Basis of Accounting

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

Use of Estimates

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

Recognition of Revenues and Expenses

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

Effective June 30, 2015, the Agency returned to recording the water deliveries to contracting agencies as gross revenue and corresponding imported water purchases from Metropolitan Water District of Southern California (MWD) as expenses instead of recognizing certain imported water sales and purchases as pass-through transactions. For these transactions, the Agency is merely a conduit or accommodator for the transactions between the MWD, and the contracting agencies. The Agency, other than its role as a member of the MWD, has no control over the pricing of the imported water delivered to the contracting agencies by MWD.

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

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

Operating and Non-operating Revenues and Expenses

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

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

Budgetary Policy and Control

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

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

New Accounting Pronouncements

Current Year Standards

In fiscal year 2015/16, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "*Fair Value Measurement and Application*"

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

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

New Accounting Pronouncements

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

- GASB 73 - "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", effective for periods beginning after June 15, 2015 - except for those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.

- GASB 74 - "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", effective for periods beginning after June 15, 2016.

- GASB 75 – "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,*" effective for periods beginning after June 15, 2017.

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

Cash and Investments

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

For the purpose of the Statement of Cash Flows at June 30, 2016, and in accordance with the Governmental Accounting Standards Board Statement Number 9, the Agency's cash and cash equivalents are considered to be petty cash, demand deposits and savings accounts that are readily available on demand. All short-term cash surpluses are maintained in a cash and investment pool, and allocated to each fund based on month-end cash and investment balances. For financial presentation purposes, cash is shown within cash, short-term investments, and restricted assets. Additionally, guidelines provided by GASB Statement No. 40 regarding risk disclosures on deposits and investments have been followed.

Interest Income Allocation Method

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

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

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

Receivables and Payables (continued):

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

Property taxes payable to the San Bernardino County Tax Assessor (The County) are annually attached as an enforceable lien on property as of January 1. Taxes are levied annually on July 1; and, are payable to the County in two installments on December 10 and April 10. The County bills and collects the property taxes and subsequently remits the amount due to the Agency in installments during the year. Annually in July, the County prepares a property tax year-end reconciliation and remits any unpaid taxes to the Agency generally within sixty days of the fiscal year end. Those taxes are accrued by the Agency and reflected as taxes receivable in the applicable Funds at fiscal year-end. The Agency does not collect property taxes in advance; therefore no deferred revenue is shown on the financial statements.

The County is permitted by State Law, (Article XIII A of the California Constitution, Proposition 13,) to levy taxes at 1% of full market value (at the time of purchase) and can increase the property's value no more than 2% per year.

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

Inventories and Prepaids

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

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

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

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

Restricted Assets

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

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

Capital Assets

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

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

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

During the year ended June 30, 2016, total interest of $133,017 was capitalized on jobs in process related to the 2008A Revenue Bonds proceeds and is comprised of $3,146 recorded in the Regional Wastewater Capital Improvement Fund, $74,474 in the Recycled Water Fund and $55,397 in the Regional Wastewater and Operations and Maintenance Fund.

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

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

Capital Assets (continued):

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

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

Estimated useful lives are:	Furniture, machinery and equipment	3 - 15 years
	Improvements	15 years
	Interceptors, buildings and plants	5 - 50 years
	Intangible Capacity Rights	50 years
	Computer Software	3 years

Deferred Outflows/Inflows of Resources

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

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

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

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

Pensions

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

Compensated Absences

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

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

The accumulated vacation leave payable at July 1, 2015 was $1,945,897 with additions and deletions during the year of $4,156,708, and $3,876,596 respectively, resulting in an ending June 30, 2016 balance of $2,226,009. There was a net increase of $280,112 over the previous fiscal year.

The sick and compensatory leave balance at July 1, 2015 was $2,393,223 with additions and deletions during the year of $2,092,782 and $1,793,691 respectively, resulting in an ending June 30, 2016 balance of $2,692,314. There was a net increase of $299,091 over the previous fiscal year.

The compensated absences liability has been recorded in the Administrative Service Non-Major Fund as a combined total of $4,918,323. The current year liability is estimated to be $1,939,639.

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

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

Other Post - Employment Benefits

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

The Agency contributes an additional monthly longevity benefit to each retiree minus the minimum PEMHCA contribution or $125.00, whichever is greater, according to the chart below to each retiree who simultaneously retires from the Agency through CalPERS and who is a minimum age of fifty-five (55).

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

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

In accordance with GASB Statement No. 45 – Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pension (OPEB), public entities are required to accrue OPEB costs throughout the employee's working lifetime and record the actuarially calculated cost as a liability. The Agency contracted an independent pension consultant and actuaries to perform an actuarial valuation of the OPEB as of June 30, 2015. The report used the "Entry Age Normal" actuarial cost method and an attribution period that runs from the date of hire until the expected retirement date. Normal costs can be defined to be the present value of future benefits that are "earned" by employees for service rendered during the current year. The report used the level-percentage of pay method with which the Agency's unfunded actuarial accrued liability is being amortized over a 22 year closed period. Under the level-percentage of pay method, the amortization payment is scheduled to increase in future years based on wage inflation.

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

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

Other Post - Employment Benefits (continued):

On June 4, 2014, the Agency entered into an agreement to prefund OPEB through CalPERS California Employer's Retiree Benefit Trust (CERBT). As of June 30, 2016, the Agency has funded $9,000,000 into the CERBT trust fund towards the OPEB obligation.

The following table presents the summary of the Actuarial Accrued Liability (AAL), Plan Assets and Annual Required Contribution for the Fiscal Year 2015/16.

	2015/16
Annual Required Contribution (ARC)	$ 965,811
Interest on Net OPEB Obilgation	79,041
Adjustment to ARC	(81,642)
Annual OPEB Costs	**$ 963,210**
IEUA Contribution	(2,501,893)
Percentage Contributed	259%
Increase or Decrease in Net OPEB	**$ (1,538,683)**
Net OPEB Obligation - Beginning of Year	1,291,524
Net OPEB Obligation - End of Year	(247,159)
Annual Covered Payroll	$ 23,671,357

Three-year trend information for OPEB

Fiscal Year Ending	Annual OPEB Costs	% of OPEB Contributed	Net OPEB Obligation
6/30/2014	$ 1,516,123	262%	$ 4,355,322
6/30/2015	$ 938,202	426%	$ 1,291,254
6/30/2016	$ 963,210	259%	$ (247,159)

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

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

Other Post - Employment Benefits (continued):

Funded Status and Funding Progress

As of June 30, 2015, the most recent actuarial valuation date, the plan was 48% funded. The actuarial accrued liability (AAL) for benefits was $15,080,188 and the actuarial value of assets was $6,992,580, resulting in unfunded actuarial accrued liabilities (UAAL) of $8,087,608. As of June 30, 2016, the value of assets was $9,318,938, resulting in unfunded actuarial accrued liabilities (UAAL) of $5,731,250. The covered-employee payroll (annual total payroll of active employees covered by the plan) was $23,671,357, and the ratio of the UAAL to the covered-employee payrolls was 24.21%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about rates of employee turnover, retirement, mortality, as well as economic assumptions regarding claim costs per retiree, healthcare inflation and interest rates. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations of the ongoing plan reflects a long-term perspective.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan between the employer and the plan members and include the types of benefits provided at the time of each valuation, and the historical pattern of sharing of benefits costs between the employer and the plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Since retiree health benefits will be paid over the next 50 years or more, a projection of future benefits payments and liabilities requires the use of actuarial assumptions to reflect the estimate of what is likely to occur over the long-term.

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

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

Other Post - Employment Benefits (continued):

The valuation process uses a mathematical model to project the number of retirees and dependents in each future year based on the retirees at the beginning of the year who are expected to survive until the end of the year, and the active employees expected to retire during the year. The expected benefits payable in future years are calculated based on the number of projected retirees and dependents and the anticipated future per capita costs. Actuarial assumptions used for the June 30, 2015 valuation were:

Actuarial report makes use of the following assumptions:

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

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

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

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

Long-Term Obligations

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

Prior Fiscal Year Data

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

II. STEWARDSHIP

(2) Stewardship, Compliance & Accountability

Encumbrances

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

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

III. DETAILED NOTES ON ALL FUNDS

(3) Cash and Investments

The Agency follows the practice of pooling cash and investments of all funds, except for restricted funds generally held by outside custodians. Each fund's position in the pool is reported on the combined statement of net position as cash and investments.

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

Cash and investments as of June 30, 2016 are classified in the accompanying financial statement as follows:

Statement of net position:	
Cash and investments	$ 117,961,301
Restricted deposits held by governmental agencies	55,201,435
Restricted assets held with trustee/fiscal agent	2,544,729
Total cash and investments	**$ 175,707,465**
Cash and investments as of June 30, 2016 consist of the following:	
Cash on hand (Petty Cash)	$ 2,051
Deposits with financial institutions	1,121,964
Deposits held by other governmental agencies	55,201,435
Investments	119,382,015
Total cash and investments	**$ 175,707,465**

Fair Value

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

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

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

(3) Cash and Investments (continued):

Investments Authorized by the California Government Code and the Agency's Investment Policy (continued):

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

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.

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

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

(3) Cash and Investments (continued):

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

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

Investment Pool Oversight

Local Agency Investment Fund (LAIF)

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

Investment Trust of California (CalTRUST)

The Agency is a voluntary participant in the CalTRUST, a Joint Powers Authority established by public agencies in California for the purpose of pooling and investing local agency funds. A Board of Trustees supervises and administers the investment program of the Trust. CalTRUST invests in fixed income securities eligible for investment pursuant to California Government Code Sections 53601, et. Seq. and 53635, et. Seq. Investment guidelines adopted by the Board of Trustees may further restrict the types of investments held by the Trust.

California Asset Management Program (CAMP)

The Agency is a voluntary participant in the CAMP, a Joint Powers Authority established on 1989 to provide California public agencies with professional investment services. The CAMP Pool is a permitted investment for all local agencies under California Code Section 53601(p). CAMP is directed by a Board of Trustees (of which the Agency is a member), which is made up of experienced local government finance directors and treasurers.

Deposits

At June 30, 2016, the carrying amount of the Agency's deposits was $1,121,964 and the bank balance was $1,731,438. The $609,474 difference represents outstanding checks and other reconciling items.

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

(3) Cash and Investments (continued):

Deposits (continued):

The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank of San Francisco, California, as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "Agency of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local government agency.

Credit Risk

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

Presented below is the minimum rating required by the Agency's investment policy, and the actual Moody's rating as of fiscal year ended June 30, 2016 for each investment type:

		Minimum	Moody's Rating as of June 30, 2016			
Investment Type	**Amount**	**Legal Rating**	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Unrated**
Repurchase Agreement	$ 23,149,836	N/A	$ 23,149,836	$ -	$ -	$ -
U.S. Agency Securities	27,578,233	N/A	27,578,233	-	-	-
Medium Term Notes	9,634,166	A	7,626,366	2,007,800	-	-
US Treasury	1,001,020	A	1,001,020	-	-	-
LAIF	30,517,594	N/A	-	-	-	30,517,594
Cal Trust	16,052,880	N/A	-	-	-	16,052,880
CAMP	5,005,834	N/A	-	-	-	5,005,834
Brokered Certificate of Deposit	3,897,723	N/A	-	-	-	3,897,723
Held by Bond Trustee:						
Money Market Mutual Funds	2,544,729	N/A	-	-	-	2,544,729
Total	**$ 119,382,015**		**$ 59,355,455**	**$ 2,007,800**	**$ -**	**$ 58,018,760**

Concentration of Credit Risk

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

Issuer	Investment Type	Reported Amount	Percentage
FHLMC	CBB Repurchase Agreement	$ 24,668,182	20.67%
FNMA	and US Agency Securities	$ 14,809,081	12.41%
Federal Farm Credit	US Agency Securities	$ 11,250,806	9.43%

(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, 2016, the Agency's deposits (bank balance) were insured by the Federal Depository Insurance Corporation up to $250,000 and the remaining balances were collateralized under California law.

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

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

Interest Rate Risk

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

(3) Cash and Investments (continued):

Interest Rate Risk (continued):

As of June 30, 2016, the Agency had the following investments and original maturities:

Investment Type	Remaining Maturity (in Months) 12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months	Fair Value
Repurchase Agreement	$ 23,149,836	$ -	$ -	$ -	$ 23,149,836
U.S Agency Securities	-	7,205,116	20,373,117	-	27,578,233
Medium Term Notes	-	3,990,960	5,643,206	-	9,634,166
US Treasury Note	1,001,020	-	-	-	1,001,020
State Investment Pool	30,517,594				30,517,594
Cal Trust	16,052,880	-	-	-	16,052,880
CAMP	5,005,834				5,005,834
Brokered Certificate of Deposit	730,686	1,945,088	1,221,949	-	3,897,723
Held by Bond Trustee:					
Money Market Mutual Fund	2,544,729	-	-	-	2,544,729
Total	**$ 79,002,579**	**$ 13,141,164**	**$ 27,238,272**	**$ -**	**$ 119,382,015**

Fair Value Measurement (GASB 72)

The information below shows the Agency's investments fair value measurements (market approach) as of June 30, 2016. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date under current market conditions.

Investments by Fair Value Level	June 30 2016	Level 1 [(A)]	Level 2 [(B)]	Level 3 [(C)]
Repurchase Agreement	$ 23,149,836		$ 23,149,836	
U.S. Agency Securities	27,578,233		27,578,233	
Medium Term Notes	9,634,166		9,634,166	
US Treasury Notes	1,001,020	1,001,020		
State Investment Pool	30,517,594		30,517,594	
Cal Trust	16,052,880		16,052,880	
CAMP	5,005,834		5,005,834	
Brokered Certificate of Deposit	3,897,723	3,897,723		
Money Market Mutual Fund	2,544,729	2,544,729		
Total	**$ 119,382,015**	**$ 7,443,472**	**$ 111,938,543**	**$ -**

[(A)] Level 1 - Quoted prices in active markets for identical assets

[(B)] Level 2 - Quoted prices in active markets for significant other observable inputs

[(C)] Level 3 - Quoted prices in active markets for significant unobservable inputs

(4) Deferred Compensation

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

In fiscal year 1997/98, the Board of Directors adopted a resolution to establish another Deferred Compensation Plan that is a qualified plan under the IRC Section 401(a). Each participant can contribute a percentage of their employee's earnings up to a maximum of $53,000 for 2016. 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 Internal Revenue Service 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.

On July 1, 1998, the Agency adopted GASB Statement No. 32 "*Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*." The implementation of GASB Statement No. 32 required 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.

(5) Defined Benefit Pension Plan

General information about the Pension Plans

Plan Description

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

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

Benefits Provided

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

(5) Defined Benefit Pension Plan (continued):

General information about the Pension Plans (continued):

Benefits Provided (continued):

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

Hire date	Prior to January 1, 2012	On or After January 1, 2012	After January 1, 2013
Benefit formula	2.5%@55	2%@55	2%@62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Eligible retirement age	50 – 55	50 – 63+	52 – 67+
Monthly benefits, as a % of eligible compensation	2% - 2.5%	1.426% - 2.418%	1% - 2.5%
FY2014/15 required employee contribution rates*	8%	7%	6.25%
FY2014/15 required employer contribution rates	16.641%	16.641%	16.641%

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

Fiscal Year	*Hired Prior to January 1, 2012*	*Hired On or After January 1, 2012*	*Hired After January 1, 2013*
2015/16	*5.5%*	*6.5%*	*6.25%*
2016/17	*7.0%*	*7.0%*	*6.25%*
2017/18	*8.0%*	*7.0%*	*6.25%*
Employee contribution rates	***8.0%***	***7.0%***	***6.25%***

Employees Covered

At June 30, 2016, the following employees were covered by the Plans' terms:

Inactive employees or beneficiaries currently receiving benefits	212
Inactive employees entitled to but not yet receiving benefits	192
Active employees	277
Total	**681**

(5) Defined Benefit Pension Plan (continued):

General information about the Pension Plans ***(continued):***

Contributions

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

Net Pension Liability

The net pension liability is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions

The total pension liabilities in the June 30, 2014 actuarial accounting valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.65% (net of pension plan investment and administration expenses; includes inflation)
Mortality	The probabilities of mortality are derived using CalPERS membership data for all funds. The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using society of actuaries scale BB. For more details on this table please refer to the 2014 experience study report.

(5) Defined Benefit Pension Plan (continued):

General information about the Pension Plans (continued):

Actuarial Assumptions (continued):

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a 2010 actuarial experience study for the period 1997 to 2007. Further details of the Experience Study can be found on the CalPERS website.

Change of Assumptions

GASB 68, paragraph 68 states that the long long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

Discount Rate

The discount rate used to measure the total pension liability was 7.65% for the Agency's Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.65% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.70%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

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

(5) Defined Benefit Pension Plan (continued):

General information about the Pension Plans (continued):

Discount Rate (continued):

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

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

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

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

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

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

(5) Defined Benefit Pension Plan (continued):

General information about the Pension Plans (continued):

Changes in the Net Pension Liability

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

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at June 30, 2014	$ 154,302,938	$ 117,595,160	$ 36,707,778
Changes in the Year:			
Service cost	3,685,630	-	3,685,630
Interest on the total pension liability	11,654,818	-	11,654,818
Differences between actual and expected experience	2,049,978	-	2,049,978
Changes in assumptions	(2,979,771)	-	(2,979,771)
Changes in benfit terms	-		-
Contribution - employer	-	8,330,807	(8,330,807)
Contribution - employee	-	1,812,908	(1,812,908)
Net investment income	-	2,718,511	(2,718,511)
Administrative expenses	-	(140,237)	140,237
Benefit payments, including refunds of employee contributions	(5,730,808)	(5,730,808)	-
Net Changes	**$ 8,679,847**	**$ 6,991,181**	**$ 1,688,666**
Balance at June 30, 2015	**$ 162,982,785**	**$ 124,586,341**	**$ 38,396,444**

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

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

	Discount Rate – 1% (6.65%)	**Current Discount Rate (7.65%)**	**Discount Rate + 1% (8.65%)**
Net Pension Liability	$ 61,382,684	$ 38,396,444	$ 19,437,679

Pension Plan Fiduciary Net Position

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

(5) Defined Benefit Pension Plan (continued):

General information about the Pension Plans (continued):

Subsequent Events

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

Recognition of Gains and Losses

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

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

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

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

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

For the fiscal year ended June 30, 2015, the Agency recognized pension expense of $3,642,007. As of June 30, 2015, the Agency has deferred outflows and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 9,153,741	0
Differences between actual and expected experience	1,524,343	0
Change in assumptions	0	(2,215,727)
Net differences between projected and actual earnings on plan investments	0	(836,340)
Total	**$ 10,678,084**	**$ (3,052,067)**

(5) Defined Benefit Pension Plan (continued):

General information about the Pension Plans (continued):

Deferred outflows of resources related to contributions subsequent to the measurement date of $9,153,741 will be recognized as a reduction of net pension liability in the year ending June 30, 2017.

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

Measurement Period Ending June 30:	Deferred Outflows/(Inflows) of Resources
2016	$ (943,061)
2017	(943,061)
2018	(919,219)
2019	1,277,617
2020	0
Thereafter	0

Payable to the Pension Plan

As of June 30, 2016, the Agency had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

(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.

(6) Risk Management (continued):

- 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 up to $1,000,000,000 per occurrence coverage limit, subject to a $25,000 deductible per occurrence. All other claims categories provide coverage up to $800,000,000 on an annual aggregate basis.

- Boiler and machinery coverage for the replacement cost up to a shared limit of $500,000,000, subject to various deductibles depending on the type of equipment.

Insurance premiums are paid into the Administrative Services Non-Major 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, 2016, 2015, and 2014. Additionally, there have been no reductions in insurance coverage since the establishment of the risk management program.

Claim Liabilities

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

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	
	2015/16	2014/15	2015/16	2014/15
Unpaid Claims, beginning of fiscal year	$ 249,879	$ 229,358	$ 500,000	$ 500,000
Incurred claims (including IBNRs)	234,689	123,752	51,569	15,661
Claim payments	(126,949)	(103,231)	(51,569)	(15,661)
Unpaid claims, end of fiscal year	**$ 357,619**	**$ 249,879**	**$ 500,000**	**$ 500,000**

(7) Changes in Capital Assets

Jobs in Progress

At the Fiscal Year ended June 30, 2016, the Agency had several jobs in progress designed to expand the Regional Recycled Water Distribution System as part of the amendments to the Recycled Water Business Plan adopted in December 2007. Other significant projects are also underway to expand, improve, and refurbish existing treatment facilities in the Agency's Regional Wastewater Program, including the disposition of wastewater by-products and provide for ancillary facilities that support operating activities.

Other Projects (less than $500,000 each)	4,780,063
SCADA Enterprise System	4,708,038
New Water Quality Laboratory	2,152,455
Montclair Diversion Structure Improvement	1,068,186
RP-5 Expansion Preliminary Design Report (PDR)	982,524
Agency-Wide HVAC Improvements- Pckg No. 3	742,334
RP-1 Mixed Liquor Return Pumps	567,463
1630 W. Recycled Water Pump Station - Surge Tank Installation	546,124
San Sevaine Basin Improvements	535,568
SBCFCD Recycled Water Easement	534,759
Recharge Master Plan Update (Softcost)	510,016
East Avenue 1630 E. Recycled Water Pipeline Relocation	504,666
Total Jobs in Progress	**$ 17,632,197**

(7) Changes in Capital Assets (continued):

The following is a summary of jobs in progress, property, plants, equipment, and intangible assets at June 30, 2016:

Capital Assets

Capital Assets	Balance at 6/30/15 (As Restated)	Additions	Transfers & Retirements	Balance at 6/30/16	Accumlated Depreciation at 6/30/16	Net Book Value at 6/30/16
Capital Assets-not being depreciated:						
Land	$ 14,067,874	$ -	$ -	$ 14,067,874	$ -	$ 14,067,874
Jobs in Progress	43,792,697	23,466,639	(49,627,139)	17,632,197	-	17,632,197
Total Capital Assets, not being depreciated	$ 57,860,571	$ 23,466,639	$ (49,627,139)	$ 31,700,071	$ -	$ 31,700,071
Capital Assets-being depreciated:						
Interceptors, trunk lines and inter-ties	$ 36,721,245	$ -	$ -	$ 36,721,245	$ (10,822,897)	$ 25,898,348
Office facilities	12,076,619	-	-	12,076,619	(2,947,876)	9,128,743
Collection, outfall, and transmission lines	123,643,101	962,259	-	124,605,360	(72,353,266)	52,252,094
Reservoirs, setting basins, ponds, and chlorination station	119,404,397	77,186	(1,104,000)	118,377,583	(29,627,987)	88,749,596
Recycled water distribution system	140,607,473	23,719,659	-	164,327,132	(21,449,409)	142,877,723
Treatment plants, pump stations and office buildings	271,878,633	4,403,047	(802,114)	275,479,566	(123,690,588)	151,788,978
Equipment	203,549,704	20,228,609	(2,519,390)	221,258,923	(113,972,495)	107,286,428
Land improvement	29,863,056	8,042	-	29,871,098	(11,550,206)	18,320,892
Total capital assets, being depreciated	$ 937,744,228	$ 49,398,802	$ (4,425,504)	$ 982,717,526	$ (386,414,724)	$ 596,302,802
Less accumulated depreciation for:						
Interceptors, trunk lines and inter-ties	$ (9,969,037)	$ (853,860)	$ -	$ (10,822,897)		
Office facilities	(2,708,841)	(239,035)		(2,947,876)		
Collection, outfall, and transmission lines	(68,895,583)	(3,457,683)	-	(72,353,266)		
Reservoirs, setting basins, ponds, and chlorination station	(26,979,215)	(2,833,185)	184,413	(29,627,987)		
Recycled water distribution system	(17,939,454)	(3,549,785)	39,830	(21,449,409)		
Treatment plants, pump stations and office buildings	(117,327,512)	(6,645,783)	282,707	(123,690,588)		
Equipment	(98,653,718)	(16,604,193)	1,285,416	(113,972,495)		
Land improvement	(10,207,652)	(1,342,554)		(11,550,206)		
Total accumulated depreciation	$ (352,681,012)	$ (35,526,078)	$ 1,792,366	$ (386,414,724)		
Total capital assets, being depreciated, net	$ 585,063,216	$ 13,872,724	$ (2,633,138)	$ 596,302,802		
Total capital assets- Enterprise Funds, Net	**$ 642,923,787**	**$ 37,339,363**	**$ (52,260,277)**	**$ 628,002,873**		

(7) Changes in Capital Assets (continued):

Intangible Assets

Intangible Assets	Balance at 6/30/15	Additions	Transfers & Retirements	Balance at 6/30/16	Accumlated Amortization at 6/30/16	Net Book Value at 6/30/16
Intangible assets-being amortized:						
Computer software	$ 10,937,114	$ 228,336	$ -	$ 11,165,450	$ (7,279,154)	$ 3,886,296
Contributed capital-lease	129,324	-	-	129,324	(16,165)	113,159
Metropolitan Water District connections	198,891	-	-	198,891	(180,991)	17,900
Corps of Engineers-Cucamonga Creek	43,489	-	-	43,489	(27,317)	16,172
Auto Club Speedway Water Rights	133,650	-	-	133,650	-	133,650
San Bernardino Conty Flood Control-Chino Road Barrier	48,076	-	-	48,076	(20,032)	28,044
Santa Ana Watershed Project Authority capacity rights	12,467,002	-	-	12,467,002	(6,692,333)	5,774,669
Organization and master planning	1,939,805	-	-	1,939,805	(689,489)	1,250,316
Total intangible assets being-amortized	$ 25,897,351	$ 228,336	$ -	$ 26,125,687	$ (14,905,481)	$ 11,220,206
Less accumulated amortization for:						
Computer software	$ (6,245,909)	$ (1,033,245)	$ -	$ (7,279,154)		
Contributed capital-lease	(9,699)	(6,466)	-	(16,165)		
Metropolitan Water District connections	(177,013)	(3,978)	-	(180,991)		
Corps of Engineers-Cucamonga Creek	(26,448)	(869)	-	(27,317)		
San Bernardino Conty Flood Control-Chino Road Barrier	(18,429)	(1,603)	-	(20,032)		
Santa Ana Watershed Project Authority capacity rights	(6,394,749)	(297,584)	-	(6,692,333)		
Organization and master planning	(652,014)	(37,475)	-	(689,489)		
Total accumulated amortization	$ (13,524,261)	$ (1,381,220)	$ -	$ (14,905,481)		
Total intangible assets-Enterprise Funds, Net	$ 12,373,090	$ (1,152,884)	$ -	$ 11,220,206		
Total capital assets-Enterprise Funds, net	$ 655,296,877	$ 36,186,479	$ (52,260,277)	$ 639,223,080		

The ending balance of accumulated depreciation and amortization for all capital assets has been adjusted to the Statement of Net Position for 2016 (rounding difference). For the Fiscal year ended June 30, 2016, depreciation was $33,733,712 and amortization expense was $1,381,220.

(8) Construction Commitments

The Agency is committed to several significant construction contracts. Total outstanding obligations were $2,309,432 at June 30, 2016. Some of the contracts for ongoing projects at the Agency's regional plants are listed below:

- **Agency-wide Energy Efficiency Study and RP-4 Lighting Improvements Phase I - EN16013.** Evaluation of existing lighting and process equipment systems, to determine a long-term plan for process improvements; lighting replacements and improvements; and, pump efficiency improvements. This project has an outstanding obligation of $1,221,528.

- **1630 East & West Recycled Water Pump Stations Surge Protection Improvements - EN15055.** This project encompasses the design and construction of a surge tank to dampen the surges in the 1299 recycled water pipeline. This project has an outstanding obligation of $521,323.

- **Wineville Recycled Water Extension Pipeline Segment B - EN13045.** The Wineville Recycled Water Extension Pipeline Segment B has installed 2.8 miles of 30-inch recycled water pipeline in addition to the associated appurtenances, and is located in the central service area. The new pipeline consists of approximately 12,000 linear feet of 36-inch cement lined and coated steel pipeline in the City of Fontana. The pipeline connects to Segment A terminus on one end (west), and terminates at RP-3 and Declez recharge basins where approximately 1,000 linear feet of 16-inch PVC is installed inside RP-3. The pipeline will provide recycled water of approximately 4,100 acre-feet per year for direct use and groundwater recharge. This project has an outstanding obligation of $182,525.

- **RP-4 MCC Power Center Five Roof Access - EN13056.01.** The scope of this project includes the design, fabrication, and installation of stairs to the RP-4 Microbial Culture Collection Power Center Five building along with installation of gantry platform from the stairs' top landing to the A/C units. This project scope also includes installation of hand guard rails around the perimeter of the building rooftop for personnel protection. This project has an outstanding obligation of $178,999.

- **Montclair Diversion Structure Rehabilitation - EN13018.** The rehabilitation of the Montclair Diversion structure will include evaluation of available and viable options for the installation of a new odor control system, and the construction of new fine screens. This project has an outstanding obligation of $105,938.

- **Supervisory Control and Data Acquisition (SCADA) Enterprise System - EN13016.** The SCADA Enterprise system will eliminate the multi-vendor platforms currently operating as islands of automation. The design and construction of a highly-reliable and scalable Enterprise SCADA system that enables the control of any facility from any location, remote operations as well as integration with the Business system, and supports wastewater treatment, recycled water, and groundwater supply-demand management. This project has an outstanding obligation of $64,845.

(8) Construction Commitments (continued):

- **Agency-Wide HVAC Improvements #3 - EN15032.** The scope of this project is to evaluate electrical and control building Heating, Ventilation and Air Conditioning systems, and provide solutions/upgrades for the Carbon Canyon Facility switchgear room, and the RP-1 maintenance building. It will also replace the evaporative coolers for the Carbon Canyon Facility switchgear with an air conditioning system, and modify the ventilation system configuration. This project scope includes the design, procurement and installation of all necessary HVAC equipment to address the deficient HVAC systems, and ensure process safety and reliability. This project has an outstanding obligation of $21,387.

- **San Bernardino Lift Station Fiber Optic Upgrades - EN15030.02.** The rehabilitation and upgrade of the San Bernardino Lift Station fiber optics system. This project has an outstanding obligation of $12,887.

(9) Contingent Liabilities

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

At June 30, 2016, the Agency was a defendant in a number of lawsuits arising in the ordinary course of operations, which allege liability on the part of the Agency in connection with worker's compensation and general liability matters. Based on legal counsel's opinion, the potential losses and/or resolutions of these cases will not materially affect the financial condition of the Agency.

(10) Long-Term Receivables

City of Ontario

On June 4, 2004, the Agency entered into an amendment to its original contract with the City of Ontario for the reimbursement of the RP-1 to RP-5 By-Pass Project. The project was completed on March 31, 2008, and as of June 30, 2016, the long term receivable amount is $2,530,298 and is recorded in the Regional Wastewater Capital Improvement (RC) Fund.

