

The

PIPELINE

FINANCE EDITION



Popular Annual
FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2020
HIGHLAND, CALIFORNIA

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Governing Board of Directors

Chairman of the Board DAVID E. SMITH	Vice Chairman PHILLIP R. GOODRICH
Governing Board Member RONALD L. COATS	Governing Board Member CHRIS CARRILLO
Governing Board Member JAMES MORALES, JR.	

District Management

General Manager/CEO JOHN MURA	District Clerk JUSTINE HENDRICKSEN
Chief Financial Officer BRIAN TOMPKINS	Director of Strategic Services KELLY MALLOY
Director of Engineering & Operations JEFF NOELTE, PHD, PE	Operations Manager PATRICK MILROY
Director of Administrative Services KERRIE BRYAN	



Government Finance Officers Association

**Award for
Outstanding
Achievement in
Popular Annual
Financial Reporting**

Presented to
**East Valley Water District
California**

For its Annual
Financial Report
for the Fiscal Year Ended

June 30, 2019

Christopher P. Merrill
Executive Director/CEO



POPULAR ANNUAL FINANCIAL REPORTING AWARD

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to East Valley Water District, California for its Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2019.

In order to receive this award, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability, and reader appeal.

We believe our current PAFR continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another Award. We also welcome and encourage feedback from District ratepayers to help make this publication more useful and/or informative.

TRANSMITTAL LETTER

EAST VALLEY WATER DISTRICT

To Our Ratepayers and Community,

We are pleased to present East Valley Water District's (EVWD or District) Popular Annual Financial Report (PAFR) for the fiscal year ending June 30, 2020. This report summarizes financial information appearing in the 2020 Comprehensive Annual Financial Report (CAFR) and was created to provide valuable information related to District finances and the Capital Improvement Projects that support the expansion and improvement of our community's distribution system.

The PAFR is unaudited; however, the financial data presented in the PAFR is developed based on the audited CAFR which is consistent with Generally Accepted Accounting Principles also known as GAAP. This document can also be reviewed on the District's website at www.eastvalley.org/PAFR2020.

For more detailed information, the District's Comprehensive Annual Financial Report is available for interested users at the District Headquarters, 31111 Greenspot Road, Highland, California 92346. It can also be viewed on the District's website, along with other key financial documents, at www.eastvalley.org/CAFR2020. Questions comments and feedback regarding this report are encouraged, so please do not hesitate to contact Brian Tompkins, Chief Financial Officer, at finance@eastvalley.org or (909) 381-6463.

On behalf of the District, thank you for the opportunity to serve you.

Respectfully submitted,



John Mura
General Manager/CEO



Core Values

LEADERSHIP

Motivating a group of people to act towards achieving a common goal or destination.