Monte Vista Water District

On February 2, 2008, the Agency entered into an agreement with Monte Vista Water District (MVWD) for the construction of the regional recycled water distribution system that resides within the MVWD service area. Monte Vista Water District agreed to reimburse the Agency $1,068,418 for the construction costs, payable yearly beginning June, 2009, plus interest at an annum rate of 2.2% for 20 years. As of June 30, 2016, the long term receivable amount is $644,535, and is recorded in the Recycled Water (WC) Fund.

(10) Long-Term Receivables (continued):

Cucamonga Valley Water District

On November 24, 2009, the Agency entered into an agreement with Cucamonga Valley Water District (CVWD) for the design and construction of the Church Street Recycled Water Lateral that resides within the CVWD service area. CVWD agreed to reimburse the Agency $690,648 for the construction costs, payable yearly beginning June, 2011, plus interest at an annum rate of 0.74% for 20 years. As of June 30, 2016, the long term receivable amount is $449,973, and is recorded in the Recycled Water (WC) Fund.

Auto Club Speedway

On November 2015, the Agency entered into an agreement with California Speedway Corporation dba Auto Club Speedway (Speedway) to provide wastewater treatment and recycled water services to property owned, operated, managed and controlled by Speedway. Speedway agreed to reimburse the Agency for the construction cost and the cost of connection to provide those services. This agreement includes the option of payment through the assignment of pumping rights to the Agency as full consideration for their share of capital cost and connection cost. The assignment shall have a term of sixty (60) years. As of June 30, 2016, the Agency has incurred $1,700,631 in connections costs. During the same period, Speedway has assigned 225 acre feet to the Agency, leaving and outstanding long term receivable of $1,416,981 recorded in the Regional Wastewater Capital (RC) 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.

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

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

Audited financial information for the operation of SAWPA as of and for the fiscal year ended June 30, 2016 is summarized as follows:

	2016	2015
Total Assets	$ 175,164,843	$ 173,051,031
Deferred Outflows of Resources	358,101	273,547
Total Liabilities	107,830,177	107,505,347
Deferred Inflows of Resources	525,022	784,673
Total Net Position	67,167,745	65,034,558
Total Revenues	17,113,620	15,228,824
Total Expenses	(14,980,433)	(14,084,505)
Net Change in Net Position	$ 2,133,187	$ 1,144,319

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

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

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

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

A) On June 10, 1981, the Agency entered into Project Agreement #7. The Agency purchased through its Non-reclaimable Capital Improvement (NC) Fund capacity use rights of 2.5 mgd in the IEBL pipeline capacity, for a cost of $2,621,204 per mgd. Subsequent annual capital replacement and supplemental costs were $3,318,846, which brought the total expenditures to $9,871,856 as of June 30, 2001.

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

Santa Ana Watershed Project Authority *(continued):*

B) The Agency assumed the future liability of payments for supplemental treatment facilities billed by CSDOC after July 1, 1981, to provide treatment and capacity for up to 2.5 mgd of wastewater.

C) On June 30, 1989, the Agency purchased through its Regional Wastewater Capital Improvement (RC) Fund 1.5 mgd of IEBL pipeline and treatment capacity. In September 1993, the Agency's Board approved the sale of 0.4 mgd IEBL discharge right to the State of California Department of Corrections. The net cost of the 1.1 mgd of IEBL pipeline and 1.5 mgd capacity is $4,650,970. Subsequent annual capital replacement and supplemental costs were $1,442,010, which brought the total expenditures to $6,092,980 as of June 30, 2001.

D) On June 19, 1998, the Agency entered into an agreement with SAWPA for the purchase of an additional 1.5 mgd of IEBL pipeline capacity. One third of this capacity is earmarked for the Regional Wastewater Program. The Agency, through Regional Wastewater Capital Improvement (RC) Fund, purchased 0.5 mgd. The remaining 1.0 mgd was purchased with monies from the Non-reclaimable Capital Improvement (NC) Fund. The total cost of the purchase was $5,625,000, with a 5% down payment. The balance is payable over 20 years with a zero interest rate, and has been discounted by $2,095,253 at an imputed interest rate of 6%.

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

F) On April 21, 2004, the Agency Board of Directors approved the sale of 2.10 mgd of pipeline capacity and 2.05 mgd of treatment and disposal capacity to the Chino Basin Desalter Authority (CDA). The sale price totaled $14.25 million payable in three equal installments within one year. This sale was recorded in two separate funds with $4.73 million going to the Regional Wastewater Capital Improvement (RC) Fund and $9.52 million going to the Non-reclaimable Wastewater (NC) Fund.

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

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

Santa Ana River Conservation and Conjunctive Use Program (SARCCUP) – In June 2016, The Agency signed the SARCCUP Memorandum of Understanding (MOU) and SARCCUP MOU for Program Implementation, PA23. SARCCUP is the result of collaboration between the SAWPA member agencies (Parties) to identify large-scale water supply reliability and water use efficiency projects that could benefit the Santa Ana River Watershed. SARCCUP will initially include development of new infrastructure and incorporation of existing infrastructure to create 60,000 acre-feet per year of wet year put and dry year take capacities for 180,000 acre-feet of groundwater storage in the San Bernardino Area Basins, the San Jacinto Basins, the Chino Basin, and the Elsinore Basin. In June 2015, the Parties submitted a grant application to the State Department of Water Resources through SAWPA for the SARCCUP project elements. The estimated costs of SARCCUP Phase 1 projects total $100 million and will be funded by the $55 million grant funding application and $45 million shared equally between the five SAWPA member agencies.

Chino Basin Desalter Authority

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 grants administration support for the JPA, as well as operational support for the Desalter 1 facility (based on January, 2002 operations and maintenance agreement which was amended June, 2013). In August of 2008, Western Municipal Water District was added as an additional member of CDA.

As of June 30, 2016, Desalter 1 and Desalter 2 delivered a total of 24,597 acre feet of water. Financial data is available at the CDA's main office located at 2151 S. Haven Avenue, Suite 202, Ontario, CA 91761.

Inland Empire Regional Composting Authority

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

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

Inland Empire Regional Composting Authority (continued):

Prior to the JPA Agreement, the two partners entered into a separate agreement in December, 2001 to acquire real property for proposed joint use. As a result of this agreement, a piece of property and building in the City of Rancho Cucamonga, adjacent to IEUA's Regional Plant No. 4 (RP-4) was acquired in December, 2001 at a cost of $15,116,229. Subsequent to the property acquisition, preliminary and final designs were launched to modify the building. The facility started operation in FY 2006/07 and is currently staffed by twenty-four full time IEUA employees who provide all operational activities including production, maintenance, safety and industrial hygiene training, and sales and administration. The IERCA reimburses IEUA 100% of employment costs. A tipping fee is paid by JPA partners for biosolids deliveries to IERCA, to recover Operation & Maintenance (O&M) and Repair & Replacement (R&R) costs. The agency records biosolids tipping fees in the Regional Wastewater Operation & Maintenance (RO) fund.

As of June 30, 2016, the Agency's equity share is $45,167,514 recorded in the Regional Wastewater Capital Improvement (RC) Fund. There was an additional write-down of $409,985 (50% of the Agency's equity share) of the JPA's net position at June 30, 2016; this reduction is recorded in the non-operating expenses on the statement of revenues in RC Fund. The Agency records the JPA labor costs for operating the facility in the RO Fund. IERCA financial data is available at the Agency's main office.

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

Santa Ana River Watermaster

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

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

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

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

Santa Ana River Watermaster (continued):

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

Orange County Water District	40%
Inland Empire Utilities Agency	20%
Western Municipal Water District	20%
San Bernardino Valley Municipal Water District	20%
Total	**100%**

Financial information for the operation of Watermaster as of and for the fiscal year ended June 30, 2015 is summarized as follows:

	2015
Total Assets	$ 12,039
Fund Balance	**$ 12,039**
Total Revenues	30,000
Total Expenses	(30,662)
Net Increase/(Decrease) in Equity	**$ (662)**

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

(12) Long-term Debt and Notes Payable

Long-term Debt

Summary of changes in Long-Term debt for the fiscal year ended June 30, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year	Amounts Due after One Year
Bonds Payable:						
2008A Revenue Bonds	$ 125,000,000	$ -	$ -	$ 125,000,000	$ -	$ 125,000,000
2008B Variable Rate (2002A Refinancing)	44,060,000	-	1,865,000	42,195,000	1,910,000	40,285,000
2010A Revenue Bonds (1994 Refinancing)	30,950,000	-	3,945,000	27,005,000	4,105,000	22,900,000
Sub-Total	200,010,000	-	5,810,000	194,200,000	6,015,000	188,185,000
Bond Premium	5,927,428	-	498,877	5,428,551		5,428,551
Revenue Bonds	**$ 205,937,428**	**$ -**	**$ 6,308,877**	**$ 199,628,551**	**$ 6,015,000**	**$ 193,613,551**

(12) Long-term Debt and Notes Payable

***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, 2016 is comprised of the principal of $125,000,000, plus a bond premium of $3,720,988 for a total of $128,720,988.

2008B Variable Rate Demand Revenue Bonds

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

- The bonds were issued to refund all of the outstanding Chino Basin Regional Financing Authority (Inland Empire Utilities Agency) Variable Rate Revenue Bond Series 2002A. The refunding resulted in a $700,406 amortization in the deferred cost balance of the Series 2002A Bonds, expensed in 2008, and the recording of $249,242 of deferred charge on refunding for the Series 2008B bonds to be amortized through the year 2032.

- The bonds maturing through 2032 are serial bonds payable in annual installments ranging from $1,910,000 to $3,480,000 with a variable interest rate no higher than 12.00% per annum. The balance outstanding at June 30, 2016 comprised the principal amount of $42,195,000.

(12) Long-term Debt and Notes Payable

Long-term Debt (continued):

2010A Refunding 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 duration of the bonds. Net present value of this economic gain was $8,022,916.

- The bonds maturing through 2022 are payable in annual installments ranging from $4,105,000 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, 2016 is comprised of the principal amount of $27,005,000, plus unamortized deferred bond premium of $1,707,563, for a total of $28,712,563.

Aggregate Long Term Debt

As of June 30, 2016, the aggregate debt service requirements on bonded indebtedness to maturity are summarized as follows:

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

Long-term Debt (continued):

Aggregate Long Term Debt (continued):

Year Ending June 30	Principal Payments	Interest Payments	Total
2017	$ 6,015,000	$ 7,838,300	$ 13,853,300
2018	6,180,000	7,652,750	13,832,750
2019	6,380,000	7,441,375	13,821,375
2020	6,800,000	7,196,950	13,996,950
2021	7,025,000	6,939,875	13,964,875
2022-2026	27,175,000	31,952,875	59,127,875
2027-2031	41,285,000	26,457,050	67,742,050
2032-2036	53,970,000	16,719,700	70,689,700
2037-2039	39,370,000	3,053,050	42,423,050
Subtotal	194,200,000	115,251,925	309,451,925
Plus: Net Premium	5,428,551		5,428,551
Total Debt Service Payable	$ 199,628,551	$ 115,251,925	$ 314,880,476

The 2008B Variable Rate Demand Revenue bond interest payments are calculated using a 1.0% interest rate.

Debt Covenants

In accordance with bond covenants, net revenues (less the operations and maintenance costs) comprised of user charges and connection fees and property tax revenues are pledged to fund bond debt service costs. San Bernardino County property tax revenues are distributed November through June annually. The Agency has covenanted that, to the fullest extent permitted by law, the Agency will fix and prescribe, at the commencement of each Fiscal Year, rates and charges with respect to the Agency System which are reasonably expected to be at least sufficient to yield during each Fiscal Year Net Revenues equal to 1.15. Management has determined that the Agency has complied with all covenants related to the outstanding debt issues as of June 30, 2016. (*Refer to the Agency System Total Debt Coverage Ratio Schedule included in the statistical section*).

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

Notes Payable

Summary of notes payable activity for the Fiscal Year ended June 30, 2016 was as follows:

Notes Payable :	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due After One Year
SARI Pipeline Cap. 1.5mgd	$ 714,196	$ -	$ 224,335	$ 489,861	$ 237,796	$ 252,065
State Revolving Fund Loan	108,453,732	4,298,077	5,300,865	107,450,944	5,263,541	102,187,403
City of Fontana	6,486,690	-	482,578	6,004,112	482,578	5,521,534
CSDLAC Past 4R's	3,446,445	-	658,332	2,788,113	673,473	2,114,640
Total Notes Payable	**$ 119,101,063**	**$ 4,298,077**	**$ 6,666,110**	**$ 116,733,030**	**$ 6,657,388**	**$ 110,075,642**

Santa Ana Watershed Project Authority

As a result of the purchase of 1.5 million gallons per day (mgd) SARI pipeline capacity from the Santa Ana Watershed Project Authority (SAWPA) in Fiscal Year 1997/98, the Agency signed a 20-year term note in the amount of $5,625,000 with an initial deposit of $281,250, and zero interest.

The balance of $5,343,750 is payable in 20 annual installments of $267,188 through July 15, 2017. The June 30, 1998 note balance was discounted at 6%, to derive a principal balance of $2,981,310. The nineteenth installment is due on July 15, 2016. This is a combined note payable recorded in the Non-reclaimable Wastewater Capital Improvement (NC) and Regional Wastewater Capital Improvement (RC) Funds.

As of June 30, 2016, the future payments for the remaining note payable obligation by year is as follows:

Year Ending June 30	Principal Payments	Imputed Interest	Total
2017	$ 237,796	$ 29,392	$ 267,188
2018	252,065	15,122	267,187
Total SAWPA Note	**$ 489,861**	**$ 44,514**	**$ 534,375**

State Water Resources Control Board

- The Regional Recycled Water Distribution System Phase I-V projects are in part funded by the State Revolving Fund (SRF) loans financed by the State Water Resources Control Board. As of June 30, 2007, the five projects in Phase I had been completed and received $15,141,192 of SRF funding. Payments on SRF loans commenced one year after the completion of construction, with principal and interest paid annually for 20 years at an annual rate of 2.5%. As of June 30, 2016, the balance is $7,692,837.

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

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

State Water Resources Control Board (continued):

- The RP-1 Pump Station and West Edison San Antonio Channel Recycled Water Pipeline A & B projects (Phase II) are also in part funded by the State Revolving Fund (SRF). The three projects were completed as of June 30, 2010 and received $14,752,201 of SRF funding. Principal and interest are paid annually for 20 years at an annual rate of 2.2%. The current balance as of June 30, 2016 is $9,769,259.

- The RP-4 Pump Station, Pipeline and Reservoir projects (Phase III) are also in part funded by the State Revolving Fund (SRF). The three projects were completed as of June 30, 2010 and received $10,862,198 of SRF funding, with a current balance as of June 30, 2016 of $7,090,392. These are interest free these loans with principal paid annually for 20 years.

- The Recycled Water projects included in Phase IV are also in part funded by the State Revolving Fund (SRF). As of June 30, 2012, the four projects were completed and received $15,061,175 of SRF funding. Principal and interest are paid annually for 20 years at an annual rate ranging from .074 % to .214%. The current balance as of June 30, 2016 is $11,340,834.

- The Recycled Water Project (Construction of 2 Monitoring Wells) in Phase V is also in part funded by the State Revolving Fund (SRF). The project was completed by June 30, 2011 and received $999,024 of SRF funding. Principal and interest are paid annually for 20 years at an annual rate of 1.0%. The current balance at June 30, 2016 is $719,591.

- The Recycled Water Project (Southern Area) in Phase VI is also in part funded by the State Revolving Fund (SRF). Principal and interest are paid annually for 20 years at an annual rate of 2.6%. As of June 30, 2016, we reflect a current balance of $25,983,387.

- The Recycled Water Project (Wineville Area) in Phase X is also partially funded by the State Revolving Fund (SRF). Principal and interest are paid annually for 30 years at an annual rate of 1.0%. As of June 30, 2016, we reflect a current balance of $20,465,734.

- The RP-1 Dewatering Facility Expansion project is also in part funded by the State Revolving Fund (SRF) and received $27,546,972 of SRF funding. This project is the first ARRA funded project in the state and is qualified as a "green project". Principal and interest are paid annually for 20 years at an annual rate of .460%. As of June 30, 2016, we reflect a current balance of $22,278,583.

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

Notes Payable (continued):

State Water Resources Control Board (continued):

- The Regional Water Quality Laboratory project is also funded in part by the State Revolving Fund (SRF). As of June 30, 2016, we reflect a current balance of $2,110,327 with 100% of the design phase being completed and construction to begin in FY2016/2017. Payments on SRF loans commence one year after the completion of construction, with principal and interest paid annually for 30 years at an annual rate of 2.1%.

As of June 30, 2016, the future payments for the remaining loan obligations by year are as follows:

Year Ending June 30	Principal Payments	Interest Payment	Total
2017	$ 5,263,541	$ 1,207,703	$ 6,471,244
2018	5,974,040	1,385,740	7,359,780
2019	6,053,526	1,306,254	7,359,780
2020	6,134,720	1,225,059	7,359,779
2021	6,217,665	1,142,114	7,359,779
2022/2026	31,339,583	4,404,263	35,743,846
2027/2031	25,499,748	2,487,182	27,986,930
2032/2036	11,816,896	1,074,781	12,891,677
2037/2041	4,022,079	420,596	4,442,675
2042/2046	4,250,428	192,248	4,442,676
2047/2051	878,718	9,816	888,534
Total SRF Loans	$ 107,450,944	$ 14,855,756	$ 122,306,700

City of Fontana

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

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

Notes Payable (continued):

City of Fontana (continued):

As of June 30, 2016, the future payments for the remaining note payable obligation by year are as follows:

Year Ending June 30	Principal Payments	Interest Amortization	Total
2017	$ 482,578	$ 79,824	$ 562,402
2018	482,578	79,824	562,402
2019	482,578	79,824	562,402
2020	482,578	79,824	562,402
2021	482,578	79,824	562,402
2022/2026	2,412,890	399,120	2,812,010
2027/2028	1,178,332	165,368	1,343,700
Total SRF Loans	$ 6,004,112	$ 963,608	$ 6,967,720

Sanitation District of Los Angeles County

On June 30, 2014, the Agency recorded the reimbursement agreement with the Sanitation District No. 21 of Los Angeles County (SDLAC) for the 4R (Relocation, Reconstruction, Repair or Replacement) Capital Charges that were allowed to be funded to SDLAC by State Revolving Fund loans under Prior Contracts. The Agency has agreed to pay SDLAC the balance in annual installments over a six year term with an interest rate of 2.3%. As of June 30, 2016, the remaining note payable obligation is $2,788,113.

Year Ending June 30	Principal Payments
2017	$ 673,473
2018	688,963
2019	704,809
2020	720,868
Total SDLAC Loans	$ 2,788,113

(13) Arbitrage Rebate Obligation

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

- The 2008A Revenue, 2008B Variable Rate Demand, and 2010A Refunding Revenue bonds are all subject to arbitrage limitations.

(13) Arbitrage Rebate Obligation (continued):

- On the 2008A and 2008B bonds, the initial arbitrage rebate will be due in June, 2018.
- The initial arbitrage rebate on the 2010A bonds would have due in July, 2015, but the calculation resulted in no arbitrage rebate due.

(14) Advance to/from Other Funds

The composition of advances to/from other funds balances as of June 30, 2016, is as follows:

Funds	Advances From Other Funds: Recycled Water Fund	Total
Advances To Other Funds:		
Major Funds:		
Regional Wastewater Capital Improvement Fund	$13,500,000	$13,500,000
Non-reclaimable Wastewater Fund	15,000,000	15,000,000
Total advances	**$28,500,000**	**$28,500,000**

Regional Wastewater Capital Improvement Fund & Recycled Water Fund

At June 30, 2016, the Regional Wastewater Capital Improvement (RC) Fund reported an advance to the Recycled Water (WC) Fund in the amount of $13,500,000. This advance supported the capital construction expenditures related to the Regional Recycled Water Distribution System as part of the Agency's Recycled Water Business Plan adopted in December 2007. Repayment is scheduled over several fiscal years from increased recycled water sales.

Non-Major Funds & Recycled Water Fund & Water Resources Fund

At June 30, 2016, the Non-Reclaimable Wastewater (NC) Fund reported an advance to the Recycled Water (WC) Fund, in the amount of $15,000,000. This advance supported the 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.

On June 15, 2016, the Board of Directors approved the forgiveness of the advance from the Administrative Services (GG) Fund to the Water Resources (WW) Fund, in the amount of $4,308,104.

Interest on the advances is applied using the average monthly LAIF rate for the Fiscal Year.

(15) Interfund Transfers

The Regional Wastewater Operations & Maintenance (RO) Fund received capital support from the Regional Wastewater Capital Improvement Fund (RC) Fund and the Recycled Water (WC) Fund in the amount of $3,555,238 and $3,429,650, respectively.

The WC Fund received $1,389,654 from the RC Fund for debt service support and the Water Fund (WW) Fund received $294,955 from the WC Fund for capital support.

Non-Major enterprise funds received transfers in the amount of $3,265,554. These transfers included $917,793 in capital support from various funds to the Administrative Services (GG) Fund and $122,775 to the Non-reclaimable Wastewater (NRW) Fund. The remaining amount consisted of $382,000 in debt service support, $466,000 in operating support, and $1,376,986 in capital support to the Recharge Water (RW) Fund.

The following table reflects the interfund transfer balances in and out by fund as of June 30, 2016.

	Transfers In:				
Transfers Out:	Regional Wastewater (RO)	Recycled Water (WC)	Water Resources (WW)	Non-Major Enterprise Funds	Total
Regional Capital Improvement (RC) Fund	$ 3,555,238	$ 1,389,654		$ 1,390,498	$ 6,335,390
Recycled Water (WC) Fund	3,429,650		294,955	1,861,984	5,586,589
Non-Major Enterprise Funds	-			13,072	13,072
Total Transfers	$ 6,984,888	$ 1,389,654	$ 294,955	$ 3,265,554	$ 11,935,051

(16) Operating Leases

The Agency has two operating leases at June 30, 2016:

- One postage meter lease extending to June 30, 2019.
- One lease for fourteen copiers extending to June 30, 2019.
  Total operating lease costs were $39,113 for the year ended June 30, 2016. The future minimum lease payments for equipment leases are as follows:

Year Ended June 30	Amount
2017	40,287
2018	41,495
2019	42,740
2020	44,023
2021	45,343
	213,888

(17) Water Inventory

In February 17, 1016, the Board approved the Water Storage Agreement between the Agency and the Cucamonga Valley Water District (CVWD), effective March 1, 2016, for the purchase of up to 5,000 acre-feet (AF) of supplemental water. This agreement would enable the Agency to purchase and store water in the Chino Basin. As of June 30, 2016, 2,273 AF are held in storage by CVWD on behalf of the Agency until such time that the Agency elects to sell or transfer the stored water.

(18) Restatement of Net Position and Related Accounts

Regional Wastewater Fund

Net Position as of July 1, 2015 has been restated to reflect prior years' recording of financial impact.

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

Regional Wastewater Capital Improvement Fund		
Net position at July 1, 2015 as previously reported	$	292,200,296
Cost for prior year recorded as capital assets		(443,022)
Net position at July 1, 2015 as restated	$	291,757,274
Regional Wastewater Operation & Maintenance Fund		
Net position at July 1, 2015 as previously reported	$	45,053,310
Cost for prior year recorded as capital assets		(664,522)
Net position at July 1, 2015 as restated	$	44,388,788
Combined net position at July 1, 2015 as restated	$	336,146,062

Recycled Water Fund

Net Position as of July 1, 2015 has been restated to reflect prior years' recording of financial impact.

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

Net position at July 1, 2015 as previously reported	$	67,296,922
Cost for prior year recorded as capital assets		(99,622)
Net position at July 1, 2015 as restated	$	67,197,300

(18) Restatement of Net Position and Related Accounts (continued):

Water Resources Fund

Net Position as of July 1, 2015 has been restated to reflect prior years' recording of financial impact.

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

Net position at July 1, 2015 as previously reported	$	1,101,913
Cost for prior year recorded as capital assets		(211,275)
Net position at July 1, 2015 as restated	$	890,638

(19) Subsequent Events

In preparing these financial statements, the Agency has evaluated events and transactions for potential recognition or disclosure through December 1, 2016, the date the financial statements were available to be issued, and found no subsequent events that would affect the 2016 financial statements.

SUPPLEMENTARY SCHEDULES

Non-Major Enterprise Fund Statements.

Non-reclaimable Wastewater Fund

The Non-reclaimable Wastewater System (NRWS) 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, wastewater conveyance/transport, and wastewater treatment.

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 Chino Basin Watermaster (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, utilities, equipment, and tools), contracted services (e.g. weeding and vector control), as well as 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; the Agency's share is supported by fund transfer from the Recycled Water (WC) fund, grant proceeds, and interest earnings on the programs reserve balance.

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.

INLAND EMPIRE UTILITIES AGENCY

Combining Statement of Net Position

June 30, 2016

(With Comparative Totals for June 30, 2015)

	Non-Major Enterprise Funds	
	Non-reclaimable Wastewater	Recharge Water
ASSETS		
Current assets		
Cash and investments	$ 3,637,467	$ 1,904,048
Accounts receivable	1,776,340	712,203
Interest receivable	551,120	2,626
Taxes receivable	1	-
Other receivables	-	-
Inventory	-	-
Prepaid items	-	-
Net OPEB	-	-
Total current assets	5,964,928	2,618,877
Restricted assets		
Assets held with trustee/fiscal agent	-	859,269
Total restricted assets	-	859,269
Noncurrent assets		
Capital assets		
Land	-	-
Jobs in progress	3,662	827,900
Capital assets, net of accumulated depreciation	15,032,736	43,222,482
Intangible assets, net of accumulated amortization	2,022,688	13,061
Total capital assets	17,059,086	44,063,443
Other assets		
Advances to other funds	15,000,000	-
Prepaid bond insurance	32,732	-
Total other assets	15,032,732	-
Total noncurrent assets	32,091,818	44,063,443
Total assets	38,056,746	47,541,589
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflow related to net pension liability	521,726	188,859
Total deferred outflows of resources	521,726	188,859

Administrative Services	Totals 2016	Totals 2015
$ 24,361,819	$ 29,903,334	$ 28,880,156
5,879,406	8,367,949	13,680,761
30,395	584,141	512,858
32,614	32,615	28,115
62,238	62,238	43,663
1,558,521	1,558,521	1,660,129
103,916	103,916	121,317
247,159	247,159	-
32,276,068	40,859,873	44,926,999
-	859,269	931,626
-	859,269	931,626
20,829	20,829	20,829
695,527	1,527,089	2,650,428
11,462,972	69,718,190	69,514,190
3,100,273	5,136,022	6,036,495
15,279,601	76,402,130	78,221,942
-	15,000,000	19,308,104
-	32,732	34,156
-	15,032,732	19,342,260
15,279,601	91,434,862	97,564,202
47,555,669	133,154,004	143,422,827
645,415	1,356,000	1,087,999
645,415	1,356,000	1,087,999

(continued)

INLAND EMPIRE UTILITIES AGENCY

Combining Statement of Net Position (Continued from previous page)

June 30, 2016
(With Comparative Totals for June 30, 2015)

	Non-Major Enterprise Funds	
LIABILITIES	Non-reclaimable Wastewater	Recharge Water
Current liabilities		
Accounts payable	$ 769,084	$ 357,586
Accrued liabilities	121	-
Compensated absences	-	-
Notes payable, due within one year	832,004	-
Long-term debt, due within one year	-	647,458
Interest payable	123,606	4,662
Retentions deposits and escrows	-	-
Total current liabilities	1,724,815	1,009,706
Noncurrent liabilities		
Compensated absences	-	-
Long-term debt, due in more than one year	7,349,970	13,656,850
Notes payable, due in more than one year	2,301,578	-
Net pension liability	2,100,091	713,875
Net OPEB liability	-	-
Total noncurrent liabilities	11,751,639	14,370,725
Total liabilities	13,476,454	15,380,431
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow related to net pension liability	211,782	63,705
Total deferred inflows of resources	211,782	63,705
NET POSITION		
Net investment in capital assets	6,575,535	30,618,403
Restricted for:		
Bond operating contingency requirement	2,600,312	-
Total restricted	2,600,312	-
Unrestricted	15,714,389	1,667,909
Total net position	$24,890,236	$ 32,286,312

Administrative Services	Totals 2016	Totals 2015
$ 8,859,020	$ 9,985,690	$ 14,465,888
2,012,495	2,012,616	3,096,707
1,939,639	1,939,639	1,606,386
-	832,004	807,888
-	647,458	632,203
-	128,268	139,171
-	-	72,324
12,811,154	15,545,675	20,820,567
2,978,684	2,978,684	2,732,734
-	21,006,820	21,663,583
-	2,301,578	3,133,583
2,153,740	4,967,706	4,780,307
-	-	1,291,524
5,132,424	31,254,788	33,601,731
17,943,578	46,800,463	54,422,298
137,758	413,245	1,032,573
137,758	413,245	1,032,573
15,279,601	52,473,539	52,843,986
405,861	3,006,173	3,425,731
405,861	3,006,173	3,425,731
14,434,286	31,816,584	32,786,238
$ 30,119,748	$ 87,296,296	$ 89,055,955

INLAND EMPIRE UTILITIES AGENCY

Combining Statement of Revenues, Expenses, and

Changes in Net Position

For the Fiscal Year Ended June 30, 2016

(With Comparative Totals for June 30, 2015)

	Non-Major Enterprise Funds	
	Non-reclaimable Wastewater	Recharge Water
OPERATING REVENUES		
Service charges	$ 11,854,847	$ -
Total operating revenues	11,854,847	-
OPERATING EXPENSES		
Wastewater collection	6,132,817	-
Administration and general	1,668,118	1,301,432
Depreciation and amortization	949,511	1,371,776
Total operating expenses	8,750,446	2,673,208
Operating income (loss)	3,104,401	(2,673,208)
NONOPERATING REVENUES (EXPENSES)		
Interest income	65,316	13,504
Property tax revenue	3	-
Other nonoperating revenues	34,489	1,600,316
Interest on long-term debt	(449,919)	(17,434)
Other nonoperating expenses	7,666	(1,030,292)
Total nonoperating revenues (expenses)	(342,445)	566,094
Income (loss) before capital contributions and transfers	2,761,956	(2,107,114)
TRANSFERS AND CAPITAL CONTRIBUTIONS		
Transfers in	122,775	2,224,986
Transfers out	(13,072)	-
Capital grants	-	-
Change in net position	2,871,659	117,872
Total net position - beginning		
Prior period adjustment (note 17)		
Total net position - beginning as restated	$22,018,577	32,168,440
Total net position - ending	$ 24,890,236	$ 32,286,312

Administrative Services	Totals 2016	Totals 2015
$ -	$ 11,854,847	$ 11,242,300
-	11,854,847	11,242,300
-	6,132,817	7,283,522
2,005,258	4,974,808	4,183,815
1,966,278	4,287,565	3,961,923
3,971,536	15,395,190	15,429,260
(3,971,536)	(3,540,343)	(4,186,960)
117,853	196,673	135,653
1,942,969	1,942,972	1,828,099
2,062,846	3,697,651	2,631,612
-	(467,353)	(480,211)
(5,819,115)	(6,841,741)	(1,472,681)
(1,695,447)	(1,471,798)	2,642,472
(5,666,983)	(5,012,141)	(1,544,488)
917,793	3,265,554	2,185,745
-	(13,072)	(37,330)
-	-	69,922
(4,749,190)	(1,759,659)	673,849
		88,382,106
		-
34,868,938	89,055,955	88,382,106
$ 30,119,748	$ 87,296,296	$ 89,055,955

INLAND EMPIRE UTILITIES AGENCY
Combining Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016
(With Comparative Totals for June 30, 2015)

	Non-Major Enterprise Funds	
	Non-Reclaimable Wastewater	Recharge Water
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 11,982,698	$ -
Cash received from interfund services provided	-	-
Cash payments to suppliers for goods and services	(7,665,622)	(666,235)
Cash payments to employees for services	(908,150)	(369,268)
Cash payments for interfund services used	(1,103,495)	(185,588)
Net cash provided by (used for) operating activities	2,305,431	(1,221,091)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in	122,775	2,224,986
Transfers out	(13,072)	-
Contract reimbursment from others	34,490	1,083,285
Tax revenues	2	-
Cash paid to others	-	(911,929)
Advances to other funds	-	-
Net cash provided by (used for) noncapital financing activities	144,195	2,396,342
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(491,836)	(1,060,002)
Capital grants	-	-
Principal paid on capital debt	(807,889)	(632,203)
Interest paid on capital debt	(457,045)	(131,910)
Bond administration fees	(7,882)	-
Contractor deposits collected	(72,324)	-
Net cash provided by (used for) capital and related financing activities	(1,836,976)	(1,824,115)

Administrative Services	Totals 2016	Totals 2015
$ 5,683,417	$ 17,666,115	$ 7,754,662
26,372,772	26,372,772	25,642,003
(10,098,577)	(18,430,434)	(8,463,944)
(23,588,153)	(24,865,571)	(25,924,205)
-	(1,289,083)	(1,780,495)
(1,630,541)	(546,201)	(2,771,979)
917,793	3,265,554	2,185,745
-	(13,072)	(37,330)
1,469,983	2,587,758	2,449,132
1,938,470	1,938,472	1,838,764
(1,506,637)	(2,418,566)	(1,397,811)
-	-	(4,308,104)
2,819,609	5,360,146	730,396
(905,044)	(2,456,882)	(3,369,977)
-	-	69,922
-	(1,440,092)	(1,391,403)
(4,372)	(593,327)	(570,153)
-	(7,882)	(7,882)
-	(72,324)	(393)
(909,416)	(4,570,507)	(5,269,886)

(Continued)

INLAND EMPIRE UTILITIES AGENCY
Combining Statement of Cash Flows - (Continued from previous page)
For the Fiscal Year Ended June 30, 2016
(With Comparative Totals for June 30, 2015)

	Non-Major Enterprise Funds	
	Non-Reclaimable Wastewater	Recharge Water
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	$ 11,383	$ 12,797
Sale of investments	-	-
Net cash provided by (used for) investing activities	11,383	12,797
Net increase (decrease) in cash and cash equivalents	624,033	(636,067)
Cash and cash equivalents - beginning	3,013,434	3,399,384
Cash and cash equivalents - ending	$ 3,637,467	$ 2,763,317
RECONCILIATION OF OPERATING INCOME (LOSS)TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income (loss)	$ 3,104,401	$ (2,673,208)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation and amortization	949,512	1,371,775
Changes in assets and liabilities		
(Increase) decrease in		
Accounts receivable	127,851	-
Other receivables	-	-
Short term receivables	-	-
Inventory	-	-
Prepaid items	-	-
Increase (decrease) in		
Deferred outflow related to net pension liability	(47,496)	(6,331)
Accounts payable	(1,600,495)	177,971
Accrued liabilities	(6,537)	(145)
Other noncurrent liabilities	-	-
Deferred inflow related to net pension liability	(238,289)	(110,774)
Net pension liability	16,484	19,621
Compensated absences	-	-
Net cash provided by (used for) operating activities	$ 2,305,431	$ (1,221,091)

Administrative Services	Totals 2016	Totals 2015
$ 101,213	$ 125,393	$ 132,858
581,991	581,991	(61,472)
683,204	707,384	71,386
962,856	950,822	(7,240,083)
23,398,964	29,811,782	37,051,865
$ 24,361,820	$ 30,762,604	$ 29,811,782
$ (3,971,536)	$ (3,540,343)	$ (4,186,960)
1,966,278	4,287,565	3,961,923
5,701,992	5,829,843	(3,507,813)
-	-	28,503
(18,575)	(18,575)	(8,328)
101,608	101,608	(43,841)
17,401	17,401	(9,172)
(189,658)	(243,485)	(601,789)
(3,057,674)	(4,480,198)	4,687,069
(1,077,409)	(1,084,091)	(200,619)
(1,538,683)	(1,538,683)	(3,063,798)
(294,782)	(643,845)	1,032,573
151,294	187,399	(1,154,703)
579,203	579,203	294,976
$ (1,630,541)	$ (546,201)	$ (2,771,979)

(Continued)

INLAND EMPIRE UTILITIES AGENCY
Combining Statement of Cash Flows - (Continued from previous page)
For the Fiscal Year Ended June 30, 2016
(With Comparative Totals for June 30, 2015)

	Non-Major Enterprise Funds			
	Non-Reclaimable Wastewater		Recharge Water	
RECONCILIATION OF CASH & CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION:				
Cash and short-term investments	$	3,637,467	$	1,904,048
Restricted assets		-		859,269
Cash & cash equivalents at end of year	$	3,637,467	$	2,763,317

Administrative Services	Totals 2016	Totals 2015
$ 24,361,819	$ 29,903,334	$ 28,880,156
-	859,269	931,626
$ 24,361,819	$ 30,762,603	$ 29,811,782

INLAND EMPIRE UTILITIES AGENCY
REGIONAL WASTEWATER FUND

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

Regional Wastewater Capital Improvement Fund

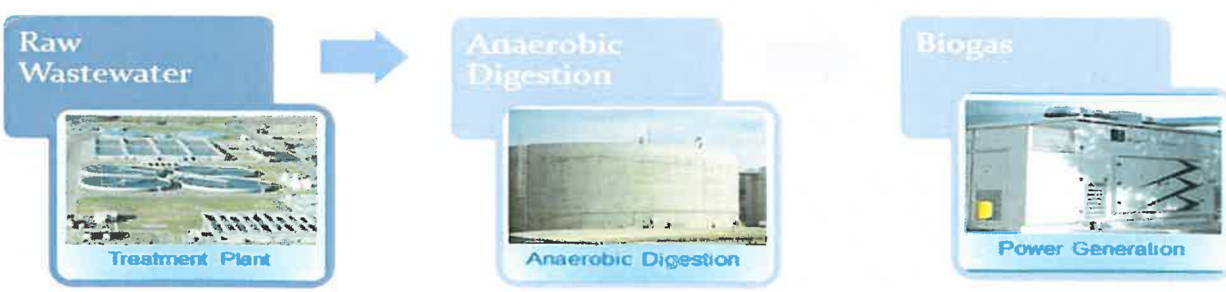
The Regional Wastewater Capital Improvement (RC) Fund records the activities associated with the acquisition, construction, replacement, and expansion of the Agency's wastewater treatment facilities, energy cogeneration facilities, solids handling facilities, large sewer interceptors, and appurtenant facilities. In addition, the fund also records, principal payments, interest expenses, and related administrative costs associated with the administration of the Regional Capital program.

The RC Fund revenues include property tax receipts, fees levied for new connections to the regional wastewater system which are referred to as connection fees, and interest income earned. Additionally, the fund may record state loans and grants received for various capital projects within the fund.

Regional Wastewater Operations and Maintenance Fund

The Regional Wastewater Operations and Maintenance (RO) Fund accounts for the revenue and operating costs directly related to the Agency's domestic sewage treatment service provided to the contracting member agencies (wastewater collection and treatment) and organics management activities, including employment costs to operate and support the Inland Empire Regional Composting Facility.

The fund's major source of revenue is the service charge applied to the regional municipal wastewater flows billed on an Equivalent Dwelling Units (EDU's) volumetric basis. Other revenue sources include property tax receipts and reimbursement from the Inland Empire Regional Composting Authority for providing operations and maintenance services at the facility.



INLAND EMPIRE UTILITIES AGENCY
Regional Wastewater Fund
Combining Schedule of Net Position by Subfund
June 30, 2016
(With Comparative Totals for June 30, 2015)

	Regional Capital Improvement	Regional Operations & Maintenance	Totals 2016	Totals 2015
ASSETS				
Current assets				
Cash and investments	$ 17,935,399	$ 51,907,278	$ 69,842,677	$ 50,543,386
Accounts receivable	362,602	10,224,260	10,586,862	9,924,678
Interest receivable	198,325	72,442	270,767	169,539
Taxes receivable	259,222	89,581	348,803	300,611
Other receivables	254,040	-	254,040	69,655
Prepaid items	1,200	-	1,200	1,200
Total current assets	19,010,788	62,293,561	81,304,349	61,009,069
Restricted assets				
Deposits held by governmental agencies	55,201,435	-	55,201,435	41,023,148
Assets held with trustee/fiscal agents	1,685,460	-	1,685,460	1,780,556
Total restricted assets	56,886,895	-	56,886,895	42,803,704
Noncurrent assets				
Capital assets				
Land	14,047,045	-	14,047,045	14,047,045
Jobs in progress	6,028,641	7,146,953	13,175,594	12,869,489
Capital assets, net of accumulated depreciation	316,208,855	25,112,366	341,321,221	352,329,573
Intangible assets, net of accumulated amortization	5,241,022	171,645	5,412,667	5,432,679
Total capital assets	341,525,563	32,430,964	373,956,527	384,678,786
Other assets				
Long-term investments	45,167,514	-	45,167,514	45,577,499
Advances to other funds	13,500,000	-	13,500,000	13,500,000
Long-term receivables	3,947,279	-	3,947,279	2,634,337
Prepaid bond insurance	386,540	19,662	406,202	423,863
Prepaid Interest -SRF loans	963,608	-	963,608	1,043,432
Total other assets	63,964,941	19,662	63,984,603	63,179,131
Total noncurrent assets	405,490,504	32,450,626	437,941,130	447,857,917
Total assets	481,388,187	94,744,187	576,132,374	551,670,690
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on refunding	946,974	-	946,974	1,102,641
Deferred outflow related to net pension liability	929,160	6,987,016	7,916,176	6,209,683
Total deferred outflows of resources	1,876,134	6,987,016	8,863,150	7,312,324

(Continued) (Continued)

	Regional Capital Improvement	Regional Operations & Maintenance	Totals 2016	Totals 2015
LIABILITIES				
Current liabilities				
Accounts payable	$ 1,498,048	$ 2,271,421	$ 3,769,469	$ 3,575,639
Accrued liabilities	21,385	9,698	31,083	41,685
Retentions payable	50,389	50,508	100,897	149,878
Notes payable, due within one year	1,906,841	-	1,906,841	1,896,195
Long-term debt, due within one year	5,367,542	-	5,367,542	5,177,797
Interest payable	1,273,794	49,649	1,323,443	1,369,844
Retention deposits and escrows	-	-	-	95,146
Total current liabilities	10,117,999	2,381,276	12,499,275	12,306,184
Noncurrent liabilities				
Long-term debt, due in more than one year	138,032,275	4,415,127	142,447,402	148,266,334
Notes payable, due in more than one year	26,520,246	2,110,327	28,630,573	29,087,817
Net pension liability	4,284,011	24,235,215	28,519,226	27,283,277
Total noncurrent liabilities	168,836,532	30,760,669	199,597,201	204,637,428
Total liabilities	178,954,531	33,141,945	212,096,476	216,943,612
DEFERRED INFLOWS OF RESOURCES				
Deferred inflow related to net pension liability	529,270	1,748,502	2,277,772	5,893,340
Total deferred inflows of resources	529,270	1,748,502	2,277,772	5,893,340
NET POSITION				
Net Investment in capital assets	171,250,820	25,905,509	197,156,329	201,122,239
Restricted for:				
Capital construction	55,201,435	-	55,201,435	41,023,148
SRF Loan debt service	1,447,479	-	1,447,479	1,447,479
Bond operating contingency requirement	1,852,838	14,291,178	16,144,016	16,022,083
Total restricted	58,501,752	14,291,178	72,792,930	58,492,710
Unrestricted	74,027,948	26,644,069	100,672,017	76,531,113
Total net position	$ 303,780,520	$ 66,840,756	$ 370,621,276	$ 336,146,062

INLAND EMPIRE UTILITIES AGENCY
Regional Wastewater Fund
Combining Schedule of Revenues, Expenses and Changes in Net Position by Subfund
For the Fiscal Year Ended June 30, 2016
(With Comparative Totals for June 30, 2015)

	Regional Capital Improvement	Regional Operations & Maintenance	Totals 2016	Totals 2015
OPERATING REVENUES				
Service charges	$ -	$ 50,073,868	$ 50,073,868	$ 47,022,954
Total operating revenues	-	50,073,868	50,073,868	47,022,954
OPERATING EXPENSES				
Wastewater collection	-	1,377,333	1,377,333	805,353
Wastewater treatment	-	21,104,320	21,104,320	19,001,130
Wastewater disposal	-	11,148,524	11,148,524	7,996,871
Administration and general	5,558,514	9,243,356	14,801,870	20,262,896
Depreciation and amortization	22,114,601	1,957,091	24,071,692	23,154,752
Total operating expenses	27,673,115	44,830,624	72,503,739	71,221,002
Operating income (loss)	(27,673,115)	5,243,244	(22,429,871)	(24,198,048)
NONOPERATING REVENUES (EXPENSES)				
Interest income	134,575	284,209	418,784	288,683
Property tax revenue	27,658,602	9,572,846	37,231,448	35,554,077
Wastewater capital connection fees	24,910,235	-	24,910,235	15,073,882
Other nonoperating revenues	10,177	4,338,536	4,348,713	4,262,635
Interest on long-term debt	(5,882,095)	(167,195)	(6,049,290)	(6,368,586)
Other nonoperating expenses	(799,743)	(5,571,478)	(6,371,221)	(4,523,072)
Total nonoperating revenues (expenses)	46,031,751	8,456,918	54,488,669	44,287,619
Income (loss) before capital contributions and transfers	18,358,636	13,700,162	32,058,798	20,089,571
TRANSFERS AND CAPITAL CONTRIBUTIONS				
Transfers in	-	6,984,888	6,984,888	1,273,557
Transfers out	(6,335,390)	-	(6,335,390)	(1,373,285)
Capital grants	-	1,766,918	1,766,918	381,525
Change in net position	12,023,246	22,451,968	34,475,214	20,371,368
Total net position - beginning				316,882,238
Prior period adjustment (note 17)				(1,107,544)
Total net position - beginning, as restated	291,757,274	44,388,788	336,146,062	315,774,694
Total net position - ending	$ 303,780,520	$ 66,840,756	$ 370,621,276	$ 336,146,062

INLAND EMPIRE UTILITIES AGENCY
RECYCLED WATER FUND

Recycled Water Fund

The Recycled Water (WC) Fund records the revenues and expenses associated with the operations and maintenance of facilities that support the distribution of recycled water supplied from the Agency's water recycling plants. The Recycled Water fund also records revenues and costs related to capital construction and a portion of operating and maintenance costs for regional recharge basins recharged with recycled water.

The WC fund generates operating revenue from the sale of recycled water to member agencies and industries, non-operational revenues recorded in the fund include property tax receipts, fees levied for new connections to the regional potable and recycled water systems and interest income earned. Additionally, the fund records state loans and grants received for various capital projects within the fund.

INLAND EMPIRE UTILITIES AGENCY
Recycled Water Fund
Schedule of Net Position
June 30, 2016
(With Comparative Totals for June 30, 2015)

		Totals		
		2016		2015
ASSETS				
Current assets				
Cash and investments	$	11,372,754	$	890,023
Accounts receivable		9,699,821		21,761,530
Interest receivable		15,560		1,148
Taxes receivable		20,224		17,433
Other receivable		85,735		110,023
Prepaid items		3,500		3,500
Total current assets		21,197,594		22,783,657
Restricted assets				
Assets held with trustee/fiscal agents		-		1,254,993
Total restricted assets		-		1,254,993
Noncurrent assets				
Capital assets				
Jobs in progress		2,929,514		28,272,780
Capital assets, net of accumulated depreciation		185,244,010		163,199,526
Intangible assets, net of accumulated amortization		651,509		745,436
Total capital assets		188,825,033		192,217,742
Other assets				
Long term receivables		1,094,508		1,180,243
Prepaid bond insurance		134,312		140,151
Prepaid interest - SRF loans		1,154,162		1,244,678
Total other assets		2,382,982		2,565,072
Total noncurrent assets		191,208,015		194,782,814
Total assets		212,405,609		218,821,464
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflow related to net pension liability		954,415		775,759
Total deferred outflows of resources		954,415		775,759

(Continued)

	Totals 2016	Totals 2015
LIABILITIES		
Current liabilities		
Accounts payable	$ 451,148	$ 3,014,354
Accrued liabilities	22,628	72,895
Retentions payable	188,524	787,258
Notes payable, due within one year	3,918,543	3,962,026
Interest payable	1,420,795	1,240,475
Total current liabilities	6,001,638	9,077,008
Noncurrent liabilities		
Advances from other funds	28,500,000	28,500,000
Long-term debt, due in more than one year	30,159,329	30,197,511
Notes payable, due in more than one year	79,143,491	80,213,554
Other noncurrent liabilities	355,771	267,184
Net pension liability	3,530,352	3,408,427
Total noncurrent liabilities	141,688,943	142,586,676
Total liabilities	147,690,581	151,663,684
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow related to net pension liability	300,328	736,239
Total deferred Inflows of resources	300,328	736,239
NET POSITION		
Net Investment in capital assets	75,603,669	77,844,651
Restricted for:		
SRF Loan debt service	6,265,167	5,162,397
Total restricted	6,265,167	5,162,397
Unrestricted	(16,499,721)	(15,809,748)
Total net position	$ 65,369,115	$ 67,197,300

INLAND EMPIRE UTILITIES AGENCY
Recycled Water Fund
Schedule of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2016
(With Comparative Totals for June 30, 2015)

	Totals 2016	Totals 2015
OPERATING REVENUES		
Recycled water sales	$ 13,468,182	$ 12,047,164
Total operating revenue	13,468,182	12,047,164
OPERATING EXPENSES		
Operations and Maintenance	4,788,211	3,262,561
Administration and general	3,211,019	4,115,498
Depreciation and amortization	8,491,268	6,990,988
Total operating expenses	16,490,498	14,369,047
Operating income (loss)	(3,022,316)	(2,321,883)
NONOPERATING REVENUES (EXPENSES)		
Interest income	106,314	132
Property tax revenue	2,161,509	2,063,827
Water capital connection fees	997,010	-
Other nonoperating revenues	688,741	511,095
Other nonoperating expenses	(307,460)	(188,763)
Interest on long-term debt	(2,625,576)	(2,744,069)
Total nonoperating revenues (expenses)	1,020,538	(357,778)
Income (loss) before capital contributions and transfers	(2,001,778)	(2,679,661)
TRANSFERS AND CAPITAL CONTRIBUTIONS		
Transfers in	1,389,654	-
Transfers out	(5,586,589)	(2,048,687)
Capital grants	4,370,528	4,901,476
Change in net position	(1,828,185)	173,128
Total net position - beginning		67,123,794
Prior period adjustment (note 17)		(99,622)
Total net position - beginning, as restated	67,197,300	67,024,172
Total net position - ending	$ 65,369,115	$ 67,197,300

INLAND EMPIRE UTILITIES AGENCY
WATER RESOURCES FUND

Water Resources Fund

The Water Resources (WW) Fund records the fiscal activities associated with providing water resources and water use efficiency programs throughout 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. Revenues for the WW fund includes a property tax allocation of $1.5 million or 3.4% and a one-time Board approved $2.8 million of the Agency's total property tax receipts and $0.3 million of inter-fund water connection fee transfer from the Recycled Water (WC) Fund. 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 Position
June 30, 2016
(With Comparative Totals for June 30, 2015)

	Totals 2016	Totals 2015
ASSETS		
Current assets		
Cash and investments	$ 6,842,536	$ 5,998,121
Accounts receivable	5,356,382	5,414,083
Interest receivable	3,575	4,238
Water inventory	1,350,043	-
Total current assets	13,552,536	11,416,442
Noncurrent assets		
Capital assets		
Capital assets, net of accumulated depreciation	19,382	19,928
Intangible assets, net of accumulated amortization	20,008	24,829
Total capital assets	39,390	44,757
Total noncurrent assets	39,390	44,757
Total assets	13,591,926	11,461,199
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflow related to net pension liability	451,493	281,261
Total deferred outflows of resources	451,493	281,261
LIABILITIES		
Current liabilities		
Accounts payable	4,593,888	4,500,290
Accrued liabilities	691,674	513,208
Retentions payable	10,296	27,520
Current liabilities	5,295,858	5,041,018
Noncurrent liabilities		
Advances from other funds	-	4,308,104
Net pension liability	1,379,162	1,235,767
Total noncurrent liabilites	1,379,162	5,543,871
Total liabilities	6,675,020	10,584,889
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow related to net pension liability	60,722	266,933
Total deferred inflows of resources	60,722	266,933
NET POSITION		
Net Investment in capital assets	39,390	44,757
Unrestricted	7,268,287	845,881
Total net position	$ 7,307,677	$ 890,638

INLAND EMPIRE UTILTIES AGENCY
Water Resources Fund
Schedule of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2016
(With Comparative Totals for June 30, 2015)

	Totals 2016	Totals 2015
OPERATING REVENUES		
Sales	$ 18,653,793	$ 34,146,923
Service charges	5,314,419	5,690,362
Total operating revenues	23,968,212	39,837,285
OPERATING EXPENSES		
Water Purchases	18,653,793	34,146,923
Operations and maintenance	1,411,548	1,130,704
Administration and general	5,878,361	4,863,772
Depreciation and amortization	5,367	5,367
Total operating expenses	25,949,069	40,146,766
Operating income (loss)	(1,980,857)	(309,481)
NONOPERATING REVENUES (EXPENSES)		
Interest income	40,107	11,732
Property tax revenue	4,295,184	1,500,000
Other nonoperating revenues	4,335,340	137,947
Other nonoperating expenses	(1,960,692)	(995,857)
Total nonoperating revenues (expenses)	6,709,939	653,822
Income (loss) before capital contributions and transfers	4,729,082	344,341
TRANSFERS AND CAPITAL CONTRIBUTIONS		
Transfers in	294,955	-
Capital grants	1,393,002	564,641
Change in net position	6,417,039	908,982
Total net position - beginning		192,931
Prior period adjustment (note 17)		(211,275)
Total net position - beginning, as restated	890,638	(18,344)
Total net position - ending	$ 7,307,677	$ 890,638

INLAND EMPIRE UTILITIES AGENCY
NON-RECLAIMABLE WASTEWATER FUND

Non-reclaimable Wastewater Fund

The Non-reclaimable Wastewater System (NRW) Fund records the transactions for 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, wastewater conveyance/transport, and wastewater treatment.

A pass-through rate structure was implemented to allow the Agency to recover operating and capital fees billed by Sanitation District of Los Angeles (SDLAC) and Santa Ana Watershed Project Authority (SAWPA) for the north and south systems, respectively. These charges are comprised of volumetric, peaking factor, and strength fees for the North System; capacity, volumetric, and strength fees for the South System. Different rates apply to the North and South Systems.

In addition to the pass-through rates which fully recover operating and capital costs from SDLAC and SAWPA, the Agency collects a capacity charge from the NRW industries in the north system. Additionally, the Agency collects a 50% operating surcharge on the volumetric, capacity and strength charges for non-recycled water users is collected from NRW industries in the south system to recover operating costs not supported by the pass-through rates.

INLAND EMPIRE UTILITIES AGENCY
Non-reclaimable Wastewater Fund
Schedule of Net Position
June 30, 2016
(With Comparative Totals for June 30, 2015)

		2016		2015
ASSETS				
Current assets				
Cash and investments	$	3,637,467	$	2,941,110
Short-term investments				
Accounts receivable		1,776,340		1,904,191
Interest receivable		551,120		497,187
Taxes receivable		1		-
Total current assets		5,964,928		5,342,488
Restricted assets				
Assets held with trustee/fiscal agent		-		72,324
Total restricted assets		-		72,324
Noncurrent assets				
Capital assets				
Jobs in progress		3,662		2,320,840
Capital assets, net of accumulated depreciation		15,032,736		13,008,162
Intangible assets, net of accumulated amortization		2,022,688		2,187,760
Total capital assets		17,059,086		17,516,762
Other assets				
Advances to other funds		15,000,000		15,000,000
Prepaid bond insurance		32,732		34,156
Total other assets		15,032,732		15,034,156
Total noncurrent assets		32,091,818		32,550,918
Total assets		38,056,746		37,965,730
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflow related to net pension liability		521,726		474,230
Total deferred outflows of resources		521,726		474,230

(Continued)

	2016	2015
LIABILITIES		
Current liabilities		
Accounts payable	$ 769,084	$ 2,369,579
Accrued liabilities	121	6,658
Notes payable, due within one year	832,004	807,888
Interest payable	123,606	138,398
Retention deposits and escrows	-	72,324
Total current liabilities	1,724,815	3,394,847
Noncurrent liabilities		
Long-term debt, due in more than one year	7,349,970	7,359,275
Notes payable, due in more than one year	2,301,578	3,133,583
Net pension liability	2,100,091	2,083,607
Total noncurrent liabilities	11,751,639	12,576,465
Total liabilities	13,476,454	15,971,312
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow related to net pension liability	211,782	450,071
Total deferred inflows of resources	211,782	450,071
NET POSITION		
Net Investment in capital assets	6,575,535	6,216,016
Restricted for:		
Bond operating contingency requirement	2,600,312	3,092,159
Total restricted	2,600,312	3,092,159
Unrestricted	15,714,389	12,710,402
Total net position	$ 24,890,236	$ 22,018,577

INLAND EMPIRE UTILITIES AGENCY
Non-reclaimable Wastewater Fund
Schedule of Revenues, Expenses and
Changes in Net Position
For the Fiscal Year Ended June 30, 2016
(With Comparative Totals for June 30, 2015)

	2016	2015
OPERATING REVENUES		
Service charges	$ 11,854,847	$ 11,242,300
Total operating revenues	11,854,847	11,242,300
OPERATING EXPENSES		
Wastewater collection	6,132,817	7,283,522
Administration and general	1,668,118	1,992,955
Depreciation and amortization	949,511	815,865
Total operating expenses	8,750,446	10,092,342
Operating income (loss)	3,104,401	1,149,958
NONOPERATING REVENUES (EXPENSES)		
Interest income	65,316	35,461
Property tax revenue	3	4
Other nonoperating revenues	34,489	15,135
Interest on long-term debt	(449,919)	(472,828)
Other nonoperating expenses	7,666	7,669
Total nonoperating revenues (expenses)	(342,445)	(414,559)
Income (loss) before transfers	2,761,956	735,399
TRANSFERS		
Transfers in	122,775	-
Transfers out	(13,072)	(37,330)
Change in net position	2,871,659	698,069
Total net position - beginning	22,018,577	21,320,508
Prior period adjustment (note 17)		-
Total net position - beginning, as restated	22,018,577	21,320,508
Total net position - ending	$ 24,890,236	$ 22,018,577

INLAND EMPIRE UTILITIES AGENCY
RECHARGE WATER FUND

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 Chino Basin Watermaster (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, utilities, equipment, and tools), contracted services (e.g. weeding and vector control), as well as 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 for operating, debt service and capital project costs, interfund transfers from the Recycled Water (WC) fund for the Agency's share of costs, grant proceeds, and interest 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 service costs are equally shared by CBWM and the Agency. The Agency's portion is supported by a fund transfer from the Regional Wastewater Capital Improvement (RC) Fund.

INLAND EMPIRE UTILITIES AGENCY
Recharge Water Fund
Schedule of Net Position
June 30, 2016
(With Comparative Totals for June 30, 2015)

	Totals	
	2016	2015
ASSETS		
Current assets		
Cash and investments	$ 1,904,048	$ 2,540,082
Accounts receivable	712,203	195,172
Interest receivable	2,626	1,916
Total current assets	2,618,877	2,737,170
Restricted assets		
Assets held with trustee/fiscal agents	859,269	859,302
Total restricted assets	859,269	859,302
Noncurrent assets		
Capital assets		
Jobs in progress	827,900	160,308
Capital assets net of accumulated depreciation	43,222,482	44,193,141
Intangible assets, net of accumulated amortization	13,061	21,768
Total capital assets	44,063,443	44,375,217
Total noncurrent assets	44,063,443	44,375,217
Total assets	47,541,589	47,971,689
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflow related to net pension liability	188,859	158,012
Total deferred outflows of resources	188,859	158,012

(Continued)

	Totals	
	2016	2015
LIABILITIES		
Current liabilities		
Accounts payable	$ 357,586	$ 179,615
Accrued liabilities	-	145
Long-term debt, due within one year	647,458	632,203
Interest payable	4,662	773
Total current liabilities	1,009,706	812,736
Noncurrent liabilities		
Long-term debt, due in more than one year	13,656,850	14,304,308
Net pension liability	713,875	694,254
Total noncurrent liabilities	14,370,725	14,998,562
Total liabilities	15,380,431	15,811,298
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow related to net pension liability	63,705	149,963
Total deferred inflows of resources	63,705	149,963
NET POSITION		
Net Investment in capital assets	30,618,403	30,298,007
Unrestricted	1,667,909	1,870,433
Total net position	$32,286,312	$32,168,440

INLAND EMPIRE UTILITIES AGENCY
Recharge Water Fund
Schedule of Revenues, Expenses
and Changes in Net Position
For the Fiscal Year Ended June 30, 2016
(With Comparative Totals for June 30, 2015)

	Totals	
	2016	2015
OPERATING REVENUES		
Recycled water sales	$ -	$ -
Total operating revenues	-	-
OPERATING EXPENSES		
Administration and general	1,301,432	1,190,144
Depreciation and amortization	1,371,776	1,245,459
Total operating expenses	2,673,208	2,435,603
Operating income (loss)	(2,673,208)	(2,435,603)
NONOPERATING REVENUES (EXPENSES)		
Interest income	13,504	13,409
Other nonoperating revenues	1,600,316	1,221,438
Interest on long-term debt	(17,434)	(7,383)
Other nonoperating expenses	(1,030,292)	(85,664)
Total nonoperating revenues (expenses)	566,094	1,141,800
Income (loss) before capital contributions and transfers	(2,107,114)	(1,293,803)
TRANSFERS AND CAPITAL CONTRIBUTIONS		
Transfers in	2,224,986	1,087,800
Capital grants	-	69,922
Change in net position	117,872	(136,081)
Total net position - beginning	32,168,440	32,304,521
Prior period adjustment (note 17)		-
Total net position - beginning, as restated	32,168,440	32,304,521
Total net position - ending	$ 32,286,312	$ 32,168,440

INLAND EMPIRE UTILITIES AGENCY
ADMINISTRATIVE SERVICES FUND

Administrative Services Fund

The Agency's total employment costs and general and administrative expenses are initially recorded in the Administrative Services (GG) Fund. General and administrative expenses include capital acquisitions of "Agency-wide" assets, such as fleet vehicles and computer hardware, as well as supplies, equipment, tools, and contract services. Throughout the year, pertinent expenses such as staff labor, equipment, and facilities maintenance 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 includes 4.3% of the Agency's total property tax receipts, contract cost reimbursements, and interest. Other funding sources include inter-fund transfers for capital support from the Regional Wastewater, Recycled Water, and Non-Reclaimable Wastewater Programs.