PARTNERSHIP

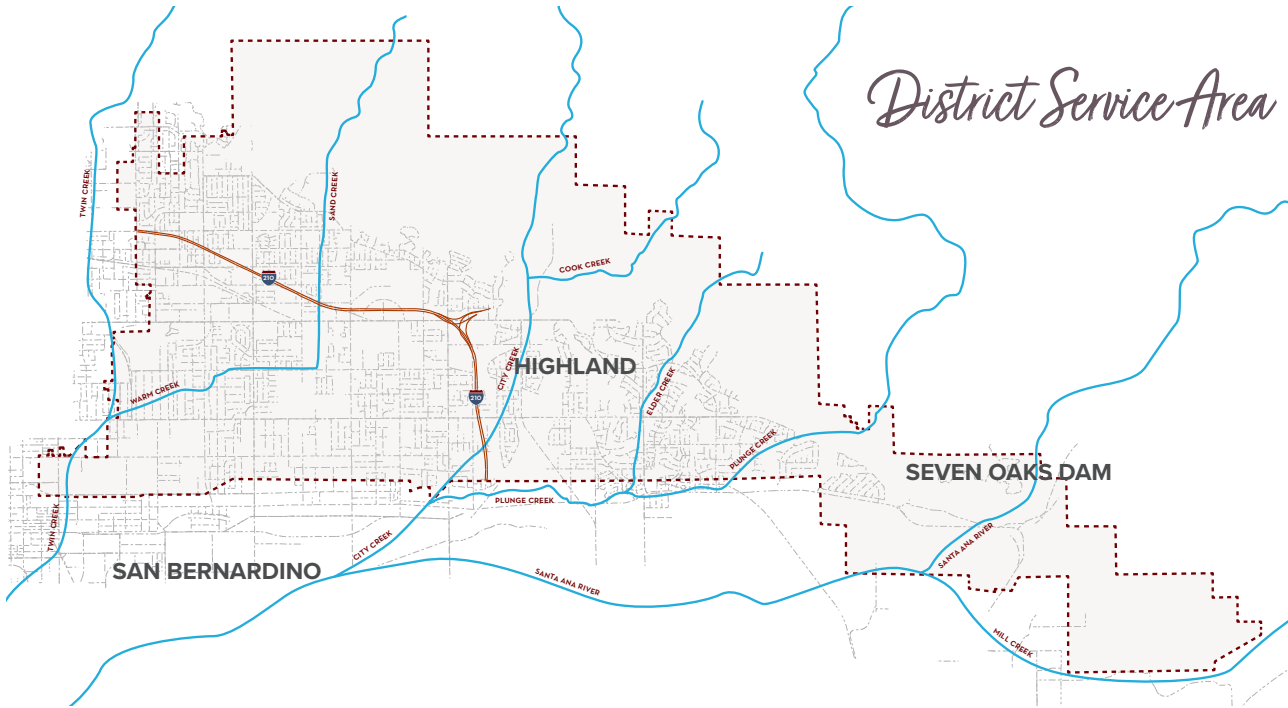
Developing relationships between a wide range of groups and individuals through collaboration and shared responsibility.

STEWARDSHIP

Embracing the responsibility of enhancing and protecting resources considered worth caring for and preserving.