INLAND EMPIRE UTILITIES AGENCY
Administrative Services Fund
Schedule of Net Position
June 30, 2016
(With Comparative Totals for June 30, 2015)

	Totals 2016	Totals 2015
ASSETS		
Current assets		
Cash and investments	$ 24,361,819	$ 23,398,964
Accounts receivable	5,879,406	11,581,398
Interest receivable	30,395	13,755
Taxes receivable	32,614	28,115
Other receivables	62,238	43,663
Inventory	1,558,521	1,660,129
Prepaid items	103,916	121,317
Net OPEB	247,159	-
Total current assets	32,276,068	36,847,341
Noncurrent assets		
Capital assets		
Land	20,829	20,829
Jobs in progress	695,527	169,280
Capital assets, net of accumulated depreciation	11,462,972	12,312,887
Intangible assets, net of accumulated amortization	3,100,273	3,826,967
Total capital assets	15,279,601	16,329,963
Other assets		
Advance to other funds	-	4,308,104
Total other assets	-	4,308,104
Total noncurrent assets	15,279,601	20,638,067
Total assets	47,555,669	57,485,408
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflow related to net pension liability	645,415	455,757
Total deferred outflows of resources	645,415	455,757

(Continued)

	Totals	
	2016	2015
LIABILITIES		
Current liabilities		
Accounts payable	$ 8,859,020	$ 11,916,694
Accrued liabilities	2,012,495	3,089,904
Compensated absences	1,939,639	1,606,386
Current liabilities	12,811,154	16,612,984
Noncurrent liabilities		
Compensated absences	2,978,684	2,732,734
Net pension liability	2,153,740	2,002,446
Net OPEB liability	-	1,291,524
Total noncurrent liabilities	5,132,424	6,026,704
Total liabilities	17,943,578	22,639,688
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow related to net pension liability	137,758	432,539
Total deferred inflows of resources	137,758	432,539
NET POSITION		
Net Investment in capital assets	15,279,601	16,329,963
Restricted for:		
Bond operating contingency requirement	405,861	333,572
Total restricted	405,861	333,572
Unrestricted	14,434,286	18,205,403
Total net position	$ 30,119,748	$ 34,868,938

INLAND EMPIRE UTILITIES AGENCY
Administrative Services Fund
Schedule of Revenues, Expenses and
Changes in Net Position
For the Fiscal Year Ended June 30, 2016
(With Comparative Totals for June 30, 2015)

	Totals	
	2016	2015
OPERATING REVENUES		
Service charges	$ -	$ -
Total operating revenues	-	-
OPERATING EXPENSES		
Administration and general	2,005,258	1,000,716
Depreciation and amortization	1,966,278	1,900,599
Total operating expenses	3,971,536	2,901,315
Operating income (loss)	(3,971,536)	(2,901,315)
NONOPERATING REVENUES (EXPENSES)		
Interest income	117,853	86,783
Property tax revenue	1,942,969	1,828,095
Other nonoperating revenues	2,062,846	1,395,039
Other nonoperating expenses	(5,819,115)	(1,394,686)
Total nonoperating revenues (expenses)	(1,695,447)	1,915,231
Income (loss) before capital contributions and transfers	(5,666,983)	(986,084)
TRANSFERS AND CAPITAL CONTRIBUTIONS		
Transfers in	917,793	1,097,945
Change in net position	(4,749,190)	111,861
Total net position - beginning	34,868,938	34,757,077
Prior period adjustment (note 17)		-
Total net position - beginning, as restated	34,868,938	34,757,077
Total net position - ending	$ 30,119,748	$ 34,868,938

INFORMATION ITEM 2A

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Date: December 21, 2016

To: The Honorable Board of Directors

Through: Audit Committee *(12/14/2016)*

From: Teresa V. Velarde
Manager of Internal Audit

Subject: Master Service Contracts Audit

RECOMMENDATION

This is an informational item for the Board of Directors.

BACKGROUND

Internal Audit (IA) performed an audit of Master Service Contracts for Emergencies, Repairs and Minor Construction and Master Professional Services Contracts (Master Service Contracts) according to the Fiscal Year 2016/17 Annual Audit Plan. The objectives of the audit included:

- To evaluate compliance with policies and procedures for the establishment of Master Service Contracts.
- To evaluate how work is issued, verified and approved under the Master Service Contracts.
- To evaluate whether Master Service Contract processes follow Agency procurement policies and procedures, other legal requirements and whether they promote fair contracting and good business practices.
- To identify where policies and operations can be made more effective and efficient to ensure that contracts are utilized and monitored as intended.

The Engineering and Construction Management Department (E&CM) administers the Master Service Contracts. E&CM has primary responsibility for the issuance of Master Service Contracts.

Overall, E&CM provides effective oversight over the establishment and use of the Master Service Contracts. The attached report provides details of IA's observations and recommendations. The bullet points below provide a summary:

- Emergency projects are classified according to three levels. Level 3 emergencies are the least urgent and the work can be scheduled on a time-table set by the Agency. E&CM and

CFS should consider establishing clear criteria that define the Level 3 emergency and differentiate between a Level 3 emergency procurement and routine minor construction and repairs procurements and/or determine and document whether the Level 3 designation is necessary.

- Consistent with the requirements of the Procurement Ordinance, emergency procurements are communicated to the Board at the next Board meeting in the General Manager's written report. To ensure that the Agency communicates sufficient information about emergency procurement activity, E&CM and CFS should consider developing and providing a comprehensive monthly update of emergency procurements for the Board. The information to consider could include the current month emergency procurement activity and a year-to-date total. It may also be useful to compare current year-to-date emergency procurement activity in dollars and numbers of task orders to prior years and to the total budget. Trends can be analyzed and comparisons can be made to ensure that emergency procurements are kept to a minimum.

- To ensure that contracts for Repairs and Minor Construction operate as intended, E&CM and CFS should consider developing specific criteria and/or additional guidance and definitions about what constitutes repairs or minor construction as compared to projects for prequalified contractors for contracts less than $2 million. An additional control would be to consider establishing dollar maximums within the contract or the group of contractors to provide assurance that the contracts are being utilized as intended and spending is constrained.

- Given the amounts that are being spent on external professional services contracts for construction management services and the large amount of capital construction anticipated over the next decade, the Agency may want to consider whether it would be effective to develop and utilize in-house expertise for construction management services.

IA extends our appreciation to the E&CM staff for their cooperation and assistance.

The Master Service Contracts Audit is consistent with the Agency's Business Goals of *Fiscal Responsibility, Workplace Environment and Business Practices* by providing an independent evaluation of IEUA's contracting policies and practices and suggesting recommendations for improvements.

PRIOR BOARD ACTION

On June 15, 2016 the Board of Directors approved the Annual Audit Plan for Fiscal Year 2016/17, the Master Trade Contracts Audit was included in that plan.

On December 16, 2015, the Board of Directors reconfirmed the approved Audit Committee and Internal Audit Charters.

IMPACT ON BUDGET

None.

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

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DATE: December 5, 2016

TO: Joseph P. Grindstaff
General Manager

Teresa V. Velarde

FROM: Teresa V. Velarde
Manager of Internal Audit

SUBJECT: Audit of the Master Service Contracts

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department (IA) performed an audit of the Agency's Master Service Contracts for Emergencies, Repairs and Minor Construction and Master Professional Services Contracts (Master Service Contracts). The Master Service Contracts are groups of contracts pre-established to make procurement for services for emergencies, repairs and minor construction more efficient and to procure professional services. The audit was performed under the authority given by the IEUA Board of Directors and according to the Fiscal Year 2016/17 Annual Audit Plan.

Audit Objective and Scope

The objectives of the Master Service Contracts audit were to:

- To evaluate compliance with policies, procedures and the Agency's Procurement Ordinance for the establishment of Master Service Contracts.
- To ensure the work was issued and administered according to the Agency's policies and procedures.
- To evaluate whether Master Service Contract processes follow Agency procurement policies and procedures, other legal requirements and whether they promote fair contracting and good business practices.
- To identify where policies and operations can be made more effective and efficient to ensure that contracts are utilized and monitored as intended.

The Engineering and Construction Management Department (E&CM) administers the Master Service Contracts with support from the Contracts and Facilities Services Department (CFS).

Audit Results – Executive Summary

Overall, E&CM provides effective oversight over the establishment and use of the Master Service Contracts. The attached report provides full details of IA's observations and recommendations. The bullet points below summarize the recommendations:

- ***Emergency projects are classified according to three levels. Level 3 emergencies are the least urgent and the work can be scheduled on a time-table set by the Agency. E&CM and CFS should consider establishing clear criteria that define the Level 3 emergency and differentiate between a Level 3 emergency procurement and routine minor construction and repairs procurements and/or determine and document whether the Level 3 designation is necessary.***

- ***E&CM recently revised the emergency procurement information provided to the Board in the General Manager's report so that it provides and tracks additional information. This provides a much better tool for the Board to perform its oversight role. To ensure that the Agency communicates sufficient information about emergency procurement activity, E&CM should continue improving and enhancing the information provided in the monthly update of emergency procurements for the Board. The information to consider adding could include a beginning balance, current month totals of emergency procurement activity and a year-to-date total. It may also be useful to compare current year-to-date emergency procurement activity in dollars and numbers of task orders to prior years and to the total budget. Trends could be analyzed and comparisons could be made to provide additional context to the Board about the Agency's efforts to maintain its infrastructure and emergency procurements are kept to a minimum.***

- ***To ensure that contracts for Repairs and Minor Construction operate as intended, E&CM and CFS should consider developing specific criteria and/or additional guidance and definitions about what constitutes repairs or minor construction as compared to projects for prequalified contractors for contracts less than $2 million. An additional control would be to consider establishing dollar maximums within the contract or the group of contractors to provide assurance that the contracts are being utilized as intended and spending is constrained.***

Additionally, IA provides one soft recommendation:

- *Given the amounts that are being spent on external professional services contracts for construction management services and the large amount of capital construction anticipated over the next decade, the Agency may want to consider whether it would be effective to develop and utilize in-house expertise for construction management services.*

Acknowledgements
We would like to extend our appreciation to the E&CM and CFS staff for their cooperation and assistance during this audit.

Discussion with Management
We discussed the results of this audit with Shaun Stone, Manager of Engineering; David Mendez, Deputy Manager of Capital Improvement Program; Jerry Burke, Deputy Manager of Engineering; John Scherck, Acting Deputy Manager of Engineering; and Rachael Solis, Supervisor of Engineering Administration on October 31, 2016 and their comments have been incorporated into this report.

cc: Chris Berch, Executive Manager of Engineering/Assistant General Manager
Christina Valencia, Chief Financial Officer/Assistant General Manager
Shaun Stone, Manager of Engineering
Warren Green, Manager of Contracts and Facilities Services
David Mendez, Deputy Manager of Capital Improvement Program
Jerry Burke, Deputy Manager of Engineering
John Scherck, Acting Deputy Manager of Engineering
Rachael Solis, Supervisor of Engineering Administration

TV:ps

Master Service Contracts Audit

Background

IEUA is responsible for building, improving and maintaining water/wastewater infrastructure in the region. These public works projects require effective and efficient procurement processes for all types of activities from initial construction, to operations and repairs and maintenance. The procurement processes must be able to fulfill responsibilities as broad as constructing a new laboratory or sewage treatment plant to miscellaneous repairs, maintenance and projects.

In order to streamline and make the procurement process more efficient, IEUA revises its procurement practices from time to time to adopt industry best practices. The intent is to save time and resources and to ensure only the most qualified contractors able to provide the best overall value services, are selected. The current procurement processes utilized at the Agency include:

- Pre-Qualified Contractors for major public works projects above and below a $2 million dollar threshold (see separate Internal Audit Report: Prequalification Process Audit Report, dated June 8, 2016 for additional information).

- Master Trade Contracts for smaller maintenance and repairs for specific trades that include Corrosion Assessment, Painting, Roofing, Fencing and Asphalt Repair (see separate Internal Audit Report: Master Trade Contracts Report, dated September 14, 2016 for additional information).

- Master Service Contracts for Emergencies, Repairs and Minor Construction (discussed in this audit report).

- Master Professional Services Contracts for Professional Services (discussed in this audit report).

Master Service Contracts for Emergencies, Repairs and Minor Construction and Master Professional Services Contracts (Master Service Contracts) are contracts administered by the Engineering and Construction Management Department (E&CM) with support from the Contracts and Facilities Services Department (CFS). These Master Service Contracts are competitively-let contracts set up before work is identified and needed. The purpose of Master Service Contracts is to streamline the procurement process by lessening the time it takes to execute formal contracts and expedite the services required by pre-qualifying and establishing agreements with selected firms while ensuring the work is issued in a fair and competitive manner to both the contractor and the Agency while following required procurement policies and procedures.

There are two categories of contracts:

1. Master Service Contracts for Emergencies, Repairs and Minor Construction: This is a group contractors approved to provide services for either emergencies, repairs or minor construction. A group of 25 contractors were approved for the most recent two year term in August 2014 and contract extensions were negotiated in August 2016 with 12 remaining contractors who agreed to continue to participate. These services include things such as pump station repairs, pipeline repairs and assessment and repairs of leaks. E&CM intends to engage in a new round of procurement in February 2017, as described below.

2. Master Professional Service Contracts: This is a group of 17 contractors and consultants with contracts of varying lengths that are used in a variety of professional capacities, but primarily for construction management. Professional services also include activities such as design services, structural engineering, geotechnical engineering/material testing, labor compliance, scheduling and surveying.

Master Service Contracts for: Emergencies, Repairs and Minor Construction

These were first established in January 2006 with a pilot program with three local contractors and then expanded to six in 2007 and 21 in 2009. The most recent procurement in August 2014 established contracts with 25 contractors. In August 2016, the Agency entered into one year contract extensions with 12 contractors that were willing to remain in the program. A new procurement process is planned for February 2017 to expand the number of contractors.

These contracts are for the in-between category of projects that are too large for the Maintenance department to complete on their own but are also not large enough to utilize the list of prequalified contractors under $2 million. These projects are authorized using a task order. The contractors are utilized for work related to:

- Emergencies, or
- Repairs and Minor Construction

IA Evaluation of the Selection Process

In 2014, E&CM and CFS administered the solicitation and selection process. Twenty-five proposals were received. E&CM staff reviewed the proposals for technical details and CFS performed the necessary verifications, including contractor licenses, prevailing wage certification with Department of Industrial Relations (DIR) registration, insurance coverage and reference checks. All of the proposals the Agency received were found to be responsive and the Agency entered into contracts with all 25 contractors. Given the nature of these contracts and the types of projects the contractors would be used for, contractor interviews were not required. As CFS staff noted, even though each contractor has a contract with the Agency, the contractors still need to compete on price (except emergency solicitations) to be selected for a particular task order, thus providing an additional level of assurance that IEUA would be obtaining the best value for the services rendered.

IA Evaluation of How Work is Issued

Emergency Procurements

Emergency Procurement task orders are administered by E&CM. IEUA defines an Emergency Procurement in Ordinance #101:

> "Emergency Procurement" shall mean any procurement required for the prevention against imminent danger, or to mitigate the loss or impairment of: life, health, or safety of the public, Agency employees, suppliers, contractors; public or private property; compliance with critical permit and regulatory requirements; or any other condition which cannot reasonably be foreseen and would have a significant effect on the public's health/safety or that could have a significant adverse financial impact on the Agency.

Emergency task orders are not *limited* to a specific dollar amount because they are considered "emergencies". According to the Procurement Ordinance #101 the General Manager is authorized to approve emergency procurements in any dollar amount. Emergencies must be reported to the Board after-the-fact:

> 9. Emergency procurements of materials, supplies, services, rentals, leases, equipment, and public works services may be effected, notwithstanding respective provisions of this Ordinance.
>
> A. The GM is authorized to approve and execute emergency procurements, for any amount.
>
> B. The GM is authorized to delegate authority to approve and execute emergency procurements up to any amount.
>
> C. The GM or designee shall report emergency procurements, including details of the circumstances, respective dollar amounts expended, and cause of the emergency at the next regularly scheduled Board meeting.

Emergency task orders are administered and executed by E&CM. When the Agency has identified a need for an emergency repair, E&CM follows the guidelines of CM-26 the department's SOP for Emergency Contracting (most recently revised in March 2015). The SOP states:

> "Requests for emergency work are to be submitted to the designated Construction Project Manager (CPM) who oversees the area where the work will be done. The CPM will establish the scope of work, and email the request as a Blind Carbon Copy (BCC) to selected Contractors, registered with the DIR per SB854, by specialty. Upon review and selection the CPM will issue a notice to proceed to perform the emergency work. Emergencies will be classified by priority levels. **Priority level 1** will trigger the first responding contractor to act immediately with an approved "Not-To-Exceed Cost". **Priority Level 2** will allow the first responding Contractor to act the following day or on a scheduled day, set by the Agency. **Priority Level 3** will be scheduled work set by the Agency and will allow the CPM to request and review "Not-to-Exceed" proposals from the first three Contractors to respond."

Other than the information above, the SOP does not provide details or descriptions for what the different Priority level emergencies are. Therefore, the Agency relies on the professional judgement and expertise of E&CM staff in determining the Priority level of an emergency. In all three levels of emergency procurements, E&CM issues a task order to the successful contractor and payments to contractors are based on "not to exceed" invoices and supporting documents received. E&CM maintains an excel log of task orders by contractor and task order number showing whether the task order is an emergency or a repair or minor construction item and the level of emergency. Additional analysis of emergency procurements is included in Exhibits D and E.

According to a discussion with E&CM there are three factors that the department considers in determining if a project qualifies as an emergency at any of the three levels:

- Timing: There is urgency to resolving the issue identified. For Levels 1 and 2, the urgency is generally clear. For Level 3, the need to provide 3 days for an opportunity for a "job walk" and 5 days to obtain the 3 lowest bids for the work, means that there is a minimum of 8 days before work involved can begin.

- Funding: The source of funding is a consideration. If funding is not available for repairs or minor construction, but the work is required to keep operations going, then the job qualifies as an emergency. E&CM noted that in prior years no budgets had ever been established for repairs and minor construction. For the 2016-2017 fiscal year E&CM has established $500,000 small projects budgets in four areas: Collections, Recycled Water, Safety, and Operations and Maintenance. E&CM expects that this change will assist in reducing the number of Level 3 emergencies.

- Amount of engineering/design required: Ordinarily an emergency would not require any design or significant engineering for the work to be completed ("no drawings needed"). On the other hand, a minor construction, and perhaps an ordinary repair, would require some level of engineering and design work.

Repairs and Minor Construction:

Repairs and Minor Construction task orders are administered by CFS. When the Agency identifies a need for work related to repairs or minor construction, the work is advertised to contractors on the Master Service Contract list based on a description of the work to be performed. Potential respondents can be asked to participate in a "job-walk" at the site of a minor construction or repair project. Responders provide a "not-to-exceed" bid by a specified due date. IEUA accepts the lowest responsible bid and issues a task order to perform the work.

According to the CFS and E&CM Board letter establishing these contracts, utilizing the pre-established Master Service Contracts cuts down approximately 15 - 30 days on the time it takes to bid, negotiate and establish the contract and can save from $5,000 to $20,000 for administrative expenses related to the preparation of formal bidding documents and the bidding process when compared to an RFP process (IA did not validate the accuracy of these amounts).

Task orders are the authorization to perform services. As shown below, 21.7% of the number of task orders issued to the Master Service Contracts contractors were for these repairs and minor construction activities; the rest were for emergencies.

Repairs and Minor Construction projects in excess of $100,000 require Board approval as described in Agency Policy A-32: Authority to Contractually Commit the Agency in Section 5.2:

5.2 Board of Directors and approval limits are as follows:

Approval and execution of original procurements as indicated in the following table and as delegated below.

Approver	Competitively - Let	Single or Sole Source	Public Works Change Order & Amendments	Non Public Works Change Order & Amendments
BOD	>$100K	>$100K	>$100K	>$40K
GM*	≤$100K	≤$100K	≤$100K	≤$40K
CFO/AGM	≤$100K	≤$100K	≤$100K	≤$40K
EX MGR/AGM	≤$100K	≤$100K	≤$100K	≤$40K
Mgr. of CFS	≤$100K	≤$100K	≤$100K	≤$40K

IA noted only one task order in the Repairs and Minor Construction category in excess of $100,000: Task Order #1 to WA Rasic (described as "RP-1 Flare System Improvements, Package No. 1; Pressure Regulating Valve Bypass") totaled $406,600 (see page 13). E&CM noted that the $100,000 limit has been in place for many years. At current construction cost levels, E&CM indicated that very few repair and minor construction projects can be completed that do not require Board approval. There have been some efforts in recent years to revise the limit upward to $250,000, but these have not been widely supported within the Agency. As noted in the introduction E&CM has a separate prequalification process for construction contracts categorized as less than $2 million. There is a significant range of potential construction projects between $100,000 and $2 million.

IA Evaluation of Procurement Activity

The amount spent on services provided by the Master Service Contractors from the time they were approved (August 2014) through January of the current year is $1,909,767 utilizing 10 of the 25 approved Master Service Contracts. In comparison, construction in progress per the "Budget in Brief" is $66.1 million for 2015/16 and $68.6 million for 2016/2017.

	CONTRACTOR	CONTRACT #	Total Task Orders Issued 7/1/14 - 1/2016	% of total spent	Minor Construction	Emergency Level 1 & 2	Emergency Level 3	Total Task Orders	Extension renewed
1	Atom Engineering	4600001829	$ 179,247	9%	3	0	0	3	Yes
2	Coonstruction	4600001734	$ 90,800	5%	1	0	1	2	No DIR
3	David T. Wasden	4600001735	$ 32,014	2%	0	0	1	1	Yes
4	Ferreira Construction*	4600001755	$ 41,869	2%	1	0	1	2	Yes
5	Humphrey Constructors*	4600001737	$ 147,361	8%	3	0	0	3	Yes
6	Mike Bubalo*	4600001739	$ 38,557	2%	0	1	1	2	Yes
7	Norman Olsson Construction	4600001741	$ 8,552	0%	0	1	0	1	Yes
8	Trautwein Construction*	4600001743	$ 26,361	1%	0	0	3	3	Yes
9	VCI Construction*[1]	4600001744	$ 200,798	11%	0	0	3	3	No
10	WA Rasic Construction* **[2]	4600001745	$ 1,144,208	60%	2	15	9	26	Yes
		TOTALS	$ 1,909,767	100%	10	17	19	46	
		Proportion of total Task Orders			21.7%	37.0%	41.3%	100%	

*These contractors are also included on the list of contractors "prequalified for capital projects under $2 million"

**WA Rasic Construction also awarded $2,083,583 on 58 Task Orders under prior contract #4600001024 for the period from 2011 to 2015.

1 VCI Construction awarded one emergency task order in excess of $100K: RP-1 Effluent Pipe Repair for $183,012

2 WA Rasic awarded two task orders in excess of $100k: Level 3 emergency CDA Soils Mitigation for $129,226 and Minor Construction for RP-1 Flare Bypass Valve for $406,600 discussed on page 13

Of the $1.9 million spent for emergencies, repairs and minor construction, a total of $1,144,208 or 60% was spent for services by WA Rasic Construction (Rasic). According to E&CM, Rasic has been an enthusiastic participant and good partner in the Minor Service Contracts program. In order to be responsive E&CM noted that Rasic had established an inland location (per the WA Rasic Construction website: Perris, CA) even though their headquarters is in Long Beach. They also implemented an e-mail response system to be able to quickly reply to IEUA e-mail requests.

In addition to the Master Service Contracts projects shown above, Humphrey Constructors separately completed a project for the Agency in the category of "under $2 million" capital projects totaling $868,371.

The following 15 contractors have had no activity associated with their Master Service Contracts since their contracts were established in 2014:

	CONTRACTOR	CONTRACT #	Extension renewed
1	ACS Engineering	4600001752	No
2	B H Electric	4600001731	Yes
3	Big Sky Electric	4600001732	No
4	Braughton Construction	4600001753	No
5	CP Construction	4600001733	No
6	Cico Electric Contractors	4600001754	No
7	Genesis*	4600001736	Yes
8	GJR Electric	4600001736	Yes
9	Goodwest Lining & Coatings	4600001758	No DIR
10	Jeremy Harris Construction	4600001762	Yes
11	JR Filanc*	4600001738	Yes
12	Manley's Boiler	4600001756	No
13	Mladen Buntich*	4600001740	No
14	Paulus Engineering	4600001760	No
15	Sancon Engineering*	4600001742	No

**These contractors are also included on the list of contractors "prequalified for capital projects under $2 million"*

However, Genesis, one of the 15 contractors noted above, separately completed projects for the Agency in the category of "under $2 million" capital projects for an amount totaling $1,083,041 during the period but received no task orders under the Master Service Contracts.

In August 2016 the initial term for these contracts ended. IEUA asked each of the contractors for a one-year extension. Of the original 25 approved contractors, 2 have not completed an updated DIR registration and 10 did not respond to the request for an extension, leaving 13 contractors available to the Agency. Since it is the contractor's responsibility to respond to bids, the contractors most interested in participating in the program have successfully obtained task orders for the available work. This is reinforced by the information that all but one of the contractors that are shown as being utilized, agreed to an extension, while only one other has not completed their DIR renewal process. Similarly, of the 15 shown as not being used, only 5 contractors agreed to an extension and one had not completed their DIR renewal.

E&CM Comment: In connection with implementing a regular timetable and contract term for contracts under $2 million that IA recommended earlier in the year, the bidding process for contracts in this category will be performed at the same time and on the same schedule. This should create a more effective and efficient bidding process, particularly since there is significant overlap between the two lists.

IA Observations & Recommendations

E&CM provides valuable service to the Agency in safeguarding the Agency's assets and providing for emergency services for those assets as well as minor construction and repairs. The observations and recommendations noted below are intended to enhance the fulfillment of those responsibilities. IA met with E&CM management on October 31, 2016. The report has been revised to reflect E&CM's comments and additional information.

Observation: Clear criteria are needed to differentiate between "Level 3" emergency procurements and routine repairs and minor construction procurements or consideration should be given as to whether the "Level 3" designation is necessary and/or document the differences between the two. Level 1 and Level 2 emergencies are awarded to the first responding contractor and must be completed according to the Agency's time constraints (immediately for Level 1 or by the following day or on a scheduled day set by the Agency for level 2). However, Level 3 emergencies are authorized and scheduled on the same basis as routine repairs and minor construction procurements: The work is authorized by the Agency reviewing proposals from the first three contractors to respond under a task order for a preexisting contract and in both cases the performance of the work is scheduled, rather than needing to be performed immediately. Based on IA's review, the only major difference noted between the two is that "Level 3" emergency contractors are selected and scheduled by E&CM staff and repairs and minor construction contractors are selected and scheduled by CFS staff. Additionally, emergency procurements stipulate a variety of mark-ups: Labor is marked-up 33%, Equipment and Material both have a 15% mark-up and Subcontractors include a 10% mark-up on the first $2,000 and 5% thereafter. In IA's analysis of Level 3 emergency procurements, IA found that $104,400 was paid in mark-ups for these Level 3 emergency items for the 19 task orders in the period tested (See complete analysis of mark-ups on "Level 3" emergencies at Appendices D & E).

As an example, parking lot repairs at the Agency's administration building were scheduled as a "Level 3" emergency, rather than as a minor repair. The repairs were performed as a task order by W. A. Rasic Construction for a cost of $49,998 plus an additional $8,641 change order for a total cost of $58,638.57. Of this total $10,993.49 (approximately 19%) consisted of various mark-ups due to the emergency designation. According to E&CM, this was designated an emergency due to a risk of tripping accidents.

The current approach creates potential conflicts between the responsibilities of E&CM and CFS and creates a risk that "emergencies" could be declared unnecessarily. In addition, the various mark-ups may result in the work not being conducted in a cost effective manner. The procedure to complete the work is also considerably simpler for emergency procurements which may result in the work not being conducted in a planned and cost effective manner (See also Attachments D & E).

Recommendation #1:
Emergency projects are classified according to three levels. Level 3 emergencies are the least urgent and the work can be scheduled on a time-table set by the Agency. E&CM and CFS should consider establishing clear criteria that differentiate between a "Level 3" emergency procurement and routine minor construction and repairs procurements and/or determine and document whether the "Level 3" designation is necessary.

E&CM Response: E&CM management has considered eliminating the "Level 3" emergency, but believes there is a difference between an emergency and routine minor construction and repairs. The development of specific budgets for small projects in 2016/2017 provides greater flexibility within the minor construction and repairs category. These designations are evolving, but at this point in time, E&CM believes the "Level 3" emergency designation is still necessary.

Observation: Board reporting of emergency procurements has varied. At a minimum and consistent with the requirements of the Procurement Ordinance, emergency procurements are communicated to the Board at the next Board meeting in the General Manager's written report. IA recommends evaluating the benefit of providing additional information. IA performed a review of Board reports and verified that emergency procurements are included each month at the end of the Board packet in the General Manager's written update. The amount of information included in the update as well as additional reporting in the E&CM monthly construction update has varied over the past several years.

The current list of contractors for Emergencies, Repairs and Minor Construction was approved by the Board on August 20, 2014. Beginning in October 2014 and continuing through September 2015 (with the exception of one month), E&CM also provided information to the Board about Emergency Procurements as part of the monthly "Engineering and Construction Management Update" power-point presentation. The E&CM monthly update presentation no longer contains this information. Since October 2015 information about Emergency Procurements has only been included in the General Manager's monthly report.

IA noted that both the written General Manager's report and the information previously contained in the E&CM presentation provided snapshots of the current month's activity. Neither presentation had provided updates to the information about emergencies provided in the prior month or any year-to-date financial information about emergency contracting amounts. There were no running totals or summary information that provided information about E&CM's emergency procurement activity over time.

The August 2016 General Manager's written report included the following information about emergency projects which provided more details, indicating that the reporting is still evolving:

Emergency Projects

FY15/16 Emergency Projects									
	Project ID	Contractor	Task Order Description (Details of Circumstance and Cause of the Emergency)	Location	TO #	Original Not-to-Exceed /Estimate	Actual Cost thru 7/31	Date of Award	Status
Collections									
1	EN16016.03	W.A. Rasic Construction	[illegible] Manhole Rehab in Phillips Blvd	Collections	TO-032	6,500	8,178	4/5/2016	Closed
2	[illegible]	W.A. Rasic Construction	Manhole Repair in Ontario	Collections	TO-020	4,358	5,441	3/15/2016	Closed
3	[illegible]	W.A. Rasic Construction	Grand Avenue Sinkhole	Collections	TO-034	56,153	565	6/16/2016	Complete
4	[illegible]	Sancon Engineering	Grove Trunk Sewer Pipe Repair (Grove & 6th)	Collections	TO-001	63,000	8,133	6/28/2016	Active
HQ Building									
5	[illegible]	W.A. Rasic Construction	HQ Building Water Leak	HQ Building	TO-033	10,000	15,502	4/21/2016	Closed
RP-1									
6	[illegible]	Ferreira Construction	RP-1 Miscellaneous Repairs	RP-1	TO-002	24,154	38,750	10/21/2015	Closed
7	[illegible]	Ferreira Construction	RP-1 DAFT Pipeline Repair	RP-1	TO-007	7,306	10,000	1/7/2016	Closed
8	[illegible]	Ferreira Construction	RP-1 Lagoon No 1 Water Line Leak	RP-1	TO-006	7,315	15,766	2/23/2016	Closed
RP-2									
9	[illegible]	W.A. Rasic Construction	RP-2 Hot Water Line Leak	RP-2	TO-020	16,051	22,319	2/1/2016	Closed
10	[illegible]	W.A. Rasic Construction	RP-2 EQ Piping Modifications	RP-2	TO-031	9,264	12,[illegible]	3/17/2016	Closed
11	[illegible]	Ferreira Construction	RP-2 Utility Water Line Leak	RP-2	TO-02[illegible]	15,000	15,[illegible]	5/22/2016	Closed
RP-4									
12	[illegible]	W.A. Rasic Construction	RP-4 10-inch RWPL Repair	RP-4	TO-028	6,583	6,825	1/25/2016	Closed

E&CM Response: E&CM believes it would be sufficient to provide the information in the General Manager's report. E&CM has been developing more comprehensive reporting and the most recently developed report first provided at the November 2016 Board meeting provides additional information. E&CM will also add year-to-date and total lines to provide a complete overview. The current revision of the report, first presented in the November General Manager's report, shows:

Emergency Projects

FY15/16 Emergency Projects									
	Project ID	Contractor	Task Order Description (Details of Circumstance and Cause of the Emergency)	Location	TO #	Original Not-to-Exceed /Estimate	Actual Cost thru 9/26	Date of Award	Status
Collections									
1	EN16018.03	W.A. Rasic Construction	Grand Avenue Sinkhole	Collections	TO-034	56,163	22,086	6/16/2016	Complete
2	EN16018.04	Sancon Engineering	Grove Trunk Sewer Pipe Repair (Grove & 5th)	Collections	TO-001	63,000	4,338	6/28/2016	Complete

October 2016 Emergency Projects							
	Contractor	Task Order Description	Details of the Circumstances/Cause of Emergency	Scope of Repair	Location	Date of Award	Not-to-Exceed /Estimate
1	Ferreira Construction	Street Subsidence and Blow off repair	An open irrigation line was discovered behind the blow-off box. Ferreira Construction responded and provided the Agency assistance to repair the street, curb & gutter, remove the existing blow-off box, and install a new 4" riser and wharf hydrant.	Excavate a 15'x25' paved section on Dupont Ave. in the City of Ontario. The street was showing signs of subsidence and the adjacent curb & gutter was beginning to crack and fail near a 2" blow-off installed on an IEUA 42" RW line.	Agency-wide	10/18/2016	21,903
2	Ferreira Construction	Valve Shear Pine Replacement on a Buried RW Line	The valve has been stuck in the closed position for nearly 2 months, and operations staff has the need to exercise this valve and others in the intersection to properly maintain the integrity of the system as a whole	Excavate an existing 24" BF Valve on the RW System at the intersection of East Ave. & Baseline Rd.	Agency-wide	10/10/2016	6,209

FY16/17 Emergency Projects									
	Project ID	Contractor	Task Order Description (Details of Circumstance and Cause of the Emergency)	Location	TO #	Original Not-to-Exceed /Estimate	Actual Cost thru 9/30	Date of Award	Status
CDA									
1	CDA600200012	W.A. Rasic Construction	Raw Water Line Repair	CDA	TO-035	3,341	958	7/18/2016	Complete
RP-1									
2	EN17017.01	Ferreira Construction	RP-1 Flow Meter Replacement	RP-1	TO-09	60,000	8,282	7/26/2016	Complete
Collections									
3	EN17018.01	W.A. Rasic Construction	Grove Ave. Manhole Repair	COLL	TO-036	7,000	1,861	8/11/2016	Active
RP-2									
4	EN17019.01	W.A. Rasic Construction	RP-2 Underground Pipe Leak	RP-2	TO-037	5,000	892	9/12/2016	Active
Agency wide									
5	EN17013.02	Ferreira Construction	RP-5 Repair on existing SS Pump Guide Rail	Agency wide	TO-010	25,000	1,166	9/15/2016	Active
6	EN17017.02	Ferreira Construction	Street Subsidence and Blow off repair	Agency wide	TO-011	21,902	-	10/18/2016	Complete
7	EN17017.03	Ferreira Construction	Valve Shear Pine Replacement on a Buried RW Line	Agency wide	TO-012	6,209	-	10/19/2016	Complete

Recommendation #2:
E&CM recently revised the emergency procurement information provided to the Board in the General Manager's report so that it provides and tracks additional information. This provides a much better tool for the Board to perform its oversight role. To ensure that the Agency communicates sufficient information about emergency procurement activity, E&CM should continue improving and enhancing the information provided in the monthly update of emergency procurements for the Board. The information to consider adding could include a beginning balance, current month totals of emergency procurement activity and a year-to-date total. It may also be useful to compare current year-to-date emergency procurement activity in dollars and numbers of task orders to prior years and to the total budget. Trends could be analyzed and comparisons could be made to provide additional context to the Board about the Agency's efforts to maintain its infrastructure and emergency procurements are kept to a minimum.

Observation: Currently there are no specific dollar limits and criteria for repairs and minor construction. Although most repair and minor construction task orders are for moderate dollar amounts, IA found one task order that was for the amount of $406,600: Task Order #1 to WA Rasic (described as "RP-1 Flare System Improvements, Package No. 1; Pressure Regulating Valve Bypass").

The Agency maintains a separate process with prequalified contractors for awarding construction contracts under $2 million. According to CFS staff this process was still relatively new at the time that the task order to WA Rasic was initiated and E&CM staff were more familiar with the contractors and process in the repair and minor construction category than with the contractors and process for utilizing the prequalified list of "major public works contractors for contracts less than $2 million". Therefore, E&CM were more comfortable obtaining bids from the contractors they were familiar with. CFS staff also indicated that more recently E&CM have become more familiar with using the prequalified list of under $2 million contractors and that this process is now working well.

The wording in the Board letter describing the types of projects contemplated under the Minor Repairs and Construction contracts states:

"Since the contractors are pre-qualified under a formal public works procurement, individual tasks done under these contracts will not require preparation of separate formal bidding documents and bidding process. The cost for preparation of formal bidding documents and the ***bidding process ranges from $5,000 to over $20,000 for this type of construction activities****, and in some cases,* ***can exceed the value of the actual work*** *(emphases added)."*

This wording implies (but is not clear) that task orders for repairs and minor construction would be for small dollar amounts that could be accomplished quickly without needing to obtain additional Board approval (Board approval is required for amounts over $100k and was obtained for this task order – see page 8 above for discussion of approval limits). Additionally, the contracts do not specify a maximum dollar amount in their contract terms.

The Agency has the separate category for prequalified "major public works contractors for contracts less than $2 million". The criteria that determine when a project is no longer considered a repair or minor construction and when it qualifies as a contract for the prequalified list of "major public works contractors for contracts less than $2 million" is not specified. Since repairs and minor construction contracts are not constrained by a maximum dollar amount there is no dollar limit that prevents them from being used for large projects (and, since WA Rasic is included on both lists using a different list would not preclude them from bidding).

Recommendation #3:
To ensure that contracts for Repairs and Minor Construction operate as intended, E&CM and CFS should consider developing specific criteria and/or additional guidance and definitions about what constitutes repairs or minor construction as compared to projects for prequalified contractors for contracts less than $2 million. An additional control would be to consider establishing dollar maximums within the contract or the group of contractors to provide assurance that the contracts are being utilized as intended and spending is constrained.

E&CM Response: As part of the audit of "Prequalified contractors above and below $2 million" IA suggested that E&CM advertise a set date for the biannual prequalification process . . . and notify prospective contractors of the timeline for the biannual solicitation process. E&CM is implementing this recommendation by adopting a four-year contract term during the next regular biannual renewal and establishing a set biannual time frame for procurement, the next of which is being scheduled for February 2017. This renewal process will include both the prequalification of contractors under $2 million and the Master Service Contracts for emergencies, repairs and minor construction. By having both contract renewal processes on the same schedule E&CM believes the distinctions between the two types of contractors and the manners in which they are utilized will be more apparent and consistent.

Master Professional Services Contracts

Master Professional Services Contracts are established for specific professional services when these are needed. A competitive bid process is generally used and the amount of the contract varies by the needed service. There are currently 17 contractors on the list and during the period from July 1, 2014 through January of 2015, 15 of the 17 have been utilized. The audit identified that the majority of spending for contracts in this category (71% or $4,672,640) was for construction management services. These were paid to GK & Associates for staffing augmentation and to Butier for more traditional construction management services.

The only contractors which have not been utilized are Puckorius & Assoc. Inc. whose contract expired in 2013 and who perform technical analysis for recycled water use and Construction Management Solutions that provide change order analysis.

Professional service contractors are included in Master Service Contracts for a variety of services that include:

1. Jobsite Surveying
2. Structural Engineering
3. Electrical Engineering
4. Environmental Compliance (CEQA work)
5. Dig Alerts
6. Labor Compliance
7. Change Order/Claim Analysis
8. Construction Scheduling
9. Geotechnical Engineering/Material Testing/Inspections
10. Construction Management
11. On-Call Technical Investigation/Development of Recycled Water use

Generally, these projects are considered "on-call" activities when a professional service is needed. IEUA selects one professional services contractor in the relevant specialty to perform the necessary task by making a phone call or sending an e-mail to the contractor. The procurement for these services is performed on a case by case basis for a particular service when it is demonstrated that the Agency has a need in a particular area. Payment is rendered based on an invoice showing the hours and services provided. Task orders for these contracts are administered and executed by CFS.

IA Evaluation of the Selection Process for Master Professional Service Contracts:

Master Professional Service Contracts are also administered by E&CM on behalf of IEUA with support from CFS. IA reviewed the contract files to consider the approach used for two of the solicitation processes:

- Construction inspection, soils testing and material testing services
- Construction management support and inspection services.

Each of these involved staff from both E&CM and CFS.

Construction inspection, soils testing and material testing services: This solicitation occurred in 2014. Until that point, IEUA had retained a single contract in this category with Ninyo & Moore. Staff determined that awarding contracts to two firms would leave the Agency less reliant on a single source. The RFP was distributed through the Agency's online bidding portal and 14 proposals were received by the due date of May 28, 2014.

The proposals were reviewed by four staff members, three staff from E&CM and the relevant contracts administrator. Each evaluator scored the written proposals and ranked their top four submissions. The results from that evaluation showed widely varied rankings among the respondents:

Ranking	E&CM-Evaluator 1	E&CM-Evaluator 2	E&CM-Evaluator 3	CFS-Evaluator 4
1	MTLG, Inc. *	Koury Engineering	Koury Engineering	**RMA Group**
2	Koury Engineering	MTLG, Inc. *	Kleinfelder, Inc.	**HeiderEngineering**
3	**HeiderEngineering**	Group Delta	MTLG, Inc. *	Ninyo & Moore
4	Ninyo & Moore	**RMA Group**	Group Delta	United Inspection

* The MTLG proposal was lacking the signed addendum.

The group then met to discuss their rankings and select the top 2 firms. According to E&CM and CFS staff the meeting was collaborative and included lengthy discussions. They noted that the rankings were also not as simple as a numerical listing, in some cases the team felt the proposals were actually equal in ranking. Items noted included the questions about the levels of local staffing and the contractors' project management tools. MTLG, Inc. was eliminated due to an incomplete proposal and the evaluation meeting revealed concerns about the Koury proposal. In the end, the recommendations from the panel resulted in Heider Engineering Services, Inc. and the RMA Group being invited to an interview with the selection team to confirm the team's impressions. Contracts were then approved by the Board on August 20, 2014.

IA noted that the contracts binder included information about the initial top rankings of the evaluators and suggestions for interview questions, but the contracts binder did not indicate the reasoning behind the selection of the top two finalists that occurred during the oral discussion and agreement among the team. This would have been helpful documentation, since the selected firms were not the top ranked selections for the three evaluators from E&CM. In response to the Master Trade Contracts audit, CFS has agreed to provide a one-page contract overview checklist document to ensure this additional documentation is available.

Construction Management Support and Inspection Services: This solicitation originally occurred in 2011. The contracts for the selected firms have been extended several times since then. The RFP was distributed through the Agency's online bidding portal and seven proposals were received by the due date of November 29, 2011.

The proposal evaluation process was administered by CFS. CFS management asked five additional IEUA staff to evaluate the proposals using the following criteria:

Qualifications/Certifications/Experience:	10%
Firm's Organization, History, Location:	10%
Hourly Rates:	15%
Proposal Thoroughness:	10%
References and Reputation:	10%
Prior Experience with the Agency:	5%
Weekend and Overtime Availability and Rates:	10%
Minimum Hours expected when responding to the Agency Request for Work:	10%
Previous Experience with Start Ups:	10%
Previous Experience with Water/Wastewater:	10%

The specific scores for each proposal were not included in the contract file but each evaluator was asked to rank the proposals from first to last. All but one of the six evaluators provided their ranking information:

NAME	Evaluator 1	Evaluator 2	Evaluator 3	Evaluator 4	Evaluator 5	Points	Ranking
Anderson	6	2	7	7	3	25	5
Butier	3	1	1	3	1	9	1
CivilSource	1	1	4	4	2	12	2
GK&Assoc	2	3	2	1	4	12	2
Harris	7	6	6	6	6	31	6
Hill Int'l	5	4	3	5	5	22	3
Willdan	4	5	6	2	7	24	4

In this evaluation process the results were relatively consistent. The totals of the scores for all the evaluators were used to establish the last two finalists: Butier and GK & Assoc. The contracts were then approved by the Board on January 18, 2012 for a three year term. Other than the ranking information, the contract files did not include additional reasoning about the selection process. In response to the Master Trade Contracts audit, CFS has agreed to provide a one-page contract overview checklist document to ensure this additional documentation is available.

IA Evaluation of how Work is Authorized

Professional Services: IA examined transactions for these contractors over the last several years. The chart below, summarizes the distribution of task orders issued.

CONTRACTOR	CATEGORY	CONTRACT	TERM BEGIN	TERM END	COMMENT	TOTAL 7/1/14-1/2016	# of items
Calvada	Design Surveying	4600001066	9/22/2011	10/16/2015		$ 40,860.00	13
Stantec	Design Surveying	4600001067	10/19/2011	10/16/2015		$ 112,652.83	18
Stantec	Design Surveying	multiple cont's			Separate contracts	$ 593,142.99	>60
RMS Engineering	Structural Engineering	4600001443	6/19/2013	6/30/2018		$ 26,960.00	6
Lee & Ro Inc.	Structural Engineering	4600001442	6/30/2013	6/30/2018		$ 11,068.00	4
Lee & Ro Inc.	Structural Engineering	4600001588	12/18/2013	12/18/2014	Separate contract	$ 59,470.68	9
Integrated Design Services Inc	Structural Engineering/ Survey	4600001441	6/19/2013	6/30/2018		$ 68,284.60	8
Integrated Design Services Inc	Structural Engineering/ Survey	4600001551	1/28/2015	6/30/2015	Separate contract	$ 43,480.00	1
Integrated Design Services Inc	Structural Engineering/ Survey	4600001823	1/22/2015	7/31/2015	Separate contract	$ 127,105.08	2
Puckorius & Assoc. Inc.	On-call Tech Invst/RW use	4600000854	Contract expired June 2013			0	
Tom Dodson & Associates	Environmental	4600001385	2/20/2013	6/30/2018		$ 195,149.02	94
Tom Dodson & Associates	Environmental	4600000069			Separate contract	$ 4,610.62	6
Environmental Science Associates	Environmental	4600001391	2/20/2013	6/30/2018		$ 77,502.40	17
CASC (AEI-CASC Engineering)	Survey	4600001356	12/19/2012	1/1/2016		443,521.00	87
Utiliquest	Dig Alerts	4600001401	3/20/2013	3/30/2017		$ 198,935.19	18
Golden State	Labor Compliance	4600001503	8/5/2013	8/5/2016		$ 149,603.14	67
Construction Mnagement Solutns	Change Order/ Claim Analysis						
Danrae	Construction Scheduling	4600001376	1/17/2013	12/30/2016		$ 140,059.71	63
RMA	Material Testing/ Inspections	4600001748	8/20/2014	9/1/2017		$ 383,014.00	49
Heider Inspection	Material Testing/ Inspections	4600001728	8/20/2014	9/1/2017		$ 66,894.32	32
Heider Inspection	Inspection Services	4600001950	8/20/2015	9/1/2017		$ 13,189.24	12
Butier	***Construction Management***	***4600001142***	***1/18/2012***	***12/31/2016***		***$ 2,706,355.19***	***43***
GK & Associates	***Construction Management***	***4600001141***	***1/18/2012***	***6/30/2016***		***$ 1,966,285.00***	***123***
			TOTAL			$ 7,428143.01	
			TOTAL (without Separate Contracts)			$ 6,600,333.64	

IA's Analysis

Observation: Construction management services procurements are the most significant Master Professional Services Contracts utilized by the Agency. Two construction management firms, Butier and GK & Associates, accounted for the activity in this area. The proportion spent on construction management services was $4,672,640 or 71% of total Master Professional Service contracts activity.

According to the Board Letter supporting these contracts: "Supplemental construction management support and inspection services are required for various current and future capital projects that exceed the resource capability of the Agency's current staffing level. Utilizing on-call labor avoids the need to increase regular staffing levels to support short-term needs." CFS staff noted that these contracts were developed and approved after a period of down-sizing at the Agency due to the Great Recession to ensure the capacity to continue managing construction projects without having to add additional staff.

Although both contracts are in the construction management services category, according to E&CM the two companies provide different services. Butier provides the more traditional services associated with construction management. GK & Associates on the other hand provides staff augmentation when IEUA needs additional resources but does not want to make a long-term commitment to additional employees. They provide individuals with specific skills needed by the Agency such as inspectors, office engineers, engineering managers and similar positions. Although IEUA spent $4.6 million for staff augmentation and construction management during this period, the long-term costs of additional regular IEUA staff could expose the Agency to even larger commitments.

Given both the magnitude of spending for outside services to support construction management activities and the large amount of capital construction anticipated in the next several years, the Agency may want to now consider developing additional staff expertise.

Recommendation for consideration:
Given the amounts that are being spent on external professional services contracts for construction management services and the large amount of capital construction anticipated over the next decade, the Agency may want to consider whether it would be an effective use of resources to develop and utilize in-house expertise for construction management services.

E&CM Response: With the significant amount of construction currently underway and planned for the next 10 years, E&CM is currently in a transitional phase and is keeping options open about additional staffing. The department currently has three open positions and is considering where to best use them. The recent merging of the engineering and project manager roles allows one individual to be responsible for a project from start to finish and E&CM is monitoring the effectiveness of this approach before proceeding with additional hiring.

EXHIBIT A:
INLAND EMPIRE UTILITIES AGENCY
MAJOR PUBLIC WORKS PROJECTS

CONTRACT TYPE & PRIMARY RESPONSIBILITY:		Major Public Works Contracts over $2 Million (E & CM)	Major Public Works Contracts under $2 Million (E & CM)
QUALIFICATION PROCESS	**REQUEST FOR QUALIFICATIONS**	New "Request for qualifications" for each contract to establish a minimum group of qualified bidders.	Numerous contractors by various trades have been "pre-qualified" by E & CM through a "Request for Qualifications" evaluation process. This list is the group of contractors contacted for new projects.
BID/PROPOSAL APPROACH	**INVITATION FOR BID or REQUEST FOR BID** **(Agency must accept lowest responsible bid)**	The contractors that have been approved from the "Request for Qualifications" process are solicited through an "Invitation for Bid".	When a new project is approved, contractors in the applicable trade from the "pre-qual" list are solicited through an "Invitation for Bid".
	REQUEST FOR PROPOSAL **(Agency may select based on additional pre-established criteria)**	N/A	N/A; however, Agency may also request proposals through online bidding network in addition to using the prequalified contractors.
CONTRACT	**CONTRACT**	New contract established with lowest responsible bidder.	New contract established with lowest responsible bidder.
AUTHORIZATION TO PAY/PAYMENT PROCESS	**PAY ESTIMATE**	Work proceeds and payment is based on milestones or percentage of completion.	Work proceeds and payment is based on milestones or percentage of completion.
	NOT TO EXCEED QUOTE FOLLOWED BY TASK ORDER	N/A	N/A
	TASK ORDER	N/A	N/A
	INVOICE BASED ON CONTRACT TERMS	N/A	N/A

NOTE:
CFS: The Contracts and Facilities Services Department has primary responsibility for these contracts.
E & CM: The Engineering and Construction Management Department has primary responsibility for these contracts. CFS provides contracting expertise and oversight.

EXHIBIT B:
INLAND EMPIRE UTILITIES AGENCY
EMERGENCY PROCUREMENTS

CONTRACT TYPE & PRIMARY RESPONSIBILITY:		Emergency Procurements Level 1 (E & CM)	Emergency Procurements Level 2 (E & CM)	Emergency Procurements Level 3 (E & CM)
QUALIFICATION PROCESS	**REQUEST FOR QUALIFICATIONS**	N/A	N/A	N/A
BID/PROPOSAL APPROACH	**INVITATION FOR BID (IFB) or REQUEST FOR BID (RFB)** **(Agency must accept lowest responsible bid)**	N/A	N/A	N/A
	REQUEST FOR PROPOSAL (RFP) **(Agency may select based on additional pre-established criteria)**	Maintenance, minor construction & emergency procurement contractors have been "pre-qualified" through an "RFP" process. RFP used because no individual discrete project has been established. This group of contractors is contacted when emergency occurs.	Maintenance, minor construction & emergency procurement contractors have been "pre-qualified" through an "RFP" process. RFP used because no individual discrete project has been established. This group of contractors is contacted when emergency occurs.	Maintenance, minor construction & emergency procurement contractors have been "pre-qualified" through an "RFP" process. RFP used because no individual discrete project has been established. This group of contractors is contacted when emergency occurs.
CONTRACT	**CONTRACT**	Based on the "RFPs", contracts have been established with multiple responsible bidders with "not to exceed" totals.	Based on the "RFPs", contracts have been established with multiple responsible bidders with "not to exceed" totals.	Based on the "RFPs", contracts have been established with multiple responsible bidders with "not to exceed" totals.
AUTHORIZATION TO PAY/PAYMENT PROCESS	**PAY ESTIMATE**	N/A	N/A	N/A
	NOT TO EXCEED QUOTE FOLLOWED BY TASK ORDER	N/A	N/A	Select 3 responders to a "job-walk" at site of emergency and responders provide "not to exceed" bid.
	TASK ORDER	With Level 1 emergency, IEUA selects 1st response to e-mail blast and contractor must be on-site within 2 hours. Task order prepared after work completed.	With Level 2 emergency, IEUA selects 1st response to e-mail blast and contractor must be on-site within 24 hours. Task order prepared after work completed.	Lowest responsible bid accepted & "task order" provided once work starts.
	INVOICE BASED ON CONTRACT TERMS	Payment based on invoice.	Payment based on invoice.	Payment based on invoice.

EXHIBIT C:
INLAND EMPIRE UTILITIES AGENCY
MAINTENANCE & MINOR CONSTRUCTION, PROFESSIONAL SERVICES AND MASTER TRADE CONTRACTS

CONTRACT TYPE & PRIMARY RESPONSIBILITY:		Maintenance & Minor Construction (E & CM)	Professional Services (CFS)	Master Trade Contracts (CFS)
QUALIFICATION PROCESS	**REQUEST FOR QUALIFICATIONS**	N/A	N/A	N/A
BID/PROPOSAL APPROACH	**INVITATION FOR BID (IFB) or REQUEST FOR BID (RFB)** **(Agency must accept lowest responsible bid)**	N/A	N/A	N/A
	REQUEST FOR PROPOSAL (RFP) **(Agency may select based on additional pre-established criteria)**	Maintenance, minor construction & emergency procurement contractors have been "pre-qualified" through an "RFP" process. RFP used because no individual discrete project has been established. This group of contractors contacted for maintenance & minor construction projects.	Professional services contractors have been "pre-qualified" through an "RFP" process. RFP used because no individual discrete project has been established. This group of contractors is contacted for professional services projects.	Trade contractors (Roofing, Fencing, Painting, Asphalt) have been "pre-qualified" through an "RFP" process. RFP used because no individual discrete project has been established. This group of contractors is contacted if "Trades" type project comes up (usually maintenance department).
CONTRACT	**CONTRACT**	Based on the "RFPs", contracts have been established with multiple responsible bidders with "not to exceed" totals.	Based on the "RFPs", contracts have been established with multiple responsible bidders with "not to exceed" totals.	Based on the "RFPs", contracts have been established with multiple responsible bidders with "not to exceed" totals.
AUTHORIZATION TO PAY/PAYMENT PROCESS	**PAY ESTIMATE**	N/A	N/A	N/A
	ON-CALL	N/A	Generally, select one professional services contractor in the relevant specialty to perform the necessary task based on a phone call or e-mail.	N/A
	NOT TO EXCEED QUOTE FOLLOWED BY TASK ORDER	Generally, set-up a "job-walk" at site of project; responders provide "not to exceed" bid.	N/A	Provide a "job-walk" at site of project and responders provide "not to exceed" bid.
	TASK ORDER	Lowest responsible bid accepted & "task order" provided once work starts.	N/A	IEUA accepts the lowest responsible bid and provides a "task order" to start work.
	INVOICE BASED ON CONTRACT TERMS	Payment based on invoice.	Payment based on hours/services invoice.	Payment based on invoice.

EXHIBIT D:
INLAND EMPIRE UTILITIES AGENCY
LEVEL III EMERGENCIES: SEPTEMBER 1, 2014 TO JANUARY 21, 2016
1 OF 3

Contractor	T.O. No.	Task Order Description	Date of RFP or ER Request Started	Amount	SUMMARY OF DESCRIPTION FROM SUPPORTING DOCUMENTATION IN SAP	Discussion
Coonstruction, Inc.	TO-002	RP-1 Odor Control Biofilter No. 2	10/21/14 12:06pm	$ 61,000	Per CM: Operations Staff scheduled to have the Biofilter Medium replaced. Prior to replacement the Biofilter System is in need of sealant repairs and cleaning. A Level three emergency . . . To expedite the work and not cause negative impacts to Operation's schedule . . . required in order for Operations Staff to have a fully functioning Biofilter System that will allow for future, scheduled projects to be completed.	IA: Can filter replacement and cleaning be considered routine? Can sealant repairs be performed in the normal course of business? E&CM: Needed to promptly address this request from Operations as bio filter media replacement work was already scheduled.
David T. Wasden	TO-001	RP-4 Potable Water Line Installation	9/18/14 9:13am	$ 21,587	Per CM: RP-4 blower building equipment cooling water was supplied from a potable water supply line without a backup cooling water supply; Operations staff requested . . . Level 3 Emergency call out . . . To furnish and install a new 1 - 1/2 inch utility water line to serve as the primary cooling supply . . . with the existing potable water line . . . as backup supply.	IA: Could adding utility line and using existing line as back-up be considered routine? E&CM: Needed to promptly address this request from Operations as an alternative project delivery method, rather than design, advertise and award the project through minor construction process.
Ferreira Construction	TO-002	RP-2 Utility Water Line Leak	12/2/14 1:09pm	$ 3,449	Per CM: Contractor responded . . . To investigate and repair a leak reported by Operations Staff at the RP 2 Maintenance Building. Contractor excavated and exposed an 8" Transite pipe that was leaking from an existing coupling . . . Removed and replaced the coupling, backfilled and compacted the area. . . Emergency protocol was required due to the unknown origin of the leakage.	IA: Why not Level 1 or 2? E&CM: RP-2 Operations had isolated the RW system at this location, but needed to resume service with a short period of time.
Mike Bubalo Construction	TO-002	Headquarters RW Valve Replacement	7/27/15 4:17pm	$ 21,523	Per Invoice: Recycled Water Valve Replacement at headquarters.	IA: Could valve replacement be scheduled as routine? E&CM: Maintenance staff had attempted to isolate the RW system for a scheduled shutdown and were unable to proceed with the work due to inoperable valves.