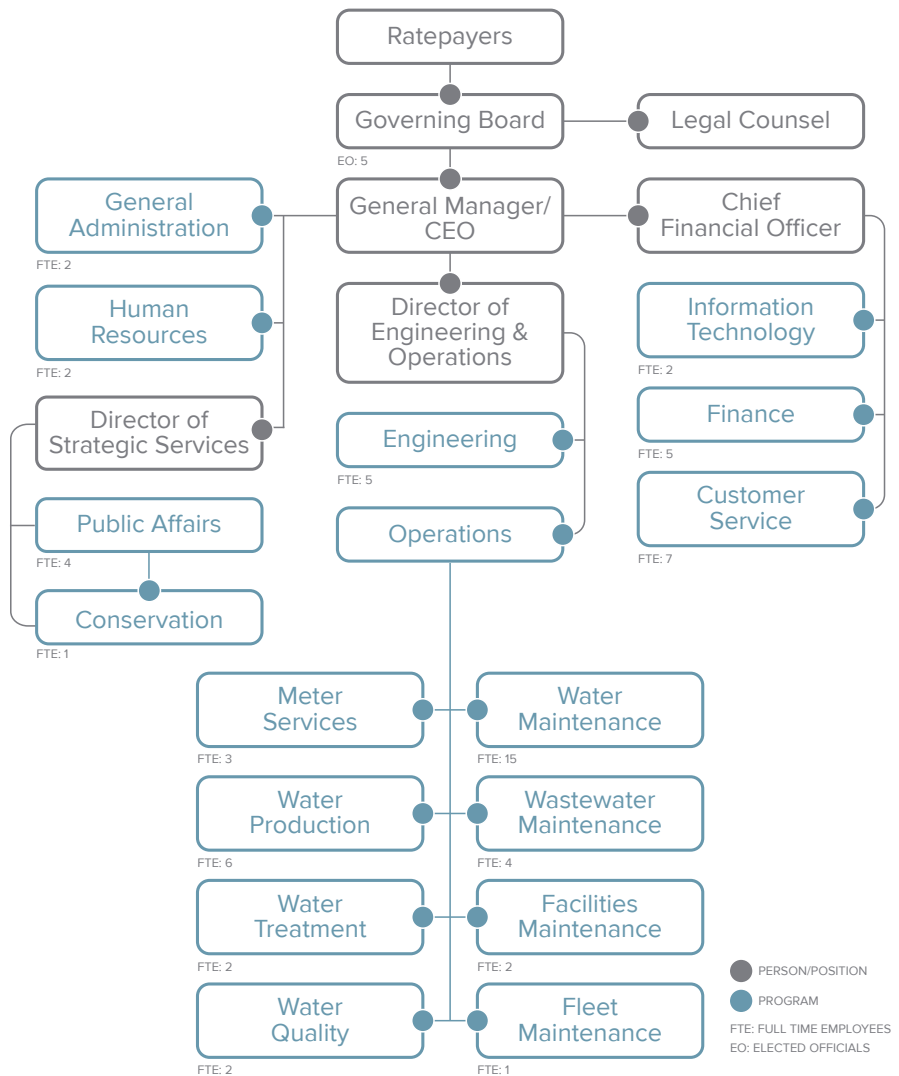
About the District

The District was formed through a local election of mostly citrus grove operators, to have water service provided by a public agency. EVWD is located in the foothills of the San Bernardino Mountains, 65 miles east of Los Angeles in the County of San Bernardino.



Organizational Structure

Presented to the right is an overview of the East Valley Water District's organizational structure. The District employs 67 full-time positions.



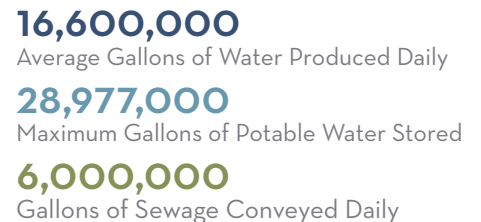
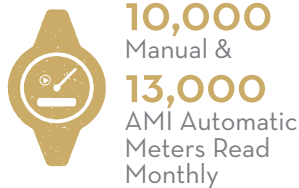
District Vision

Enhance & Preserve
THE QUALITY OF LIFE
FOR OUR *Community*
THROUGH INNOVATIVE LEADERSHIP
& *World Class*
PUBLIC SERVICE

District At-A-Glance

EVWD provides water and wastewater services to residents within its 30.1 square mile area. This includes over 103,000 people within the cities of Highland and San Bernardino, portions of the unincorporated County of San Bernardino, the San Manuel Band of Mission Indians, and Patton State Hospital.

Established **1954**



District-Wide Goals & Objectives

As part of the annual budget process, District-wide goals are established by the Governing Board in order to identify priority programs and projects. More specific program goals were established for each program consistent with District-wide goals.

1 Optimize Infrastructure Systems

2 Financial Stability with Full Understanding of Operational Complexities

DISTRICT-WIDE GOALS & OBJECTIVES

3 Protect Organizational Investments

4 Maximize the District's Position

5 Have Others See the District as a Premier Agency

Capital Improvement Projects

The District achieved a number of different accomplishments during Fiscal Year (FY) 2019-20. As a results-oriented organization, each program has clearly defined goals and objectives. During this period, there were four priority projects that contributed to supporting not only the District-wide goals, but also the District-wide Vision. These projects are included in the Five-Year Capital Improvement Program.



Plant 108 Tank Mixer Addition



Plant 134 Security Fence Upgrade



Water Main Replacements



Plant 134 Surface Water Treatment
Plant Membrane Replacement



Plant 39A Rehabilitation

Each year as part of the budget process, the District's Program Managers and Supervisors compile and submit a list of capital outlay requests for consideration. Staff reviews and prioritizes the list of equipment based on a needs assessment and the amount of funding available. Proposed Capital Improvement Projects for the budgeted fiscal year were submitted by the Engineering, Operations and Maintenance Programs in accordance with the anticipated needs of the District as outlined in the 2019 Wastewater Master Plan and 2014 Water Master Plan.

No.1 Plant 108 Tank Mixer Addition

Installed tank mixers in the reservoir at Plant 108 to keep the water circulating and reduce the potential for TTHMs.

DATE COMPLETED: May 2020 **PROJECT COST:** \$28,394

PROJECT BENEFITS: Prevent taste and odor concerns within the District's water supply.

No.2 Plant 134 Security Fence Upgrade

Removed existing 2,050 feet of 6-foot-tall chain-linked fence and replaced it with 8-foot-tall wrought iron.

DATE COMPLETED: December 2019 **PROJECT COST:** \$210,885

PROJECT BENEFITS: This perimeter fence addressed site security enhancements identified in the vulnerability assessment.