**EXHIBIT D:
INLAND EMPIRE UTILITIES AGENCY
LEVEL III EMERGENCIES: SEPTEMBER 1, 2014 TO JANUARY 21, 2016
2 OF 3**

Contractor	T.O. No.	Task Order Description	Date of RFP or ER Request Started	Amount	SUMMARY OF DESCRIPTION FROM SUPPORTING DOCUMENTATION IN SAP	Discussion
Trautwein Construction	TO-001	RP1 RW Blow-off Manhole Repair/1050 Pipeline	08/21/15 12:38 pm	$ 17,421	Per Invoice: RP-1 Blow-off manhole repair - replace broken vault ring and cover.	IA: Why not Level 1 or 2? E&CM: Emergency work was in shoulder of right of way with no imminent danger to public which allowed for a Level 3.
Trautwein Construction	TO-002	1630 Zone Pump Station	9/24/15 11:32am	$ 6,865	Per Invoice: Pump station repair at the pump house building.	IA: Could this have been routine? If not, then why not Level 1 or 2? E&CM: Emergency work was in shoulder of right of way, with no imminent danger to public which allowed for a Level 3.
Trautwein Construction	TO-003	Ontario RW Blow Off Champagne and Francis	9/24/15 11:32am	$ 2,075	Per Invoice: Recycled water blow-off repair. Work completed on the northeast corner of Champagne and E. Francis Ave.	IA: Why not Level 1 or 2? E&CM: This work was the result of a traffic accident with the work area located in the shoulder of right of way with no imminent danger to public which allowed for Level 3.
VCI Construction	TO-001	Valve Box Repair - El Prado Rd	10/22/14 10:16am	$ 4,482	SAP info - 1 page invoice: Valve box repair on El Prado Road, Chino, CA	IA: Could this have been routine? If not, then why not Level 1 or 2? E&CM: Due to the location in the roadway median and potential for the valve cover to dislodge, a Level 3 callout was issued
VCI Construction	TO-002	RP-1 42-Inch Primary Effluent Pipe Repair	6/25/15 9:01am	$ 183,013	SAP info - 1 page invoice: RP-1 42-inch primary effluent pipe repair project.	IA: Could this have been routine? If not, then why not Level 1 or 2? E&CM: Level 3 most available mechanism to promptly address this request.
VCI Construction	TO-003	36-Inch Valve Repair	07/08/15 5:13pm	$ 13,303	Per Invoice and back-up: Repair RW 36-inch Butterfly Valve.	IA: Could this have been routine? If not, then why not Level 1 or 2? E&CM: Operation of this valve was integral to control and isolate the RW system. When Operations attempted to operate the valve the shear pin snapped rendering the valve inoperable. Operations stated the valve needed to be repaired in a short time frame to satisfy downstream RW customers' demands.

EXHIBIT D:
INLAND EMPIRE UTILITIES AGENCY
LEVEL III EMERGENCIES: SEPTEMBER 1, 2014 TO JANUARY 21, 2016
3 OF 3

Contractor	T.O. No.	Task Order Description	Date of RFP or ER Request Started	Amount	SUMMARY OF DESCRIPTION FROM SUPPORTING DOCUMENTATION IN SAP	Discussion
W.A. Rasic Construction	TO-003	CDA Soils Mitigation & Sulfuric Acid Line Repair	9/25/14 12:06pm	$ 129,226	SAP info - 1 page invoice: Emergency Chino DeSalter Sulfuric Acid Line Repair.	IA: Why not Level 1 or 2? E&CM: Initial callout was to repair leaking acid line. Further investigation of affected area increased scope of work which required prompt attention due to environmental impact.
W.A. Rasic Construction	TO-004	16" RW Triple Offset BFV Installation at RP-2	10/1/14 8:10am	$ 37,600	SAP info-invoice and letters - 16 inch Recycled Water Triple offset BV installation at RP-2 EN 15034.01 or EN 15035??	IA: Why not Level 1 or 2? E&CM: Level 3 was the most available mechanism to promptly address this request from Operations.
W.A. Rasic Construction	TO-013	RP-5 Underground Water Leak	3/18/15 11:42 am	$ 16,394	SAP info-1 page invoice: Level 3 RP-5 Underground Water Leak	IA: Why not Level 1 or 2? E&CM: RW leak was contained but required a prompt repair.
W.A. Rasic Construction	TO-014	ProLogis/CSI Sewer Manhole Surveys	3/19/15 10:34 am	$ 42,618	SAP info-1 page invoice: Contract Billing Level 3 Emergency Prologis/CSI Sewer Manhole Survey (Includes additional billing-no detail-$838.35)	IA: Could have been ordinary repair? E&CM: Level 3 was most efficient means to conduct survey which was vital to determining whether the permanent sewer line route was viable.
W.A. Rasic Construction	TO-018	HQ-A & HQ-B Slab Repair	5/27/15 1:43pm	$ 58,639	Parking lot repairs at HQ-A. Original award went to Braughton, but per e-mail from Eng. staff, they withdrew and a secondary award was made to WA Rasic. Contract amount was $41,998 plus $8,000 for changes in scope.	IA: Could have been ordinary repair? E&CM: Potential safety hazards to employees and public from uplifted parking concrete slabs determined Level 3 callout.
W.A. Rasic Construction	TO-020	RP-1 Centrifuge Bldg Centrate Well Coating	10/06/15 11:13am	$ 10,698	SAP info: RE-1 Centrate Wetwell	IA: Could have been ordinary repair? E&CM: Able to address impact to Operations of wet well pumps from delaminated coating.
W.A. Rasic Construction	TO-021	RP4 20"Valve Replacement; Construction of Valve Vault; Design of Vault	10/08/15 1:55am	$ 73,349	SAP info-1 page invoice: Contract Billing RP-4 20" Valve Replacement	IA: Could have been ordinary repair or construction? E&CM: Due to inoperable critical valve. Field investigation revealed valve could not be replaced, but required rebuilding in place.
W.A. Rasic Construction	TO-022	RW BO Repair in Chino Ave	11/12/15 8:47am	$ 12,296	SAP info - 1 page invoice: Contract Billing Wharf Head Repair.	IA: Could have been ordinary repair? E&CM: Work located in the shoulder of right of way with no imminent danger to public which allowed for Level 3.
W.A. Rasic Construction	TO-024	RP-3 Valve Station Security Fence and Bollard Install	11/18/15 12:59pm	$ 12,973	SAP info - 1 page invoice: Contract Billing RP-3 Valve station security fence & bollards (IA question -	IA: Could have been performed by Fencing Master Trade contractor? E&CM: Security & protection of facility warranted a Level 3 callout.

EXHIBIT E:
INLAND EMPIRE UTILITIES AGENCY
MARK-UP ANALYSIS

Contractor	T.O. No.	Task Order Description	Date of Request	Amount	Documented Mark-ups	Mark-up as a % of cost
Coonstruction, Inc.	TO-002	RP-1 Odor Control Biofilter No. 2	10/21/14 12:06pm	$ 42,275.30	$ 6,523.32	18.25%
Coonstruction, Inc.	TO-002	RP-1 Odor Control Biofilter No. 2	10/21/14 12:06pm	$ 18,724.70	Negotiated settlement	n/a
David T. Wasden	TO-001	RP-4 Potable Water Line Installation	9/18/14 9:13am	$ 21,587.00	$,927.54	22.24%
Ferreira Construction	TO-002	RP-2 Utility Water Line Leak	12/2/2014 1:09pm	$ 3,449.13	$ 644.50	22.98%
Mike Bubalo Construction	TO-002	Headquarters RW Valve Replacement	7/27/15 4:17pm	$ 21,522.80	$ 3,570.60	19.89%
Trautwein Construction	TO-001	RP1 RW Blowoff Manhole Repair/1050 Pipeline	8/21/15 12:38 pm	$ 17,421.14	$ 3,238.40	22.83%
Trautwein Construction	TO-002	1630 Zone Pump Station	9/24/15 11:32am	$ 6,865.15	$ 1,318.33	23.77%
Trautwein Construction	TO-003	Ontario RW Blow Off Champagne and Francis	9/24/15 11:32am	$ 2,074.66	$ 392.92	23.36%
VCI Construction	TO-001	Valve Box Repair - El Prado Rd	10/22/14 10:16am	$ 4,482.24	$ 476.18	11.89%
VCI Construction	TO-002	RP-1 42-Inch Primary Effluent Pipe Repair	6/25/15 9:01am	$183,012.74	$ 29,880.83	19.51%
VCI Construction	TO-003	36-Inch Valve Repair	07/08/15 5:13pm	$ 13,302.75	$ 2,118.98	18.95%
W.A. Rasic Construction	TO-003	CDA Soils Mitigation & Sulfuric Acid Line Repair	9/25/14 12:06pm	$129,226.32	$ 21,912.38	20.42%
W.A. Rasic Construction	TO-004	16" RW Triple Offset BFV Installation at RP-2	10/1/14 8:10am	$ 37,600.00	firm fixed price bid	
W.A. Rasic Construction	TO-013	RP-5 Underground Water Leak	3/18/15 11:42 am	$ 16,393.89	$ 2,934.75	21.80%
W.A. Rasic Construction	TO-014	ProLogis/CSI Sewer Manhole Surveys	3/19/15 10:34 am	$ 42,618.01	$ 6,952.62	19.49%
W.A. Rasic Construction	TO-018	HQ-A & HQ-B Slab Repair	5/27/15 1:43pm	$ 49,998.00	$ 10,993.49	21.99%
W.A. Rasic Construction	TO-018	HQ-A & HQ-B Slab Repair	5/27/15 1:43pm	$ 8,640.57	no details	n/a
W.A. Rasic Construction	TO-020	RP-1 Centrifuge Bldg Centrate Well Coating	10/06/15 11:13am	$ 10,698.44	$ 2,372.48	28.49%
W.A. Rasic Construction	TO-021	RP4 20" Valve Replcmnt; Construct Valve Vault; Design Vault	10/08/15 1:55am	$ 73,348.51	$ 10,570.61	16.84%
W.A. Rasic Construction	TO-022	RW BO Repair in Chino Ave	11/12/15 8:47am	$ 12,296.16	$ 2,301.69	23.03%
W.A. Rasic Construction	TO-024	RP-3 Valve Station Security Fence and Bollard Install	11/18/15 12:59pm	$ 12,973.40	$ 1,192.63	10.12%
		TOTALS (Mark-up % only for amounts/totals that showed mark-ups)		$728,510.91	$ 112,966.64	16.56%

1. Mark-ups add approximately 17% to the contract prices for Level III emergency contracts
2. Approximately 50% of Level III emergency contracts ($394,000) awarded to W.A. Rasic Construction
3. Documentation inconsistent about what constitutes an emergency vs. a master service task order

INFORMATION ITEM 2B

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Date:	December 21, 2016
To:	The Honorable Board of Directors
Through:	Audit Committee *(12/14/16)*
From:	Teresa V. Velarde Manager of Internal Audit
Subject:	Follow-Up Review – Information Technology Equipment Audit - FAD

T. Velarde

RECOMMENDATION

This is an informational item for the Board of Directors.

BACKGROUND

Internal Audit (IA) has completed the Follow-Up evaluation of the outstanding recommendations for Information Technology (IT) Equipment according to the Fiscal Year 2014/15 Annual Audit Plan. The Internal Audit Department Charter requires that IA perform follow-up evaluations to determine the progress made to implement the recommendations provided in previous audits. The follow-up audit evaluated the outstanding recommendations related to the following reports:

- Information Technology Equipment Audit, dated August 21, 2012; and
- Information Technology Equipment Audit Follow-up Audit, dated November 14, 2012
- Follow-Up Review – Information Technology Equipment – ISS, dated February 29, 2016

In August 2012, a total of 22 recommendations were provided to ensure internal controls over IT equipment are in place and ensure physical control and accountability of IT equipment. At the request of the Audit Committee, in November of 2012, IA performed a follow-up review to assess the implementation status of the original 22 recommendations. The November 2012 audit noted there were a total of 18 outstanding recommendations from the IT Equipment audits.

IA performed a follow-up review of 11 recommendations that was completed and presented to the Audit Committee on March 9, 2016. This report provides status of the 7 recommendations related to Finance and Accounting Department (FAD) only.

The bullet points below provide a brief summary of the report:

- <u>IT Equipment Accountability and Tracking:</u> The original audit recommended for Integrated Systems Services (ISS) and FAD to work together to reconcile their separate records related to IT equipment. After 2012, ISS developed the Technology Asset Listing (TAL), a database/tracking system to record all IT equipment and corresponding assignments of those assets. With the implementation of the TAL, IA determines having

ISS and FAD reconcile records would not provide an added control for the accountability of those assets. For this reason, the original recommendation is no longer applicable.

- Required Physical Inventory of Fixed Assets: Consistent with the recent recommendation provided by the Agency's external auditor Lance, Soll, Lunghard, LLP (LSL) during the Fiscal Year 2016 financial audit, IA recommends FAD take the lead to ensure a periodic physical inventory and inspection of the Agency's IT fixed assets is performed to verify existence, location and working condition of the assets. Without a physical inventory, there is a risk that misappropriated assets goes unnoticed. The physical inventory of fixed assets would provide assurance of equipment on hand and ensure information recorded in the financial system is accurate and complete.

- Capitalization of IT assets and required revision to Agency Capitalization Policy and/or department specific Standard Operating Procedures (SOPs): The audit noted instances where the Agency's capitalization policy is not applied consistently. Additionally, the audit also found instances where supporting documentation or other asset information was incomplete or missing, therefore asset information, such as details of the items that make up the "asset" and the support for the value given to each, were not always included with the asset documentation or made available for review. IA recommends FAD take the lead to review the various Agency documents and procedures for the establishment of assets, the capitalization thresholds, and the closing of capital projects to ensure Agency policies are updated with the most recent requirements and correspond to current Agency practices.

Of the seven (7) recommendations that were outstanding from the 2012 review, the audit found that two recommendations are now implemented, four recommendations continue to be in progress of being implemented by FAD, and one recommendation is no longer applicable. Additionally, IA provided two new recommendations. Currently, there are a total of 6 recommendations outstanding related to IT equipment. IA will plan require follow up review on the outstanding recommendations consistent with the Annual Audit Plan.

The Follow-Up review of the outstanding recommendations for IT Equipment is consistent with the Agency's Business Goals of *Fiscal Responsibility, Workplace Environment and Business Practices.*

Refer to the attached report for additional details of the findings and recommendations.

PRIOR BOARD ACTION

On June 15, 2016 the Board of Directors approved the Annual Audit Plan for Fiscal Year 2016/17.

On December 16, 2015, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Charter.

IMPACT ON BUDGET

None.

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

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DATE: December 5, 2016

TO: P. Joseph Grindstaff
General Manager

Teresa V. Velarde

FROM: Teresa V. Velarde
Manager of Internal Audit

SUBJECT: Follow-Up Review – Information Technology Equipment Audit - FAD

Audit Authority

The follow-up audit was performed under the authority provided by the Inland Empire Utilities Agency (IEUA or Agency) Board of Directors. The Internal Audit (IA) Department's Charter and the Annual Audit Plan require that IA follow up on the status of audit recommendations to determine if corrective actions have been taken. IA completed a follow-up review of the Finance and Accounting Department (FAD and/or FMD) functions for the outstanding recommendations related to the following audit reports:

- Information Technology Equipment Audit, dated August 21, 2012,
- Information Technology Equipment Follow-up Audit, dated November 14, 2012,
- Follow-Up Review – Information Technology Equipment – ISS, dated February 29, 2016

Audit Objective and Scope

The purpose of this follow-up review was to evaluate the corrective actions implemented on the 7 recommendations related to FAD only. Additionally, the objective of the prior audit reports was to determine if alternate controls have been implemented to mitigate any risks originally identified and determine if there are any new risk areas that require attention.

Audit Techniques

Audit techniques included:

- Review of policies and procedures
- Analysis of financial information
- Discussions with Agency staff

Audit Results – Executive Summary

Of the 7 outstanding recommendations, IA found that two recommendations are implemented, four recommendations continue to be in progress, and one recommendation is no longer applicable. Additionally, IA provides two new recommendations. All other previously outstanding recommendations were presented to the Audit Committee and discussed through a separate report, dated February 29, 2016, which were related primarily to the Integrated Systems Services (ISS) Department. The attached report provides details of the findings and recommendations. The bullet points below provide a summary:

- IT Equipment Accountability and Tracking – IA originally recommended that the ISS and FAD work together to reconcile their separate records related to all IT equipment. The purpose of the recommendation was to implement controls that track all IT Equipment purchases, assignments and disposals. Without any tracking system, there is no accountability of the IT equipment purchased or assurance that equipment is in good working condition, assigned to employees, and safeguarded for Agency use.

  After the original audit, ISS took the lead to implement the Technology Asset Listing (TAL), a database to record IT equipment purchases and corresponding assignments of those assets. On the TAL, ISS records IT equipment assignments to individual employees and annually require that employees verify and certify that the assets continue to be in their possession and are in good working condition.

  Because, ISS implemented a tracking database to ensure IT Equipment purchased is accounted for, IA determines that having ISS and FAD reconcile records would not provide an added control for the accountability of those assets. For this reason, the original recommendation is no longer applicable.

- Required Physical Inventory of Fixed Assets - Consistent with the recent recommendation provided by the Agency's external auditor, Lance, Soll, Lunghard, LLP (LSL), IA recommends FAD take the lead to ensure a periodic physical inventory and inspection of the Agency's IT fixed assets is performed on a periodic basis. According to LSL, this is a recommended internal control to verify existence, location and working condition of assets; without a physical inventory there is a risk that misappropriated assets goes unnoticed. The physical inventory of fixed assets would provide assurance that equipment is on hand, in good working condition and ensure information recorded in the financial system is accurate and complete.

- Capitalization of IT assets and required revision to Agency Capitalization Policy and/or department specific Standard Operating Procedures (SOPs) – The audit noted instances where the Agency's capitalization policy is not applied consistently. Additionally, the audit also found instances where supporting documentation or other asset information was incomplete or missing, therefore asset information, such as details of the items that make up the "asset" and the support for the value given to each, were not always included with the asset documentation or made available for review. IA recommends FAD take the lead to review all Agency documents and procedures providing guidelines for the establishment of assets, the capitalization thresholds and the closing of capital projects and ensure Agency policies are updated with the most recent requirements and correspond to current Agency practices. If deemed necessary, FAD should seek advice from the Agency's external auditors on capitalization thresholds and practices. IA found instances where the current policies are not followed consistently or do not match current practices. The several documents related to capitalization include Agency Policy A-49, the CAFR capitalization table, the Budgeting Instructions, and FAD's SOP. These require current revision to ensure all correlate and contain the current Agency capitalization policy and match current practices.

Discussions with Management

We provided the results of this follow-up review to Christina Valencia, Assistant General Manager/Chief Financial Officer, Javier Chagoyen-Lazaro, Manager of FAD, and Suresh Malkani, Principal Accountant, prior to finalizing this report for their review and comments.

Acknowledgements

We would like to extend our appreciation to FAD and ISS staff for their cooperation during this follow-up review.

Written Response to Internal Audit

As required by the IA Charter, IA will continue to follow up until full implementation of all outstanding recommendations and/or compensating controls has been implemented.

New recommendations were provided in this report. IA will follow-up on these new recommendations in a future audit.

TV:sn

Background

The Finance and Accounting Department (FAD) is responsible for the recording, maintaining, and safekeeping of the Agency's assets and financial information. FAD relies on the Agency's financial system, SAP to record financial transactions.

The original Information Technology (IT) Equipment Audit report issued in August 2012 provided a total of 22 recommendations to ensure internal controls over IT equipment are in place and ensure the physical control and accountability of IT equipment.

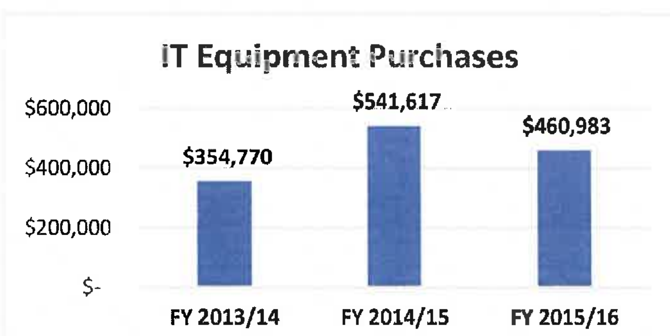
In November 2012, at the request of the Audit Committee, Internal Audit (IA) performed a follow-up evaluation to assess the implementation status of the original recommendations. After the follow up review in 2012, 18 recommendations remained outstanding, 7 of which were the primary responsibility of FAD.

This report provides the status of the 7 recommendations related to FAD only.

IT equipment purchases, as shown in SAP for account #512620 Equipment – Computers under $1,000, as provided by Integrated Systems Services (ISS) only, for the last three fiscal years (FY) are as follows:

Integrated System Services
IT Equipment Expenditures
Operations & Maintenance and Capital Purchases
G/L Account # 512620
Equipment – Computers < $1,000

Fiscal Year	Amount
2013/2014	$354,770
2014/2015	$541,617
2015/2016	$460,983



Equipment Accountability and Tracking

Recommendation 7:
ISS and FAD should work together to establish procedures to perform periodic reconciliations of SAP assets and ISS equipment records.

Status: No Longer Applicable

During the original audit, IA noted that ISS and FAD, each maintained their separate documents for the IT purchases made and found several discrepancies when IA attempted to reconcile the records. IA also noted that ISS nor FAD perform periodic reconciliations between ISS equipment records and FAD asset listings. The purpose of the original recommendation was to implement controls that track all IT Equipment purchases, assignments and disposals. Without any tracking system, there is no accountability of the IT equipment purchased or assurance that equipment is in good working condition, assigned to employees, and safeguarded for Agency use. The risks were that purchased equipment could go missing or disposed of without any tracking of the equipment or communication between ISS and FAD.

After the original audit, ISS took the lead to implement the Technology Asset Listing (TAL), a database to record IT equipment purchases and corresponding assignments to employees of those assets. The TAL includes desktop computers, monitors, tablets, iPads, smartphones, and IT fixed assets. ISS assigns IT equipment to individual employees and annually require that employees verify and certify that the assets continue to be in their possession and are in good working condition. Disposals or replacements are also tracked by ISS and any disposals are communicated via email notices from ISS to FAD. Another benefit of having the TAL is that Human Resources (HR) now has a tool to ensure any IT equipment is recovered when employees leave Agency service.

Because, ISS implemented a tracking database to ensure IT Equipment purchased is accounted for, IA determines that the intent of the original recommendation is now implemented. IA further determines that to have ISS and FAD reconcile records would not provide an added control for the accountability of those assets. Therefore, the original recommendation provided is no longer applicable.

2016 Recommendation #1
Consistent with the recommendation provided by the Agency's External Auditors, IA provides the following new recommendation:
FAD should take the lead to ensure a physical inventory and inspection of the Agency's IT fixed assets is completed on a periodic basis to verify existence, location, and working condition of assets.

During the FY 2016 financial audit, the Agency's External Auditors, LSL provided a recommendation related to the accountability of the Agency's fixed assets, including furniture and computer equipment. LSL noted that good internal controls and best practices dictate a regular physical inventory be performed to verify existence, location, and working condition of assets. LSL noted that a complete physical verification of all assets is recommended on a two to three year cycle count. Consistent with the recommendation provided by LSL, IA provides **2016 Recommendation #1.**

Capitalization of IT Equipment

Recommendation 15:
FMD should implement adequate controls to ensure that the stated capitalization policy for IT equipment is consistently followed to ensure that all items meeting the capitalization threshold are capitalized and to ensure that items not meeting the capitalization threshold are not capitalized.

Status: In Progress

Recommendation 17:
FMD should implement adequate controls to ensure that asset records established in SAP are accurate and complete, such as ensuring that all data fields in SAP are completed and ensuring that only those items allowed by the capitalization policy are capitalized.

Status: In Progress

Recommendation 19: ***FMD should return incorrect or incomplete Project Closure Authorization Forms to the Project Manager for proper completion. FMD should also provide training to Project Managers on the importance of proper completion and instructions on completing the form.***

Status: In Progress

Follow-Up Recommendation 2 (from November 2012):
FMD should seek guidance from the external auditors on the capitalization of computers and peripheral computer equipment costing less than $1,000, and the capitalization of software licensing costs to ensure the proper accounting treatment is employed.

Status: Implemented

Capitalization Process

The following simplified steps summarize the process for establishing an IT asset and the process for the capitalization of IT equipment:

1. When ISS identifies/anticipates the need for new IT equipment, ISS budgets for "Capital Projects" during the respective budget cycle.

2. FAD assists in establishing the budget funding and creating the "Capital Project" in SAP, the Agency's financial system.

3. Once the project and the budget are approved, costs can be incurred.

4. ISS determines when the "Capital Project" is complete by filing the Project Closure Authorization Form, which is the document used to list the individual assets that make up the "Capital Project". ISS is required to submit the closure form and all required supporting documentation to FAD.

5. FAD relies on completed, signed closure forms, and the supporting documentation to establish the assets in SAP for capitalization.

Capitalization Policy

The original and follow-up audits found inconsistencies in applying the Agency's capitalization policy, missing, inaccurate or incomplete information in SAP, and supporting documentation was not always provided with the Project Closure Authorization Forms, which are the documents used to list the individual assets that make up a capital project. Additionally, IA recommended the Agency seek guidance from the Agency's external auditors on rules and best practices for capitalizing IT assets that did not meet the capitalization threshold.

According to Agency Policy, computer equipment is capitalized if it costs $1,000 or more and the estimated useful life is greater than one year. According to FAD's documented SOP *(Policy of Tangible and Intangible Assets, Procedures No: FA PR-01, effective 07/01/2014)*, any IT assets that have a value below the capitalization threshold, *$1,000 for computer and computer related equipment*, are considered "Tangible assets – non-depreciable "low value" asset items", meaning these items do not meet the criteria to be capitalized and typically are assigned to an individual employee and tracked only for security and accountability purposes. Per the SOP, the "list of typical assets" that are included in this category are: laptop computer, cellular phone, blackberries, digital camera and gate clickers. Based on the FAD's procedure, computer equipment under $1,000 should not be capitalized.

During the 2016 follow-up audit, IA reviewed the current capitalization policies and thresholds established for computer and IT equipment as outlined in the following Agency documents:

- Agency Policy A-49 Closing of Capital and Non-Capital Projects (effective July 15, 2005). (A-49 provides the guidelines for the prior capitalization procedure and does not match current Agency practice for using the Project Closure Authorization Form).

- Comprehensive Annual Financial Report (CAFR) for FY 14/15 (as of June 30, 2015), (Provides the thresholds for capitalizing computer equipment)

- Budgeting/Planning document titled: General Budgeting Instructions
(Provides Agency staff with instructions on what is capitalized and the thresholds that must be applied)

- FAD's SOP No. FA PR-01, Revision 10 Policy of Tangible and Intangible Assets- SAP FY 14/15, effective 7/1/2014
(Provides FAD staff with guidelines on tangible/intangible assets)

These documents noted the capitalization threshold for *Computer and related IT equipment* is any item purchased with a cost of more than $1,000 and a useful life greater than one year including any other costs needed to place the asset into service (i.e., sales tax, shipping and handling fees, installation, labor, etc.).

Since the completion of the original audit, FAD has made efforts to address the *Follow-Up Recommendation 2 (from November 2012)* including seeking advice from the Agency's external auditors on the capitalization thresholds. According to FAD, the prior external auditors stated that the capitalization thresholds for equipment are established at the discretion of the organization's management. *The current external audit firm, LSL, stated that FAD should consider a higher threshold for computer assets and/or changing the budgeting methodology to ensure only items that should be capitalized are and those that should not are not capitalized.* Because FAD has inquired of the external auditors, this recommendation has been addressed, however, it is a topic that will require on-going review and require FAD update its policies as required. Additionally, FAD must ensure that the Agency's capitalization policies match current practices (more discussion on policies later in this report).

Audit Findings related to Capitalization Thresholds
The original audits found that most computer equipment, regardless of purchase price, associated with a capital project are set-up as part of a capital asset that is capitalized. Project Managers complete the Project Closure Authorization Form and FAD creates the capital assets using the information provided on the Project Closure Authorization Form.

IA reviewed the 22 months period between January 1, 2015 through October 24, 2016, and identified 35 projects (18 ISS projects and 17 related to other department projects) that were closed and had IT assets that were capitalized in SAP. The 35 projects comprised of 196 *line items* with an acquisition value of $8,400,241 (a "line item" in SAP is **"one asset"** that has been created as an "asset" for capitalization, however, each "line item" or "asset" may have one or more different assets grouped into the "**one asset**". For example, Project IS16013 had a "line item" for Allen Bradley Logix Controller with a capitalized amount of $33,220.64; however, this "line item" or "asset" actually had a total of five (5) individual assets, that could have or should have been separated into the five individual assets, ensuring that Agency policies are followed.

For the 22 months reviewed, (January 1, 2015 through October 24, 2016), IA performed a cursory review of the information recorded in SAP and selected 7 capital projects for additional review. The 7 projects comprised of 65 "line items" with a total acquisition value of $425,852. IAs review of the 7 projects disclosed the following:

- **Project Closure Authorization Form and detailed supporting documentation were not always provided for IAs review**:
  IA requested the Project Closure Authorization Form (PCAF) and the supporting documentation relied on by FAD to capitalize the asset amount in SAP. The supporting documentation to substantiate the amounts capitalized was not provided for the following:

  - IS16007: ARC Servers Replacement, total project amount is $10,464
  - IS16016: Plant Operations Workstation Replacement Project, total project amount is $ 20,259.52

  FAD should have retained the required supporting documentation used to establish the asset. The supporting documentation should be made available upon request. Without supporting documents, the requirement for the asset and the amount applied comes into question.

- **Capitalization Policy inconsistently applied**:
  Based on IA's cursory review of the information recorded in SAP and the 5 capital projects reviewed, IA identified individual assets that were capitalized but had a unit cost of less than $1,000. This practice does not follow the Agency's established policy and guidelines for capitalization because it appears that none of the items included in the "one asset" were eligible for capitalization as stated in Agency policies. See the table below:

Project Number	Project Name	Asset Description	Unit Cost	Quantity	Total
IS15012	Business Network IT Improvements	Apple iPad Air 2 with Keyboard Case 16 GB	$ 684.12	1	$ 684.12
		Dell 2.5 In Hot Plug Hard Drive	$ 465.00	8	$ 4,027.60
		Dell Intel Ethernet X520 DP Server Adaptor	$ 552.49	2	$ 1,193.38
IS16007	ARC Servers Replacement	Hard Drives	$ 872.00	12	$ 10,464.00
IS16016	Plant Operations Workstation Replacement Project	Laptops	$ 914.86	20	$ 18,297.20
IS16018	Virtualization Host Server Replacement	Hard Drives	$ 779.10	12	$ 9,349.15

In each of the instances above, the capitalization policy for computer equipment is not consistently applied because the individual items are not over $1,000. The capitalization threshold is the same whether a single asset is being purchased or multiples of the same item are being purchased simultaneously, but in the instances above, if more than one item was purchased at the same time, a capital asset was created. *The Agency must determine what the Agency capitalization policy is and ensure current practice matches current policy.*

- **Inconsistent recording of capitalized assets in the financial system making it difficult to trace and locate assets:**
The audit found four (4) of the seven (7) projects (IS15012, IS15016, EN11051 and IS16013) or 57%, there were various line items with the serial number/VIN number missing or listed "see attachment". The serial number/VIN information is included as an attachment in SAP instead. Other projects in SAP show the assets and serial numbers individually input and listed. In other instances, assets are sometimes summarized into one line item, rather than recorded individually, therefore making it difficult or impossible to trace the same items through the supporting documents. Not recording capitalized assets in a consistent matter can create difficulties identifying and tracing assets in the financial records. FAD should determine the best record keeping for tracking and consistency to ensure all assets can be located and traced.