No.3 Water Main Replacements

Replaced approximately 2,530 feet of water main with limited access on Barton Street, and several cul-de-sacs that were served by under-sized polyvinyl chloride or PVC pipe.

DATE COMPLETED: June 2020 **PROJECT COST:** \$216,343

PROJECT BENEFITS: Reduced the potential for future water leaks in Barton Street caused by old water mains and virtually eliminated the need for staff time to repair them; and enhanced fire protection and water quality for 34 customer connections living on five different cul-de-sacs.

No.4 Plant 134 Surface Water Treatment Plant Membrane Replacement

The Plant 134 Surface Water Treatment Plant has five treatment units or "trains" that consist of 180 membrane filters per train. The manufacturer of the filters recommends replacing the filter every five to seven years. In Fiscal Year 2019-20 staff replaced one full train.

DATE COMPLETED: January 2020 **PROJECT COST:** \$248,146

PROJECT BENEFITS: Reduced staff time since new membranes decreased the repair work required compared to aging membranes.

No.5 Plant 39A Rehabilitation

Rehabilitated Plant 39A and replaced or rehabilitated booster motors, well and booster pumps, and the well motor.

DATE COMPLETED: June 2020 **PROJECT COST:** \$389,591

PROJECT BENEFITS: Reduced water leaks and spillage from the equipment and increased the plant's efficiency resulting in electrical savings.



Capable of recycling up to 8 million gallons of water per day, the Sterling Natural Resource Center (SNRC) will create a sustainable new water supply for our region and enhance the quality of life for residents by providing new opportunities in the form of education and training, community space, and neighborhood improvements.

The SNRC is being constructed on a 16-acre parcel of land located at North Del Rosa Drive between East 5th Street and East 6th Street, and strives to create a sustainable future by maximizing the use of resources.

MAKING EVERY SOURCE A RESOURCE

STERLING

NATURAL RESOURCE CENTER



Benefits to the Community



Picnic area, demonstration garden, walking paths, workshop space, and special events area.



Water treated at the SNRC will recharge the local Bunker Hill Groundwater Basin.



Hands-on training and career experiences in wastewater treatment available to students and residents.



Improvements to the surrounding area include street paving, water lines, sidewalks, and more.



Building a Community Partner

While under construction, the SNRC is investing in future generations.

Striving to inspire and prepare future water professionals, the SNRC has partnered with the San Bernardino City Unified School District and San Bernardino Valley College to develop a Water and Resource Management Pathway Program.

The program offers local high school students with training and certifications in wastewater treatment at no cost. Now in its second school year, there are 17 students virtually participating in the program.



Watch Now

The Sterling Natural Resource Center is changing every day!

Time-lapse construction videos for both east and west portions of the project can be viewed online at eastvalley.org/snrc.

Maximizing Resources



State-of-the-art co-digestion technology will give food waste a new purpose.



Material remaining after the treatment of wastewater will be combined with food waste to create renewable electricity.



Renewable electricity will offset the SNRC's operating costs.



Extra energy created will be transferred onto the electricity grid.



Being Good Neighbors

As part of the SNRC's commitment to being a good neighbor, the project's design includes extensive state-of-the-art vessel systems to help prevent unwanted odors. These systems will "scrub" the air so that there is no noticeable odor coming from the facility.

Additionally, through the use of Membrane BioReactors, which is a process that combines filtration with biological treatment to dramatically reduce the amount of space needed to operate the facility. Therefore, allowing for the reclamation process to be completely self-contained.

Water produced by the SNRC will be cleaned and disinfected through multiple processes.

Recycled water is clear and has no smell.

Project Saving Opportunities

Striving to being stewards of rate payer dollars, the District continues to identify programs that offer incentives for projects like the SNRC.



Southern California Edison's Self Generation Incentive Program rewards new construction that offsets energy demands, resulting in approximately \$3 million in construction incentives.



If constructed at one time, most of the SNRC will be eligible for an exclusion from sales tax, when applicable, resulting in \$3.5 million in sales tax exclusions.

The SNRC is Funded in Part By:



*Funding for this Sterling Natural Resource Center project has been provided in full or in part by the Proposition 1 - the Water Quality, Supply, and Infrastructure Improvement Act of 2014 and the Clean Water State Revolving Fund through an agreement with the State Water Resources Control Board. California's Clean Water State Revolving Fund is capitalized through a variety of funding sources, including grants from the United States Environmental Protection Agency and state bond proceeds.