- **FAD supervisory review was missing on asset documents:**
The audit found two (2) projects, Projects IS15016 and IS16013, where the Project Closure Authorization Form was not signed by the FAD supervisor, therefore lacked evidence of FAD management review. Management review is important to ensure only approved assets that meet the Agency's Capitalization Policy are established as assets in the financial system.

- **Missing supporting documentation to justify the financial value of the asset**:
The audit found that for three (3) projects, Projects IS15012, IS15016 and EN11051, there was a lack of supporting information regarding the amounts used or how the amounts were calculated to establish the financial value of the asset in the financial system. FAD stated there are various reasons for the differences, however, adequate supporting information or notes were not located or provided to validate and justify the amounts. For Project EN11051, Construction Management noted that the "asset amount" recorded is probably based on the "asset replacement value", but as of the date of this report, no supporting documentation has been provided to validate or justify the amount relied on to create the asset in the financial system.

  FAD staff should ensure there is sufficient supporting documentation included with the Project Closure Authorization Form to support the amounts used in setting up an asset. Not having a clear trail with adequate supporting documentation, makes it difficult to determine how the amounts were derived and calls into question the amounts capitalized in the financial system.

IA recommends that FAD review the current Agency Policy(ies) related to Capitalization of IT and all fixed assets to ensure that current Agency Policy matches the current practices employed. For the reasons noted above, Recommendation Numbers 15, 17 and 19 continue to be In Progress.

<u>*On-going evaluation of Agency Capitalization Thresholds*</u>

<u>2016 Recommendation #2</u>

FAD should evaluate the Agency's current capitalization thresholds established for IT Equipment and determine if these need to be increased to ensure current Agency practice is consistent with Agency policy.

IA recommends that FAD review the capitalization threshold and consider making changes (either increasing or decreasing) the threshold amounts as best suited for this Agency. Various considerations should be evaluated, including changes and development with IT equipment, as well as other fixed assets.

IA performed a limited survey* of comparable agencies regarding capitalization thresholds, as shown in the table below:

Agencies:	**IEUA**	**LACSD** Los Angeles County Sanitation District	**WMWD** Western Municipal Water District	**IRWD** Irvine Ranch Water District	**MNWD** Moulton Niguel Water District
Capitalization Threshold for: • Computer and IT equipment	**$1,000**	$5,000	$10,000 (District-wide; no specific threshold for IT equipment)	$2,500	$5,000
Estimated Useful life	> 1 year	None provided	None provided	> 3 years	> 3 years
Accounting treatment applied: • Costing less than Capitalization threshold	**Expensed**	Expensed	Expensed	Expensed	Expensed
Application of capitalization threshold: • Individual components/ workstations unit	**Computer workstations capitalized as a unit**	Computer workstations capitalized as a total package, provided it meets the threshold and if purchased together	Individual Items (Group of similar items – only on case by case basis)	Computer workstations capitalized as total package	Computer workstations (desktop/laptop, keyboard, mouse, monitor) are capitalized as one unit as long as the cost is $5,000 or more. If there are individual purchases (i.e., for monitors), then they are expensed.

**Information was confirmed with the agency representatives via email information.*

***Recommendation 20:* FMD should implement internal controls to ensure timely periodic follow-up with other department managers on projects requiring closure.**

Status: Implemented

In the final audit reports for Fiscal Year's 2011 and 2015, the Agency's external auditors noted that capital projects should be closed in a more timely manner. The external auditors at the time recommended tighter controls be implemented to ensure guidelines are followed and the timely closing of capital projects. FAD responded that greater efforts have been made to address this concern, including the creation of a new project request form prior to the start of a project.

Because this item is not documented as a finding or issue in the FY 2016 Financial Statement audit and the current auditors did not document or comment on any concern in regards to the timely closing of projects, IA deems this recommendation is now implemented.

Agency Policy/Standard Operating Procedures (SOPs)

The original audit report noted that FAD did not have SOPs for the many functions related to capitalization of assets, including:

- Adhering to the Agency's capitalization thresholds when setting up assets
- Ensuring that asset costs and SAP asset records are accurate and complete and sufficient supporting documentation is available to validate the total amount used to capitalize an asset
- Ensuring timely and accurately completion of Project Closure Authorization Forms

Good internal controls require written procedures to ensure consistency and accuracy in applying the procedure. SOPs serve as a training tool and manual for other staff. Policies and procedures should be reviewed from time to time to ensure they are updated and consistent with current practices. Department SOPs are part of the Agency's internal control framework and therefore are a recommended best practice.

Recommendation 22:
FMD should document Standard Operating Procedures to address the functions of setting up capital assets such as procedures for completing the SAP asset information, compliance with stated capitalization thresholds, and processing of Project Closure Authorization Forms.

Status:* *In Progress

In their response to the original 2012 IT Audit, FAD planned to finalize updates to the existing SOP by the end of June 2013, for processing the Project Closure Authorization Forms and setting up capital assets in SAP. As of this follow-up review, FAD noted that they have not formalized and/or updated the written standard operating procedure for processing project closure authorization forms and setting up assets in SAP. Additionally, IA noted the Agency Policy A-49 is out of date and requires it be updated to correspond to the Agency's current practice. IA notes that if A-49 is updated, there may not be a need for an additional FAD SOP. FAD should determine the need to keep the SOP once A-49 is updated or eliminate A-49 and update their department SOP. Below are the documents related to capitalization of assets:

- **Agency Policy A-49 <u>Closing of Capital and Non-Capital Projects</u>**
    - Effective July 15, 2005
    - A-49 provides the guidelines for the prior capitalization procedure and does not match current Agency practice for using the Project Closure Authorization Form

- **Comprehensive Annual Financial Report (CAFR)**
    - Documents the thresholds for capitalizing computer and related IT equipment

- **Budgeting/Planning document titled: <u>General Budgeting Instructions</u>**
    - Provides Agency staff with instructions on what is capitalized and the thresholds that must be applied

- **FAD's SOP No. FA PR-01, Revision 10 <u>Policy of Tangible and Intangible Assets- SAP FY 14/15</u>**
    - Effective 7/1/2014
    - Provides FAD staff with guidelines on what is a tangible/intangible asset

FAD should determine if they require a more detailed operating procedure than the items described above, ensure that the CAFR capitalization table, the Budgeting Instructions, FAD's SOP and A-49 all correlate and contain the current Agency capitalization policy and corresponding procedures to ensure these match current practices.

IA recommends that FAD cross-reference the documents above and ensure consistent information is communicated to all Agency staff to avoid any confusion in the capitalization of assets and information required in the Project Closure Authorization forms.

IEUAs Capitalization Thresholds related to Capital Assets/Computer Equipment

Document available related to capitalization:
Comprehensive Annual Financial Report as of June 30, 2015 – Notes to the Financial Statements

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

Document available related to capitalization:
FAD's SOP titled: Policy on Tangible and Intangible Assets – SAP FY 14/15 (effective 07/01/2014)

Page 1:

2.01 Capital Assets

Capital Assets shall be defined as expenditures on *Tangible Assets* and *Intangible Assets*, meeting specific IEUA criteria.

1. **Tangible Assets - depreciable**

A. Items such as land, land improvements, buildings, plants, equipment and system infrastructure, are considered capital expenditures if:

1. they exceed $5,000 (*$5000 for office furniture and equipment, $1,000 for computer and computer related equipment*), and
2. the expected useful life is longer than one year.

Page 2 and 3:

2. **Tangible Assets – non-depreciable "low value" asset items**

A. These items have value below the capitalization threshold. However, they are typically assigned to an individual employee. The manner in which these assets are used warrants the effort of tracking to address security concerns, and avoid potential pilferage. The following is a list of typical assets that fall into this category:

2. **Tangible Assets – non-depreciable "low value" asset items, cont'd**

1) Laptop Computer
2) Cellular Phone
3) Blackberries
4) Digital Camera
5) Gate Clickers

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2.04 Capitalization

1. There are different scenarios in recording expenditures as assets, versus an expense. In general, the following would apply:

A. **New acquisition**

1. Any total expenditure that exceeds $5,000 (*$5000 for office furniture and equipment, $1,000 for computer and computer related equipment*), and the useful life is longer than one year.

a. Office furniture and equipment includes filing cabinets, desks, chairs, bookcases, calculators, telephones, pencil sharpeners, typewriters, paper shredders, copiers and other items typically used in an office environment.

b. Office furniture and equipment also includes microcomputers, printers, scanners and other peripherals.

c. Operating Equipment includes all equipment not specifically mentioned above.

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2.04 Capitalization, continued:

C. **Table of Capitalization Criteria, continued:**

1. Computer Equipment ***includes*** computers, microcomputers, printers, scanners, peripherals and other related computer equipment not associated with Electrical and/or Mechanical Operations.

2. Computer Equipment ***excludes*** DCS equipment and other electronic components used for Plant Operations only.

Document available related to capitalization:
Budgeting/Planning titled: General Budgeting Instructions for FY 2015/16 and 2016/17

EQUIPMENT

Equipment acquisitions are considered to be capital assets if the useful life of the item being purchased is longer than one year. If the item meets the criteria, then one of the following valuation criteria must be applied. The cost of the equipment purchase includes not only the cost of the item itself, but also freight, sales tax, handling fees, applicable licensing and/or permit fees, testing fees, installation, legal fees required to establish title, and any other costs needed to place the asset into a useful condition.

VALUATION CRITERIA:

Office Furniture and Equipment
This group includes filing cabinets, desks, chairs, bookcases, calculators, telephones, pencil sharpeners, typewriters, paper shredders, copiers, and other items typically used in an office environment. It also includes printers, fax machine, scanners and other peripherals.

To qualify as a capital asset, the item being purchased must cost more than $5,000 and have an estimated useful life of more than one year.

Computer Equipment
This group includes personal computer hardware, laptop computer, and associated accessories.

To qualify as a capital asset, the item being purchased must cost more than $1,000 and have an estimated useful life of more than one year.

Summary of Outstanding Recommendations at December 2016
Information Technology Audit - Finance and Accounting Department (FAD) Only

Audit Report Date	Rec #	Recommendation	Implemen-ted	In Progress	No Longer Applicable
August 21, 2012	7	ISS and FAD should work together to establish procedures to perform periodic reconciliations of SAP assets and ISS equipment records.			X
	15	FAD should implement adequate controls to ensure that the stated capitalization policy for IT equipment is consistently followed to ensure that all items meeting the capitalization threshold are capitalized and to ensure that items not meeting the capitalization threshold are not capitalized.		X	
	17	FAD should implement adequate controls to ensure that asset records established in SAP are accurate and complete, such as ensuring that all data fields in SAP are completed and ensuring that only those items allowed by the capitalization policy are capitalized.		X	
	19	FAD should return incorrect or incomplete Project Closure Authorization Forms to the Project Manager for proper completion. FMD should also provide training to Project Managers on the importance of proper completion and instructions on completing the form.		X	
	20	FAD should implement internal controls to ensure timely periodic follow-up with other department managers on projects requiring closure.	X		
	22	FAD should document Standard Operating Procedures to address the functions of setting up capital assets such as procedures for completing the SAP asset information, compliance with stated capitalization thresholds, and processing of Project Closure Authorization Forms.		X	
November 14, 2012	2	FAD should seek guidance from the external auditors on the capitalization of computers and peripheral computer equipment costing less than $1,000, and the capitalization of software licensing costs to ensure the proper accounting treatment is employed.	X		
December 5, 2016	1	FAD should take the lead to ensure a physical inventory and inspection of the Agency's IT fixed assets is completed on a periodic basis to verify existence, location, and working condition of assets.		New in 2016	
	2	FAD should evaluate the Agency's current capitalization thresholds established for IT Equipment and determine if these need to be increased to ensure current Agency practice is consistent with Agency policy.		New in 2016	
		Totals	2	6	1

INFORMATION ITEM 2C

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Date:	December 21, 2016
To:	The Honorable Board of Directors
Through:	Audit Committee *(12/14/2016)*
From:	Teresa V. Velarde Manager of Internal Audit
Subject:	Updates for the Audit Committee and the Internal Audit Department (IAD) Charters

RECOMMENDATION

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

BACKGROUND

The IAD Charter states that the department is responsible for performing periodic reviews of both the Audit Committee Charter and the IAD Charter, and making recommendations for any necessary updates and revisions. Attached are the charters presented for your review, discussion, and further direction. No changes are proposed at this time.

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

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

The Charters are reviewed annually. The last amendments were adopted in December 2015.

IA staff evaluated published updates proposed by the Institute of Internal Auditors and worked with the Audit Committee's Financial Advisor to ensure both charters incorporate most current practices.

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

The attachments include the Audit Committee Charter and the IA Charter.

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

PRIOR BOARD ACTION

On December 16, 2015, the Board of Directors approved the revised Audit Committee Charter.

On December 16, 2015, the Board of Directors approved the revised IAD Charter.

IMPACT ON BUDGET

None

Inland Empire
UTILITIES AGENCY *

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Amended on March 16, 2016

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

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

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

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

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

All members of the Audit Committee shall possess or obtain a basic understanding of governmental financial reporting, accounting and auditing and shall have a requisite interest in financial reporting issues of the Agency. The financial expert shall be an individual with sufficient financial experience and interest to provide guidance and assistance to the Audit Committee. The financial expert should through both education and experience, and in a manner specifically relevant to the government sector, possess: 1) an understanding of generally accepted accounting principles and financial statements; 2) experience in preparing or auditing financial statements of comparable entities; 3) experience in applying such principles in connection with the accounting for estimates, accruals, and reserves; 4) experience with internal accounting controls; and 5) an understanding of Audit Committee functions.

The members of the Board serving on the Audit Committee shall be compensated in accordance with the guidelines established for the IEUA Board of Directors in Ordinance No. 98 adopted May 21, 2014, and as amended from time to time, entitled:

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

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

AUTHORITY

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

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

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

RESPONSIBILITIES

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

<u>Financial Reporting:</u>

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

taken or proposes to take to minimize such risks to the Agency; and periodically review compliance with such steps.

Internal Controls:

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

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

<u>Internal Audit Department:</u>

- Request that the Agency's Manager of Internal Audit prepare the Audit Committee's meeting agendas designed to ensure that all of the responsibilities of the Audit Committee as described herein are addressed at least once a year.
- Ensure there are no unjustified restrictions or limitations placed on the Internal Audit Department.
- Review with the Board, General Manager, and the Manager of Internal Audit the Internal Audit Department Charter, Annual Audit Plan, staffing, budget, and organizational reporting structure to ensure they meet the Committee's goals, objectives, and responsibilities to the Board and Agency management.
- Review and recommend to the Board the approval of the Internal Audit Department's Annual Audit Plan and any significant changes that may occur during the year.
- Review, as needed, all internal audit reports, findings, and recommendations.
- Review and recommend to the Board the appointment, replacement, dismissal, or change in duties of the Manager of Internal Audit.
- Review the effectiveness of the Internal Audit Department's function, including compliance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (Standards).*

- Conduct the Manager of Internal Audit performance appraisals and recommend Manager of Internal Audit merit increases and incentive compensation to the Board.
- Hold management accountable for the appropriate resolution of Internal Audit Department's recommendations and ensure that disposition has been determined for Audit Department recommendations from the prior year. If management has determined that Internal Audit Department recommendations need not be implemented because of adequate compensating controls, based upon a cost/benefit analysis or because the risks are at an acceptable level in accordance with the Agency's goals and objectives, evaluate the reasonableness of such determinations and advise the Board of Directors accordingly.

<u>External Audit:</u>

- Review the external accounting firm's proposals and fee structure, and provide recommendations and external audit plan approval to the Board.
- Review the external auditors' proposed audit scope and approach to ensure emphasis is placed on areas the Committee, Board, Management and external auditors believe special attention is warranted and that efforts are coordinated with the Internal Audit Department.
- Evaluate the external auditor's independence, and if needed, recommend the Board take the appropriate action to satisfy the Agency with the external auditor's independence.
- Review the effectiveness of the external auditor's work and provide the Board with the final approval to continue or discharge the current firm.
- Communicate to the external auditors areas of internal control with a heightened risk of fraud or error, any known or suspected employee fraud, management fraud, pressures or incentives for management to distort reported financial results, or any known or suspected accounting errors or misstatements.
- Communicate to the external auditors any areas of concern applicable to the external auditors' scope of responsibility (fraud, errors, or misstatements involving amounts significant to the financial statements taken as a whole).
- Review all significant written communications between the external auditors and management, such as any management letter comments or schedule of unadjusted differences (i.e. management letter, schedule of audit, or significant unusual or non-routine items, etc.)
- Hold management accountable for the appropriate resolution of external auditor recommendations, ensure that disposition has been determined for auditor recommendations from the prior year, and where management has determined that auditor recommendations need not be implemented because of adequate compensating controls or based upon a cost/benefit analysis, evaluate the reasonableness of such determinations and advise the Board of Directors accordingly.
- Review with the external auditor that performs the financial statement audit:
    - All critical accounting policies and practices used by the Agency.
    - All alternative treatments of financial information within generally accepted accounting principles that have been discussed with the Agency's management, the ramifications of each alternative, and the treatment preferred by the Agency.

- Review with management and the external auditors:
  - The Agency's annual financial statements, related notes, and management's discussion and analysis.
  - The external auditors' audit of the financial statements and their report thereon.
  - The external auditors' judgments about the quality, not just the acceptability, of the Agency's accounting principles as applied in its financial reporting.
  - The external auditors' single audit of the federal awards administered by the Agency and their reports thereon.
  - Any significant changes required in the external auditors' audit plan.
  - Any serious difficulties or disputes with management encountered during the audit.
  - Matters required by Statement on Auditing Standards (SAS) No. 114, The Auditor's Communication With Those Charged With Governance; U.S. Government Accountability Office's (GAO) Government Auditing Standards; and the U.S. Office of Management and Budget's Circular A-133 related to the conduct of the audits.

- Evaluate whether or not the performance of any extra work or special projects requested of the Agency's external audit firm violates the independence standards of the GAO.

- Recommend that the Board of Directors approve the Agency's annual financial report, if the Committee believes that they are fairly presented, to the extent such a determination can be made on the basis of reading the financial statements and discussions with Agency management and the external auditors.

Compliance:

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

Other Matters:

- The Audit Committee shall engage consultants, specialists, or other audit firms as necessary to assist the committee in the discharging of its responsibilities.
- The Audit Committee shall direct the Manager of Internal Audit to review the Agency's Audit Committee Charter annually in order to advise the Audit Committee as to needed or recommended changes.

- The Audit Committee shall report to the Board of Directors issues discussed in the Audit Committee meeting that, in the judgment of the committee, warrant communication to the Board to help the Board fulfill its oversight responsibility.

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

MEETINGS
The Audit Committee shall meet no less than quarterly.

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

The General Manager and Manager of Internal Audit will be provided written notification and an agenda at least 72 hours before quarterly and special Committee meetings. These parties will be provided an opportunity to attend and speak at all Committee meetings but are not considered members of the Committee and have no voting rights.

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

Inland Empire
UTILITIES AGENCY *

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Amended on March 16, 2016

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

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

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

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

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

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Amended on March 16, 2016

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

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

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

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

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

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

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

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

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

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

INDEPENDENCE

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

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

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

AUTHORITY

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

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

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

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

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

RESPONSIBILITIES

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

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

Internal Controls

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

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

Audit

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

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

Reporting

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

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

STANDARDS OF ETHICAL CONDUCT

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

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

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Amended on March 16, 2016

MANAGEMENT RESPONSIBILITIES

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

Management's responsibilities include:

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

INFORMATION ITEM 2D

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Date:	December 21, 2016
To:	The Honorable Board of Directors
Through:	Audit Committee *(12/14/2016)*
From:	Teresa V. Velarde T. Velarde Manager of Internal Audit
Subject:	Audit Committee Financial Advisor Contract Extension

RECOMMENDATION

This is an informational item for the Board of Directors.

BACKGROUND

This is to inform the Board of Directors of the Agency's extension of the Audit Committee Financial Advisor contract option two of two through December 31, 2017.

Audit Committee Financial Advisor
The Audit Committee Charter, states that: "The Audit Committee shall also have access to at least one financial expert, an outside party, with no voting rights, who will provide advisory and consulting duties and shall be compensated as agreed upon, in writing with the Audit Committee, the Board, management and its designees." Additionally, the Audit Committee Charter requires the financial expert to possess expertise and experience in understanding generally accepted accounting principles and financial statements; auditing comparable entities; internal controls; and an understanding of audit committee functions.

Since 2008, the Audit Committee has relied on the advisory services of Travis C. Hickey, CPA consultant with Rogers, Anderson, Malody & Scott. Mr. Hickey has provided accounting and auditing services to governmental agencies since 1997, including experience with water/wastewater activities. Mr. Hickey attends the Agency's Audit Committee Meetings and provides consulting and advisory services to both the Audit Committee and the Internal Audit Department to ensure the responsibilities of the Audit Committee and Internal Audit Department, as outlined in the Board approved Charters, are fulfilled. Mr. Hickey is a Certified Public Accountant in the State of California and in good standing. He is a member of the American Institute of Certified Public Accountants and California Society of Municipal Financial Officers.

Over the past nine years, Mr. Hickey has established himself as a valuable resource to the Audit Committee and the Internal Audit Department by providing professional auditing advice and information. Mr. Hickey has gained extensive knowledge of the Agency's operations, has established professional working relationships with the Audit Committee, and the Agency has been satisfied with his services.

The contract with Mr. Travis Hickey expired in December of 2015 and has two single year options to extend. Option one was extended and expired in December 2016. Staff recommends the contract for single year option is extended through December 2017. This extension of Mr. Hickey's services will extended Audit Committee Advisory Services for one year through calendar year 2017.

The extension of the Audit Committee Financial Advisor Services is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by following recommended practices for the procurement of such services to provide independent evaluations and oversight of Agency financial statements and the operational effectiveness of the Audit Committee.

PRIOR BOARD ACTION

Audit Committee Financial Advisory Services:
On September 16, 2015, the Agency approved Contract Amendment Number 4600000886-002 with Rogers, Anderson, Malody & Scott, LLP, exercising option 1 of 2 to extend advisory audit services in the amount of $6,190.00 through calendar year 2016.

On September 19, 2012, the Agency approved Contract Amendment Number 46000000886-002 with Rogers, Anderson, Malody & Scott, LLP to extend contract services for 3 years, with two single-year options in the amount of $6,190.00 per calendar year.

IMPACT ON BUDGET

There is no significant impact on the Agency's Fiscal Year 2016/2017 Budget as a result of these items, since the external financial audit and audit committee advisory services are already budgeted in the Administrative Services (GG) Fund as part of the Agency's two-year budget.

INFORMATION ITEM 2E

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Date:	December 21, 2016
To:	The Honorable Board of Directors
Through:	Audit Committee *(12/14/2016)*
From:	Teresa V. Velarde T. Velarde Manager of Internal Audit
Subject:	Report of Open Audit Recommendations

RECOMMENDATION

The attached is an informational item for the Board of Directors.

BACKGROUND

The Internal Audit Department Charter and professional standards require the Internal Audit Department (IA) staff to follow-up on the status of open audit recommendations to determine if corrective action efforts have been made. The Charter also requires IA to annually provide, to the Audit Committee and the Board, a report listing all outstanding recommendations with action plans and expected resolution dates.

As of the date of this report, there are a total of 88 open/outstanding recommendations. Of the 88 outstanding recommendations, 48 did not require a follow-up review during this year. Seventeen recommendations relate to audits completed recently and/or new recommendation provided and 31 relate to the Regional Contract Review where plans are to address those recommendations through the renegotiation of the Regional Contract.

Audit guidelines state that an adequate amount of time be granted in order to provide the auditees with sufficient time to fully implement corrective action plans. IA will continue to evaluate the status of the open recommendations until full implementation has been achieved, the deficiency originally identified is no longer applicable, or alternate internal controls have been accomplished. At the time of the original reviews, follow-up activities are discussed. Follow-up audit work may include a desk review of supporting documentation, discussions with the auditee, and/or the application of testing procedures to verify implementation. The audited units can, at any time, provide information for Internal Audit's verification that a recommendation has been implemented. Once IA completes a follow-up review, a separate report with the status will be issued and reported to the Audit Committee.

Follow-up reviews will be scheduled according to the proposed Annual Audit Plan. Below is a list summarizing the outstanding recommendations, noting the audited area and the date the original audit report was completed. Attached is a detailed report showing what the recommendations are and the current status of each recommendation.

Outstanding Recommendations			
Area Audited	**Report Issued Date**	**No. of Recs. Remaining to be Verified by IA**	**Planned Follow-Up**
Payroll Audit	August 24, 2010	1	Annually
Intercompany Receivables - Watermaster	August 30, 2011	1	FY2017
Human Resources Follow-Up	June 20, 2012	1	FY2017
Contracts and Procurement Follow-Up	August 29, 2012	2	FY2017
2013 Petty Cash	May 31, 2013	5	FY2017
SCE Utility Payments	August 28, 2013	3	FY2017
Accounts Payable Follow-Up	August 29, 2013	9	FY2018
Automobile Insurance Requirements	March 3, 2014	2	FY2018
Vehicle Security Procedures	March 3, 2014	3	FY2018
Vehicle Inventory Procedures	March 12, 2014	13	FY2018
Total Outstanding Recommendations		**40**	
Recommendations related to the Regional Contract Review			
Regional Contract Review – Final Audit Report	December 16, 2015	**31**	Pending – Renegotiation of the Regional Contract
2016 New Audit Recommendations Issued			
Follow-Up – Information Technology Equipment Audit – Information Services	February 29, 2016	2	FY 2019
Master Trade Contracts	September 1, 2016	6	FY 2019
Audit of Master Service Contracts	December 14, 2016	3	FY 2019
Follow-Up – Information Technology Equipment Audit – Finance & Accounting	December 5, 2016	6	FY 2019
Total New Recommendations for 2016		**17**	
Total Recommendations Outstanding		**88**	

The IA website is accessible through the Agency's Intranet and available to all Agency employees. It provides all the audit reports issued by IA and information on the audit approach and the purpose and process of an internal audit and the follow-up action requirements.

PRIOR BOARD ACTION

On June 15, 2016 the Board of Directors approved the Annual Audit Plan for Fiscal Year 2016/17. Follow-up activities were scheduled in the plan.

On December 16, 2015, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Charter.

IMPACT ON BUDGET

None

Outstanding Audit Recommendations
December 2016

Audit Performed	Reco #	Internal Audit Recommendation	Target Date for Implementation & Comment
Payroll Audit August 24, 2010	4	HR and FMD should work together to revise and update the Agency's Resolution No. 2005-2-9 and clarify which employees are required to sign a Confidentiality Agreement, based on their job duties and responsibilities, specifically those whose roles involve handling sensitive and confidential information. Having employees sign a Confidentiality Agreement reinforces that confidential and sensitive information is being handled, the Confidentiality Agreement also provides the expectations and consequences for sharing or misusing confidential information.	The Agency continues to evaluate the need for updates.
Intercompany Receivables - Watermaster August 30, 2011	1	Fiscal Management Department should establish procedures to prepare and submit invoices to Watermaster prior to the beginning of the quarter to allow payment by Watermaster before the quarter begins.	Additional time is required for full implementation. IA will re-verify during follow-up evaluation planned for 2017.
Human Resources Follow-Up June 20, 2012	1	Document standard operating procedures to address the many administrative practices of the department.	IA will verify during follow-up evaluation planned for FY 2017.
IT Equipment August 21, 2012	3	ISS implement appropriate tracking systems that include relevant information on IT purchases (i.e., serial numbers, etc.), are updated timely and are complete and accurate. ISS should establish procedures to enter, modify, and delete information in the tracking systems that address areas such as timeliness for updates, responsibilities for maintaining the systems, and the types of items included in the tracking system.	Additional time is required for full implementation. IA will re-verify during follow-up evaluation.
IT Equipment August 21, 2012	15	FMD should implement adequate controls to ensure that the stated capitalization policy for IT equipment is consistently followed to ensure that all items meeting the capitalization threshold are capitalized and to ensure that items not meeting the capitalization threshold are not capitalized.	Additional time is required for full implementation. IA will re-verify during follow-up evaluation.
IT Equipment August 21, 2012	17	FMD should implement adequate controls to ensure that asset records established in SAP are accurate and complete, such as ensuring that all data fields in SAP are completed and ensuring that only those items allowed by the capitalization policy are capitalized.	Additional time is required for full implementation. IA will re-verify during follow-up evaluation.
IT Equipment August 21, 2012	19	FMD should return incorrect or incomplete Project Closure Authorization Forms to the Project Manager for proper completion. FMD should also provide training to Project Managers on the importance of proper completion and instructions on completing the form.	Additional time is required for full implementation. IA will re-verify during follow-up evaluation.
IT Equipment August 21, 2012	22	FMD should document Standard Operating Procedures to address the functions of setting up capital assets such as procedures for completing the SAP asset information, compliance with stated capitalization thresholds, and processing of Project Closure Authorization Forms.	Additional time is required for full implementation. IA will re-verify during follow-up evaluation.
Contracts and Procurement Follow-Up August 29, 2012	1	The Contracts and Procurement Department should ensure adequate separation of duties exist in procurement transactions. Specifically the functions of creating and approving the Purchase Request, creating the Purchase Order and having the ability to receive should involve a second knowledgeable individual.	IA will verify during follow-up evaluation planned for FY 2017.
Contracts and Procurement Follow-Up August 29, 2012	2	For all grant-related procurements, the Contracts and Procurement Department should print the confirmations from the debarment website at the time the vendor debarment is verified. The confirmation should be filed as evidence of verification, to show whether a vendor was debarred or not at the time of the procurement.	IA will verify during follow-up evaluation planned for FY 2017.
IT Equipment Follow-Up Audit November 14, 2012	1	ISS should ensure that any services procured with P-cards are expressly authorized by the Manager of CAP, CFO, AGM, or GM prior to committing to services.	Additional time is required for full implementation. IA will re-verify during follow-up evaluation.