The Urban Greening Program is part of California Climate Investments, a statewide program that puts billions of cap-and-trade dollars to work reducing greenhouse gas emissions, strengthening the economy and improving public health and the environment—particularly in disadvantaged communities. The cap-and-trade program also creates a financial incentive for industries to invest in clean technologies and develop innovative ways to reduce pollution. California Climate Investment projects include affordable housing, renewable energy, public transportation, zero-emission vehicles, environmental restoration, more sustainable agriculture, recycling and much more. At least 35 percent of these investments are made in disadvantaged and low-income communities. For more information, visit California Climate Investments.

Serving the Community

The unexpected COVID-19 pandemic impacted the lives of communities around the world and residents served by East Valley Water District in ways that could not have been predicted. Witnessing the amount of uncertainty and need for assistance during this critical time, the District partnered up with local organizations to lend a helping hand. Never wavering on its commitment to public service, District staff continued working throughout the pandemic to maintain services to the community.

Sharing Important Resources

During the COVID-19 outbreak, the need for previously underutilized resources became greater. Residents were faced with the challenge of researching resources available in their city while also dealing with concerns for their health and safety. Aiming to alleviate some of the stress, the District partnered with a local grocery store to provide residents with contact information to free mental support services, food distribution events, testing sites, infection prevention tips, and other community services.



Senior Meal Events

With residents asked to shelter in place, organizations like the Highland Senior Center were temporarily closed, leaving older adult residents in need of nutrition services. As a result, East Valley Water District and the San Manuel Band of Mission Indians partnered with the Center to provide free hot lunches through various drive-thru events. Over 100 meals were distributed each day from March 30 to April 11, 2020. The District also participated in contact-less grocery delivery to a local senior living facility in partnership with the City of Highland.



Supporting Local Non-Profits

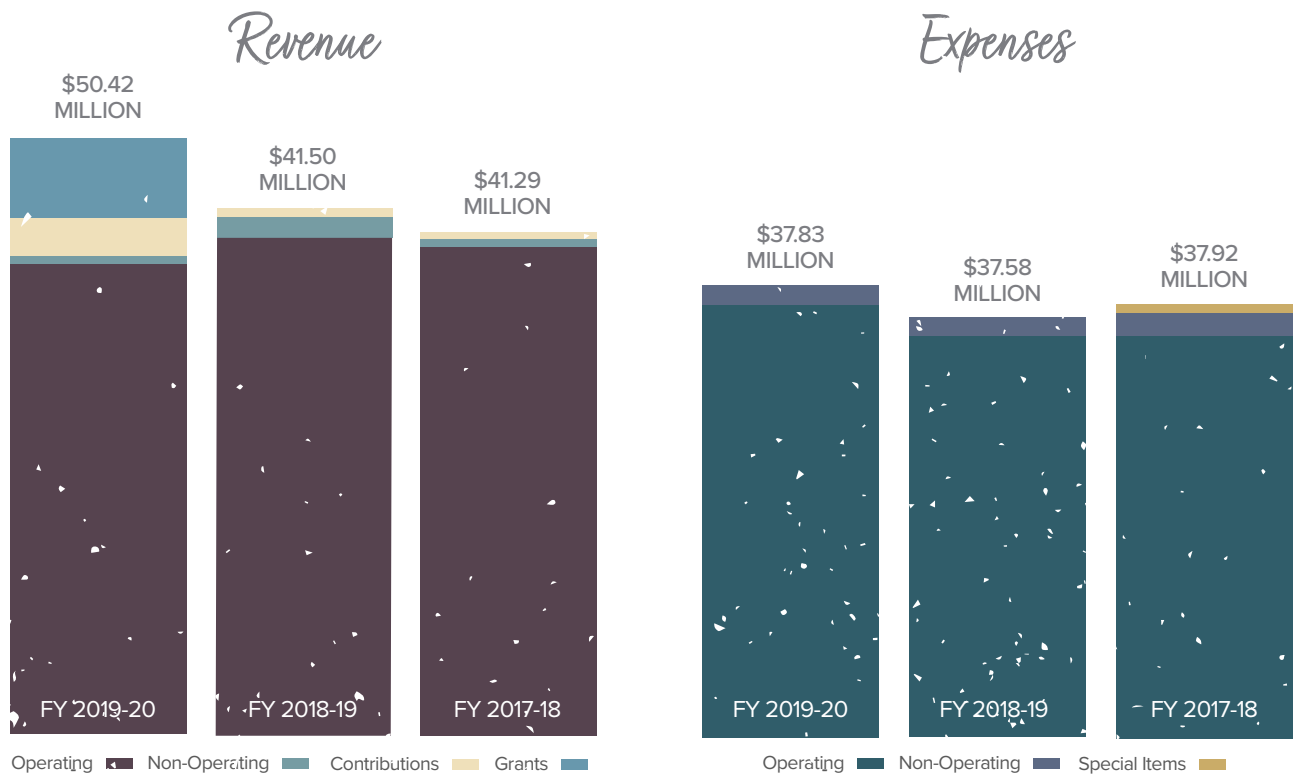
Together we can do more. Striving to make an impact on the lives of residents, East Valley Water District is proud to support local non-profit organization with fulfilling their mission of serving the community through its Surplus Vehicle Donation Program. This program provides fully functional vehicles to organizations that provide valuable services to the community. This fiscal year, the District donated a vehicle to Santa Claus Inc.

FINANCIAL PERFORMANCE

Revenue and Expenses

Providing safe drinking water to over 103,000 customers every day is the District's top priority and also one of its most significant expenses. The graphs below represent the District's combined revenue and expenses for FY 2019-20. For comparison purposes, FY 2017-18 and FY 2018-19 revenue and expenses have also been included.

Please refer to the District's CAFR for a comprehensive breakdown of expenses, which includes the availability of additional details.



How is Revenue Managed?

The District utilizes revenue to fund daily operations, scheduled capital improvements and replacements, and principal and interest for debt financed construction projects. Remaining revenue is invested back into capital improvement projects to help maintain and improve the District's system health so that EVWD may continue taking steps to support the Vision Statement of providing world class public service.

Revenue also provides funding for conservation and rebate programs, which empowers customers to be efficient water users and encourages water savings indoors and out. Excess net revenue after covering expenses and payments is added to reserves, for capital replacements and unforeseen emergency expenses.

Revenue by Sources

The District uses revenue to fund day-to-day operations.

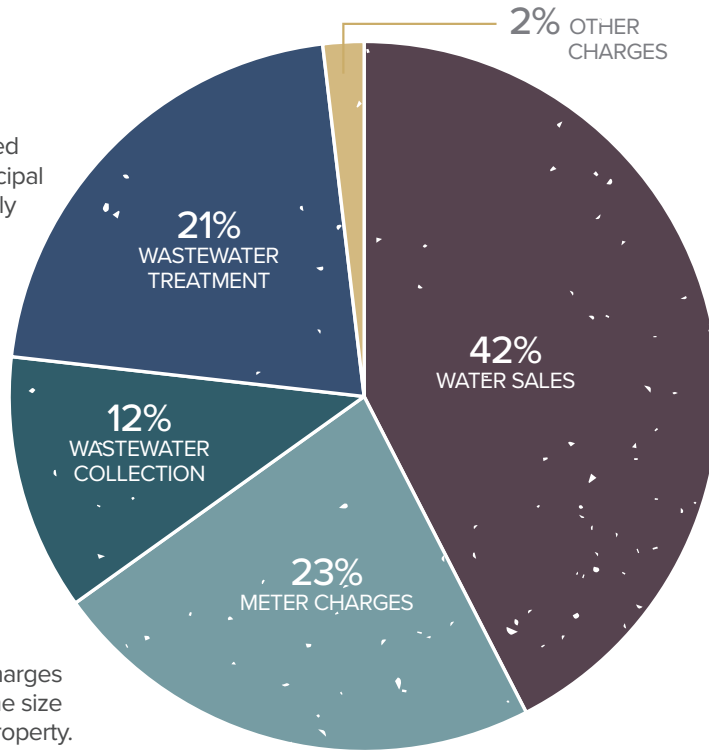
East Valley Water District receives 97 percent of its revenue from user rates and fees; the District receives no increment from property or sales taxes. Rates and fees are reviewed on 3 to 5 year cycles and are adjusted as necessary to meet the costs of providing services to ratepayers.