Audit Performed	Reco #	Internal Audit Recommendation	Target Date for Implementation & Comment
2013 Petty Cash May 31, 2013	1	IA recommends that Accounting and Fiscal Management Department personnel should take the lead in working with the responsible Agency personnel in making revisions and updates to the following Agency policies: A-02, A-75, A-68 and A-34.	IA will verify during follow-up evaluation planned for FY 2017.
2013 Petty Cash May 31, 2013	3	IA recommends that monthly fund reconciliations be performed by personnel independent of the petty cash reimbursement processes and that the fund reconciliation subsequently be reviewed and signed by the Petty Cash Custodian's supervisor or manager as required by SOP CM PR-13, "Cash Management Procedures-Petty Cash", further ensure all Petty Cash Custodians understand the requirements of the SOP.	IA will verify during follow-up evaluation planned for FY 2017.
2013 Petty Cash May 31, 2013	4	IA recommends that either a new SOP be developed or the current SOP CM PR-13, "Cash Management Procedures-Petty Cash" be updated to include detailed procedures over the entire petty cash reimbursement processes.	IA will verify during follow-up evaluation planned for FY 2017.
2013 Petty Cash May 31, 2013	5	IA recommends that Accounting and Fiscal Management review current petty cash reimbursable budget codes within SAP and develop a "Master Listing" of budget codes or "roles" within SAP for all Petty Cash Custodians to have access to and utilize them when coding expenditures.	IA will verify during follow-up evaluation planned for FY 2017.
2013 Petty Cash May 31, 2013	6	IA recommends that Accounting and Fiscal Management evaluate the petty cash needs of each location throughout the Agency and make any necessary adjustments to the petty cash assignments.	IA will verify during follow-up evaluation planned for FY 2017.
SCE Utility Payments August 28, 2013	1	P&EC and Maintenance Management should work with the City of Chino and SCE to adequately transfer the electricity expense related to City of Chino property. The street lights in front of IEUA's HQ-A building have been identified by the Agency and SCE as the financial responsibility of the City of Chino. It was noted that over $900.00 a year is paid for the street lights expense. P&EC and Maintenance previously identified this issue and had initiated discussions to transfer the account and related expense to the City of Chino. It is anticipated that by the end of calendar year 2013 this will be resolved.	IA will verify during follow-up evaluation planned for FY 2017.
SCE Utility Payments August 28, 2013	2	CAP management should evaluate the entire CAP Department staff's responsibilities and leverage all department resources to achieve all tasks and at the same time avoid internal control conflicts. In addition, IA recommends that SAP authorized access be modified for employees as noted in the report section "SAP Segregation of Duties – CAP Personnel" to address existing internal control conflicts identified. The report details the specific conflicts. This has previously been recommended in prior CAP Follow-Up Audit Reports dated May 24, 2010 and August 29, 2012.	IA will verify during follow-up evaluation planned for FY 2017.
SCE Utility Payments August 28, 2013	3	CAP personnel should take the lead in working with the responsible Agency personnel to make the necessary updates to Agency policies A-32 and A-33, and department specific SOP's.	IA will verify during follow-up evaluation planned for FY 2017.
Accounts Payable Follow-Up Audit August 29, 2013	1	AFM and BIS need to work together to ensure users have appropriate access within SAP based on job responsibilities and remove/modify access privileges that are not necessary to reduce the risk of unauthorized transactions and SOD conflicts. All user access should be immediately removed when an employee resigns his/her position with the Agency.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	2	Access to the Vendor Master File (VMF) should only be granted to one Manager/Supervisor for AFM and CAP department with only one back up employee, if necessary, due to Segregation of Duties conflict. This is a standard best practice across many industries. Furthermore, we recommend access be removed from all other current and past employees.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	3	AFM department should institute controls to ensure payment of invoices by the due date.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	4	AFM should work with the appropriate Agency personnel to update Agency policies and remind employees of the requirements of Agency Policy A-12, Employee Personal Computer Purchase Program; Policy A-37, Reimbursement for Attendance at a Conference, Seminar or Meeting; Policy A-50, Non-Purchase-Order Invoice Approval Procedures; Policy A-55, Agency Credit Cards; and Agency Policy A-14 Vehicle Use.	IA to verify during follow-up evaluation.

Audit Performed	Reco #	Internal Audit Recommendation	Target Date for Implementation & Comment
Accounts Payable Follow-Up Audit August 29, 2013	5	Human Resources department, in conjunction with Information Support Systems, should ensure that loans for personal computers are not approved for items not covered by the loan program as described in Agency Policy A-12. Additionally, consider revising Agency Policy A-12 to clarify the applicability of the computer loan program to tablet computers and operating systems other than Microsoft Windows.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	6	AFM department should strengthen Vendor Master File procedures to establish uniformity in entering, altering and deleting vendors, and to provide guidelines for the maintenance of vendors, to ensure vendors are authorized, including the requirement that a supervisor or manager in FMD CAP approve additions, deletions, or changes to vendors.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	7	AFM department should ensure all new vendors provide a current, physical business address for the Vendor Master File. Additionally, AFM should establish a plan to update the master file for all active vendors that do not currently have a physical address on file.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	8	AFM department should work with BIS to test the features of SAP related to purging inactive vendors. Upon successful completion of the testing, AFM should identify vendors with no activity in the previous three to five years and deactivate or delete from the Vendor Master File as appropriate.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	9	AFM department should update all SOPs to reflect business process changes resulting from the implementation of the Agency's ERP SAP system.	IA to verify during follow-up evaluation.

Automobile Insurance Requirements March 3, 2014	1	IA recommends that the Contracts and Facilities Department: Take the lead to review and update and/or consolidate the existing Agency Policy A-14 "Vehicle Use Policies and Procedures" and A-36 "Automobile Insurability and Driver's License Requirements for Current and Prospective Employees." The policies should define and specify the requirements for employees to maintain personal automobile insurance, clarify the coverage limits and any other responsibilities and provisions. Ensure policy updates and requirements are communicated to all employees.	IA to verify during follow-up evaluation.
Automobile Insurance Requirements March 3, 2014	2	IA recommends that the Contracts and Facilities Department: Consider developing an appropriate "Acknowledgment Statement" form or other verification/certification document or process that outlines and verifies the requirements of the Agency's policies related to personal automobile insurance coverage and driver's license. Determine the need to require all employees sign the acknowledgement/verification document each year as a certification that the employee understands and accepts responsibilities when driving a personal or Agency vehicle.	IA to verify during follow-up evaluation.

Vehicle Security Procedures March 3, 2014	1	CAP should take the lead to properly inventory and account for all assigned and unassigned gate transmitters. CAP should continuously work with department managers who request gate transmitters to monitor and revise access based on staff duties and responsibilities. CAP should promptly deactivate any improperly assigned/unassigned gate transmitters or for those employees and contractors that separate employment from the Agency.	IA to verify during follow-up evaluation.
Vehicle Security Procedures March 3, 2014	2	CAP should ensure the appropriate signed gate transmitter form is maintained on file for all issued gate transmitters. Additionally, CAP should ensure the employee/contractor who is issued a gate transmitter understands the requirements of Agency Policy A-24 "Issuance and Inventorying of Gate Transmitters and Keys to Agency Facilities, Vehicles and/or Equipment." This can be done at the time the employee/contractor is issued the gate transmitter via the signed form and is provided a copy of the Agency policy.	IA to verify during follow-up evaluation.
Vehicle Security Procedures March 3, 2014	3	IA recommends CAP staff inventory all Certificates of Title and work to locate or replace the missing titles for Agency vehicles. Additionally, CAP should implement and communicate the proper procedure to ensure that all Certificates of Title are promptly submitted to Records Management for filing and retention.	IA to verify during follow-up evaluation.

Audit Performed	Reco #	Internal Audit Recommendation	Target Date for Implementation & Comment
Vehicle Inventory Procedures March 12, 2014	1	Maintenance Department and HR Department should work together to develop and/or consolidate into one updated policy, the proper procedures for refueling Agency vehicles in order to streamline processes and clearly define the procedures for refueling Agency vehicles. Specifically, the policy should include: payment method, when to fuel, and specify if the requirement applies to assigned, pool or all vehicles. Take the lead to review and update and/or consolidate the existing Agency Policy A-14 "Vehicle Use Policies and Procedures" and A-36 "Automobile Insurability and Driver's License Requirements for Current and Prospective Employees." The policies should define and specify the requirements for employees to maintain personal automobile insurance, clarify the coverage limits and any other responsibilities and provisions. Ensure policy updates and requirements are communicated to all employees.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	2	Maintenance Department should take the lead to update Agency Policy A-86, "Refueling Agency Vehicles" to include a clear definition of a "pool" versus an "assigned" vehicle and these definitions should be carried across all Agency policies that relate to Agency vehicle procedures.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	3	Maintenance Department should revise Agency Policy A-86 to specifically address how Voyager fuel cards for Agency "pool" vehicles will be issued and used by employees in order to establish separate guidelines for Agency "pool" vehicles.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	4	Maintenance Department should work with Business Information Systems (BIS) to develop an online/electronic "vehicle reservation and approval process." Approval should be obtained through the online/electronic process by either the employee's supervisor or manager. If the travel in an Agency "pool" vehicle will be for the calendar day only, online/electronic approval obtained from the employee's direct supervisor is sufficient. If travel utilizing an Agency "pool" vehicle will be overnight or several nights, or outside the service area, the employee should obtain online approval from the responsible manager and/or a member of Executive Management.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	5	Maintenance Department should work with the HR Department to incorporate mileage limitations and/or geographic boundaries (i.e. out-of-state) for Agency vehicles in updated Agency policies.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	6	Maintenance Department should evaluate the overall purpose of the VIF, to determine what elements are necessary to be reported by employees after use of an Agency vehicle, as well as determine what elements to hold the employee accountable for. Additionally, fewer incomplete forms may be returned if wording is revised to require only exceptions (an example might be: "Indicate damage to vehicle, if any").	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	7	Maintenance Department should determine the need to require that the VIF include an area for the employee's direct supervisor/manager to approve and sign, specifically acknowledging where the vehicle will be used and permitting the use of the Agency vehicle, prior to checking out the vehicle as an added control and accountability measure for the vehicle and the employee.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	8	Maintenance Department should ensure the recipients of the VIF (currently, the receptionists) no longer accept incomplete VIF forms from an employee upon the return of the vehicle to Headquarters. The receptionist should return the form to the employee and request they fill out the VIF completely before checking-in the vehicle.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	9	Maintenance Department should continue to work with "Voyager Fleet Systems" and U.S. Bank to review the card issuer's reporting capabilities, in order to develop the reports needed with the appropriate inputs (e.g. odometer readings, date of purchase, amount, credit card number, cardholder name, number of gallons purchased at point-of-sale) so that the Agency can perform a thorough analysis of fuel consumption monthly.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	10	Maintenance Department should develop one policy or update the existing policy (ies) to outline the proper procedures for washing Agency vehicles.	IA to verify during follow-up evaluation.

Audit Performed	Reco #	Internal Audit Recommendation	Target Date for Implementation & Comment
Vehicle Inventory Procedures March 12, 2014	11	Maintenance Department should perform a routine inventory as well as regular safety/maintenance inspections for all Agency vehicles at least annually and ensure necessary safety and emergency equipment is available and operational. Issues identified should be addressed and corrected timely. Specifically, items required for safety reasons such as fire extinguishers, insurance information and accident instructions, etc. should be current and readily available in the vehicle. Documented maintenance and safety inspection results should be retained and placed in the vehicle's file as evidence of examination.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	12	Maintenance Department should consider including a vehicle bumper sticker on all Agency vehicles that display the Agency's logo and a hotline or contact phone number where issues may be reported by any member of the public.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	13	Periodic reconciliations for fleet (vehicles and equipment) should be performed by the Maintenance Department between any report(s) or system databases that are utilized by management to ensure accuracy when reporting fleet information and making decisions regarding fleet.	IA to verify during follow-up evaluation.

Regional Contract Review - Final Report December 16, 2015	Overall	Consider legal, political and financial impacts of governing by ordinance vs. contract	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	Overall	Review and revise EDU formula	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	Overall	Resolve identified differences of over/under collected amounts of Connection fees and identified differences of over/under collected amounts of unreported monthly sewerage fees	IA to follow-up after Renegotiation of the Regional Contract

Regional Contract Review - Final Report December 16, 2015	1	**Connection Fees:** Centralize the permitting process OR IEUA provides final sign-off and plumbing permit approval for all nonresidential entities.	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	2	**Connection Fees:** IEUA should establish monitoring program to inspect random facilities and those were there is a suspected discrepancy	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	3	**Connection Fees:** Contract should include IEUA inspection, verification and recourse rights for under-collected/under-reported Connection Fees	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	4	**Connection Fees:** Contract should include IEUA right to audit, full cooperation and access to records and documents upon request	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	5	**Connection Fees:** Two tier connection fees process that distinguishes between common features and unique features (ie., a toilet always costs the same regardless of type of business)	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	6	**Connection Fees:** Update Exhibit J regularly to include new/evolving business types	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	7	**Connection Fees:** Update & clarify Fixture Unit descriptions of Exhibit J regularly	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	8	**Connection Fees:** Standardize calculation worksheet to ensure it is consistent with Exhibit J and consistent region-wide	IA to follow-up after Renegotiation of the Regional Contract

Audit Performed	Reco #	Internal Audit Recommendation	Target Date for Implementation & Comment
Regional Contract Review - Final Report December 16, 2015	9	**Connection Fees:** IEUA should require copies of calculation worksheets for all nonresidential customers along with the monthly Building Activity Reports.	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	10	**Connection Fees:** Regular workshops, meetings, plant tours, etc. with staff in Building, Plan Check and Utility Billing/Financial Departments	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	11	**Connection Fees:** IEUA develop fixture count expertise and provide regular/ongoing training for Contracting Agencies - Building Departments	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	12	**Connection Fees:** Contracting Agency internal review of Connection Fees as part of preparing the Building Activity Report	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	1	**Monthly Sewerage:** Collect monthly sewerage fees for the entire region through County's property tax roll	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	2	**Monthly Sewerage:** Evaluate methodology used for billing monthly sewerage fees (residential and commercial) and consider alternatives by water consumption, EDUs purchased or other methodology	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	3	**Monthly Sewerage:** Standardize monthly report to provide IEUA automated, itemized listings of non-residential monthly sewerage charges	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	4	**Monthly Sewerage:** Establish contract for monthly sewerage payments from Contracting Agencies rather than IEUA issuing monthly invoices	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	5	**Monthly Sewerage:** IEUA exercise inspection, verification and recourse rights for under-collected/under-reported monthly sewerage fees	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	6	**Monthly Sewerage:** Contract should include IEUA right to audit, full cooperation and access to records and documents upon request	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	7	**Monthly Sewerage:** Update 1997 billing memorandum regularly for new business types to provide detailed definitions and descriptions	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	8	**Monthly Sewerage:** Create a correlation between monthly sewerage fees and Connection Fees	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	9	**Monthly Sewerage:** Add billing guidance for locations with multiple types of businesses serviced by a master meter	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	10	**Monthly Sewerage:** Bill commercial businesses at least a minimum of one EDU per month	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	1	**Public Service Facility:** Consider legal, political and financial impacts of excluding Public Service Facilities from Connection Fees and monthly sewerage charges.	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	2	**Public Service Facility:** Consider legal, political and financial impacts of IEUA assuming responsibility for Connection Fees calculations, collections and CCRA accounts	IA to follow-up after Renegotiation of the Regional Contract

Audit Performed	Reco #	Internal Audit Recommendation	Target Date for Implementation & Comment
Regional Contract Review - Final Report December 16, 2015	3	**Public Service Facility:** Contract should include IEUA inspection, verification and recourse rights for under-collected/under-reported Connection Fees	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	4	**Public Service Facility:** Contract should include IEUA right to audit, full cooperation and access to records and documents upon request	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	5	**Public Service Facility:** Address difference between "Publicly Owned" vs. "Publicly Used"	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	6	**Public Service Facility:** Consider cross-departmental approach to the development review process as a regional model	IA to follow-up after Renegotiation of the Regional Contract

Total of 77 outstanding recommendations as of December 14, 2016 requiring IA verification and/or supported response.

2016 Audit Recommendations Issued

Audit Performed	Reco #	Internal Audit Recommendation	Target Date for Implementation & Comment
Master Trade Contracts, dated September 1, 2016	1	IA recommends that even in instances where a difference department has primary responsibility for the proposal evaluation process, CFS work with the end-user department to ensure the information is communicated to the Board of Directors accurately reflects the signed contract terms. Additionally, CFS should determine the need to request from the evaluating department the evaluation documentation, or a staff memo summarizing the selection process and have it available/filed.	IA to verify during a future follow-up evaluation.
Master Trade Contracts, dated September 1, 2016	2	IA recommends that CFS work with BIS to research built-in tools within SAP to implement automated controls necessary to ensure that spending on contracts and groups of contracts do not exceed Board approved limits and determine the cost benefit of implementing those monitoring tools.	IA to verify during a future follow-up evaluation.
Master Trade Contracts, dated September 1, 2016	3	IA supports and encourages the initiative to fully implement the Agency's Enterprise Content Management System (ECMS) - Laserfiche. CFS should continue to work closely with BIS to implement the Agency's ECMS - Laserfiche to assist with the organization and centralizing of contract documents, facilitate research and access to information, streamline recordkeeping and eliminate multiple copies of the same documents.	IA to verify during a future follow-up evaluation.
Master Trade Contracts, dated September 1, 2016	4	IA recommends that CFS enhance communications about the Agency's ethical procurement responsibilities and expectations to all Agency employees as well as Agency vendors and contractors to actively foster an ethical procurement environment. CFS should consider creating an ethics outreach plan and developing an approach with Agency Executive Management and Human Resources about reinforcing the "tone at the top" to actively remind employees and contractors/vendors about the Agency's ethical expectations including once again providing annual notifications of ethical guidelines to vendors and staff. Agency management may also want to incorporate references to the Agency's Ethics Hotline and Ethics Point "FAQs" in that communication.	IA to verify during a future follow-up evaluation.
Master Trade Contracts, dated September 1, 2016	5	IA recommends CFS staff attend annual training related to ethics in their respective procurement activities.	IA to verify during a future follow-up evaluation.
Master Trade Contracts, dated September 1, 2016	6	In addition to the cross-training that is already occurring, IA suggests that CFS consider the potential benefits of job rotation within the CFS department as a training and internal control technique with multiple benefits.	IA to verify during a future follow-up evaluation.
Audit of Master Service Contracts, dated December 14, 2016	1	Emergency projects are classified according to three levels. Level 3 emergencies are the least urgent and the work can be scheduled on a time-table set by the Agency. E&CM and CFS should consider establishing clear criteria that differentiate between a "Level 3" emergency procurement and routine minor construction and repairs procurements and/or determine and document whether the "Level 3" designation is necessary.	IA to verify during a future follow-up evaluation.
Audit of Master Service Contracts, dated December 14, 2016	2	To ensure that the Agency communicates sufficient information about emergency procurement activity, E&CM and CFS should consider developing and providing a comprehensive monthly update of emergency procurements for the Board. The information to consider could include the current month emergency procurement activity and a year-to-date total. It may also be useful to compare current year-to-date emergency procurement activity in dollars and numbers of task orders to prior years and to the total budget. Trends can be analyzed and comparisons can be made to ensure that the Agency's infrastructure is well maintained and emergency procurements are kept to a minimum.	IA to verify during a future follow-up evaluation.
Audit of Master Service Contracts, dated December 14, 2016	3	To ensure that contracts for Repairs and Minor Construction operate as intended, E&CM and CFS should consider developing specific criteria and/or additional guidance and definitions about what constitutes repairs or minor construction as compared to projects for prequalified contractors for contracts less than $2 million. An additional control would be to consider establishing dollar maximums within the contract or the group of contractors to provide assurance that the contracts are being utilized as intended and spending is constrained.	IA to verify during a future follow-up evaluation.

To be revised, IA just received on 11/23/2016 in the afternoon responses to question. In the meantime, these will be grayed out until the recommendations have been finalized

Attachment 1

Audit Performed	Reco #	Internal Audit Recommendation	Target Date for Implementation & Comment
Follow-Up Review - Information Technology Equipment Audit, dated December 5, 2016	1	FAD should take the lead to ensure a physical inventory and inspection of the Agency's IT fixed assets is completed on a periodic basis to verify existence, location, and working condition of assets.	IA to verify during a future follow-up evaluation.
Follow-Up Review - Information Technology Equipment Audit, dated December 5, 2016	2	Fad should evaluate the Agency's current capitalization thresholds for IT equipment and determine if these need to be increased to ensure current practice meets policy and are consistent with current trends.	IA to verify during a future follow-up evaluation.

INFORMATION ITEM 2F

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Date: December 21, 2016

To: The Honorable Board of Directors

Through: Audit Committee *(12/14/2016)*

From: Teresa V. Velarde T. Velarde
Manager of Internal Audit

Subject: Internal Audit Department Status Report for December 2016

RECOMMENDATION

This is an information item for the Board of Directors to receive and file.

BACKGROUND

The Audit Committee Charter requires that a written status report be prepared and submitted each quarter. The Internal Audit Department Status Report includes a summary of significant internal and external audit activities for the reporting period. Attached is the Status Report for December 2016.

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

PRIOR BOARD ACTION

On December 16, 2015, the Board of Directors reconfirmed the approved Audit Committee and Internal Audit Department Charters.

On June 15, 2016 the Board of Directors approved the Annual Audit Plan for Fiscal Year 2016/17.

IMPACT ON BUDGET

None

Internal Audit Department
Status Report for December 2016

Projects Completed This Period

Audit: Master Service Contracts Audit: Master Service Contracts for Emergencies, Repairs and Minor Construction and Master Professional Services Contracts

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

Status: COMPLETE
The audit evaluated the processes and controls in place to qualify Agency Contractors for Master Service Contracts for Emergencies, Repairs and Minor Construction and Master Professional Services Contracts. The audit examined how work is distributed under the contracts and finally, the audit examined the amount of work issued under the contracts in through January 31, 2016 of FY 2015/16.

Overall, the Engineering and Construction Management Department provides effective oversight over the evaluation process of potential contractors and over the establishment and use of Master Service Contracts. The recommendations included establishing clear criteria to differentiate between level 3 emergencies and routine minor construction and repairs, providing comprehensive reporting of emergency procurements to the board and providing additional guidance about which categories of contractors to use for differing levels of projects. Additionally IA provided a soft recommendation to consider establishing greater construction management services expertise internally.

The final report is included under separate cover and provides full details of IA's observations and recommendations. IA has previously provided the following reports:

Master Trade Contracts Audit	**COMPLETED**	**September 2016**
Prequalification Process Review	**COMPLETED**	**June 2016**

Audit: Follow up Review: Information Technology Equipment Audit

Scope:
To evaluate the status of 7 outstanding recommendations provided in the Information Technology (IT) Equipment audit reports dated August 21, 2012 and November 14, 2012. The 7 recommendations are the primary responsibility of the Finance and Accounting Department (FAD).

Status: COMPLETE
IA evaluated the 7 outstanding recommendations that are primarily the responsibility of FAD. Based upon the results of this follow-up review, IA found that four recommendations are In Progress, two recommendations are implemented, and one recommendation is no longer applicable. Additionally, IA provided two new recommendations in this report.

Consistent with the recommendation from the Agency's external auditors, IA recommends FAD conduct periodic physical inventories and inspection of IT assets. Additionally, FAD should evaluate the capitalization policy and threshold established for computer and related IT equipment to ensure it aligns with current practices of similar organizations. Lastly, FAD should update Agency Policy A-49 (Closing of Capital and Non-Capital Projects) to ensure it is consistent with the current business practices.

The final report is included under separate cover and provides full details of IA's observations and recommendations.

Internal Audit Department
Status Report for December 2016

Project: **2016 Comprehensive Annual Financial Report (CAFR) Quality Control Review**

Scope:
To perform a quality control review of the financial statements and accompanying supplementary information including the Trial Balances for each fund, individual fund statements and consolidated statements. IA reviews for math accuracy, consistency in totals among the narratives and the statements, and professional presentation.

Additionally, IA has been asked by FAD to compare the disclosure requirements mandated by the bond documents for the various outstanding bond issues and ensure that those disclosures are provided in the CAFR.

Status: **COMPLETE**
In June 2016, Ms. Deborah Harper, partner with Lance, Soll, & Lunghard, LLC (the Agency's external audit firm), met with the Audit Committee to meet the communication requirements of Statement on Auditing Standards No. 114 (SAS 114). This Statement requires the external auditor to communicate to those charged with governance matters related to the audit approach and any other concerns related to the audit.

In September, the external auditors were on-site conducting final audit work. IA, FAD and LSL held an exit meeting to discuss the external audit findings.

IA is working with the Finance and Accounting Department to perform the quality control review. Items noted are communicated to Finance and Accounting for their attention. IA will complete its quality control review by December 21st before the final CAFR is published.

As part of IA's Quality Control Review, IA performed the following:
- Recalculated totals across and down spreadsheets provided to verify mathematical accuracy
- Ensured individual fund balances were carried over to combining financial statements accurately
- Read through MD&A and Notes to the financial statements for grammatical and spelling errors
- Ensured that all figures in MD&A, Notes to the financial statements and Supplementary and Statistical sections agree to financial statements and/or applicable support
- Compare the bond disclosure requirements to the information available in the CAFR for completeness

IA's quality control review did not include tests of transactions, or tests of the reliability of the totals and amounts included in the various categories, accounts, funds, statements, etc. Staff relies on the audit work of the external auditors as to the reliability of the financial information reported. IA's review is one of additional quality control to ensure a professional presentation of the financial statements.

A draft CAFR is submitted by the Finance and Accounting Department under separate cover.

Project: **Audit Committee Independent Financial Advisor Contract Extension**

Scope:
Extend the contract of the Audit Committee Financial Advisor by one calendar year. The independent financial advisor provides the Audit Committee and Internal Audit Department with consulting and advisory services to ensure the responsibilities outlined in the Charters are fulfilled.

Status: **COMPLETE**
The contract for audit committee consulting and advisory services with Mr. Travis C. Hickey, CPA consultant with Rogers, Anderson, Malody & Scott expired on December 31, 2016. This extension is the second of two single-year options. According to the Board approved Charter, the Audit Committee shall have access to a financial expert that can provide advisory and consulting services as required. The financial expert

must possess expertise and experience in understanding generally accepted accounting principles and financial statements; auditing comparable entities, internal controls, and an understanding of the audit committee functions.

This extension is option two of two. Details of the Audit Committee Advisor Contract are on separate item under separate cover.

Project: **Preliminary Official Statement (POS) Draft and Continuing Disclosure Review**

Scope:
To perform a quality control review of the draft Preliminary Official Statement being prepared for a potential bond refinancing in early 2017. IA reviews for math accuracy, consistency in totals among the narratives and the statements, grammar and professional presentation and considers whether additional or more expansive disclosures may be warranted.

Status: **IN PROGRESS**
As part of IA's review, IA performed the following:

- Read the document for abbreviation consistency and grammar and spelling errors
- Compared figures used more than once in the document to ensure consistency
- Read the document for disclosures made and provided suggestions about additional or updated disclosures that might be warranted
- Provided written comments and edits to FAD for inclusion in the document
- Participated in training about disclosure adequacy provided by Bond Counsel

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On-going Projects

Project: Regional Contract Review – Follow up: Communication, Collections & Centralization

Scope:
To continue to report the results of the Regional Contract review and pursue region-wide agreement and settlement of findings in conjunction with the renegotiation of the Regional Contract. IA continues to assist Management, analyze data, attend meetings upon request related to the implementation of recommendations and moving forward with the renegotiation of the contract. IA will continue to stay involved as requested and required.

Status: IN PROGRESS
Internal Audit stands ready to assist in moving forward with implementation of the recommendations and/or resolution of the unpaid fees identified.

Internal Audit Department
Status Report for December 2016

Project: List of Outstanding Recommendations

Scope:
To provide the Audit Committee an update of remaining unresolved internal audit recommendations.

Status: IN PROGRESS
Annually, IA provides a report listing all outstanding recommendations to the Audit Committee and Board of Directors. In accordance with the Internal Audit Charter, IA is required to follow-up on the status of open recommendations to determine if corrective actions have been made and/or if alternate controls have been implemented to address the risks identified. As of the date of this report, there are a total of 88 open recommendations. Of the 88 open recommendations, 44 do not require a follow-up review at this time because 11 relate to audits completed recently and 31 relate to the Regional Contract Review. The final report is included under separate cover and provides full details of IA's observations and recommendations.

Project: Management Requests

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

The management request projects are short-term projects, typically lasting no more than 60 – 75 hours each where IAD determines it has the necessary staff, skills and resources to provide assistance without having to delay/defer scheduled audits and priority projects. The scope of each review is agreed upon between the department manager requesting the evaluation/review/analysis/assistance and the Manager of IA and when deemed appropriate by Executive Management.

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

- Continue to be involved with possible collection of the identified uncollected Connection Fees.
- Participate in implementation of Enterprise Content Management System.
- Assist departments with interpretation of Agency's Policies

Status: IN PROGRESS
During this quarter Internal Audit provided comments to staff in the executive management office about potential revisions and wording changes to the IEUA By-Laws and compared draft revisions of the IEUA By-Laws to existing and prior Agency By-Laws for consistency, comprehensiveness and completeness. IA also reviewed the Debt Management Policy and Fiscal Ordinance.

Project: Water Conservation Programs

Scope:
IA has begun reviewing the processes in place and the supporting documentation for the activities involving Water Conservation Programs.

Status: IN PROGRESS

A key measure included in the Governor's Drought declaration directed the California Department of Water Resources to accelerate funding for projects that enhance water supplies. Such funding is mostly in the form of grants; some received by IEUA. IEUA is the intermediary between State/Federal and Metropolitan Water District programs and member agencies. In partnership with other water agencies, IEUA has been

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at the forefront of various conservation projects working with member agencies to increase awareness about the drought and the need for conservation. Projects administered by IEUA must be carried out in accordance with the requirements of the grants, etc. This evaluation is reviewing internal controls with contract administration/execution and proper distribution of funding.

Internal Audit Department

Internal Audit Department Staffing:
The Internal Audit Department is staffed as follows:

- 1 Manager of Internal Audit
- 1 Full-time Senior Internal Auditor
- 1 Full-time Senior Internal Auditor

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

During the quarter, the Internal Audit Manager was appointed to the governing board of the Inland Empire Chapter of the Institute of Internal Auditors. The governing board sets direction for the chapter and provides guidance on seminar topics and activities sponsored by the association.

In June, 2016 the Manager of Internal Audit and one Senior Internal Auditor attended the annual 1-day Southern California Conference of the Institute of Internal Auditors.

In September, 2016 the Manager of Internal Audit and one Senior Internal Auditor attended the annual 2-day Fall Conference sponsored by the Los Angeles Chapter of the Institute of Internal Auditors.

In October 2016, one Senior Internal Auditor attended a half-day seminar on Non-Profit/ Governmental Audit Topics sponsored by the Inland Empire Chapter of the Institute of Internal Auditors.

In November, 2016 one Senior Internal Auditor attended a full-day seminar on Audit Fundamentals & Innovation sponsored by the Inland Empire Chapter of the Institute of Internal Auditors.

During the past quarter, IA staff has also continued to stay abreast of industry developments through review of industry periodicals.

All three IA members are preparing for the third exam of the 3-part Certified Internal Auditor (CIA) certification examination. The CIA is the only globally-recognized certification for internal audit professionals and is the highest certification that can be attained by an internal auditor. One Senior Auditor is a Certified Public Accountant (CPA). One Senior Auditor is a Certified Government Audit Professional (CGAP).

Future Audit Committee Meetings:

- Wednesday, March 8, 2017 – Regularly Scheduled Audit Committee Meeting
- Wednesday, June 14, 2017 – Regularly Scheduled Audit Committee Meeting
- Wednesday, September 13, 2017 – Regularly Scheduled Audit Committee Meeting