Fiscal Year 2019-20 Rate Revenue

Wastewater treatment rates are established by, and revenue remitted to, the City of San Bernardino Municipal Water Department, which is currently contracted to treat all wastewater generated by District customers.

Wastewater collection charges are 1) fixed monthly charges for single family residences, and 2) a combination of fixed and volumetric charges for commercial and multi-family customers.

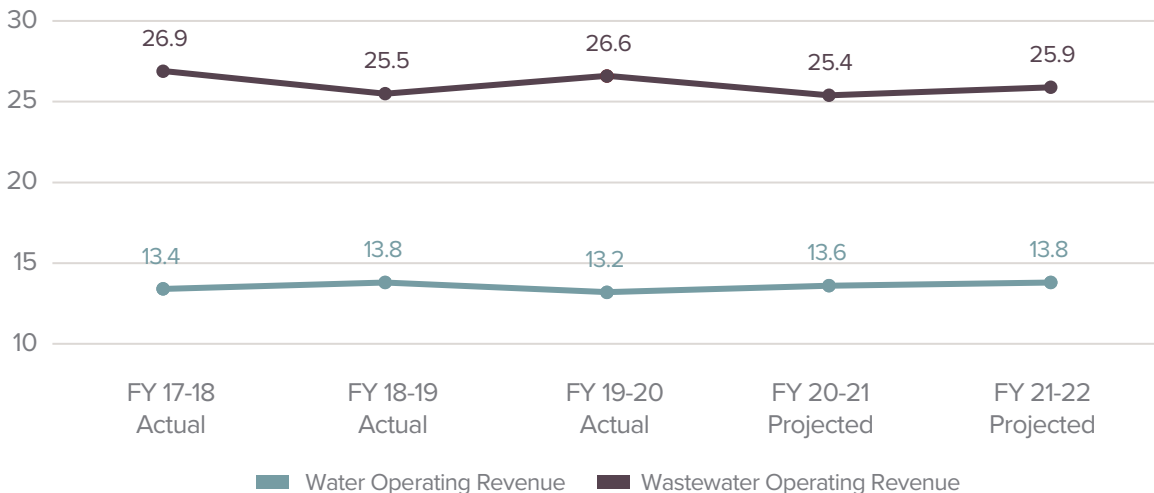
Meter charges are fixed monthly charges assessed to customers based on the size of the service connection to their property.



Other charges are assessed according to an adopted fee schedule, but are only charged to users who request, or require, use of District resources beyond the scope of delivering normal water and wastewater services.

Water sales are based on the volume of water used by a customer during the monthly billing period.

Revenue History & Forecast (in millions)



Note: The District's water sales and meter charge revenue is expected to decrease through FY 2020-21. Due to rate increases, residents tend to reduce their water usage.

Additional information regarding the approved rates can be found at eastvalley.org/rates.

Breakdown of Expenses

Expenses are the cost of providing water to meet customer demand and collecting and treating wastewater from customer residences or places of business. East Valley Water District strives to provide safe and reliable water delivery services. Despite the severity of the recent drought, the District has put forth significant effort to overcome the challenges of maintaining a fiscally sustainable and operationally dependable organization.

Expenses



Operating expenses are identified and accounted for at the department level.

Explanation of Expenses

Source of Supply - Expenses related to the extraction of groundwater, and for procuring water from the Santa Ana River or State Water Project when supply is available.

Pumping - Expenses related to moving water throughout the District's water distribution system.

Water Treatment - Expenses related to the treatment of water.

Transmission and Distribution - Expenses for transmitting water to treatment plants and storage reservoirs for distribution to commercial and residential customers.

Customer Accounts - Expenses related to the service of customer accounts including, postage, telephone, printing and publishing, and billing services.

Wastewater Treatment - Expenses related to the contracted service currently provided by the City of San Bernardino Municipal Water Department.

Wastewater Collection - Expenses for the operation and maintenance of the District's system of wastewater collection pipelines.

Administrative and General - Expenses related to the administration of District operations. For example, employee compensation, benefits, conservation rebates, office supplies, banking services, materials and supplies, utilities, fuel, permits, insurance claims, legal services, and printing and publishing.

Depreciation - Expenses related to the use of capital assets over time.

Other Expenses - Expenses not related to the District's current cost of utility service delivery.

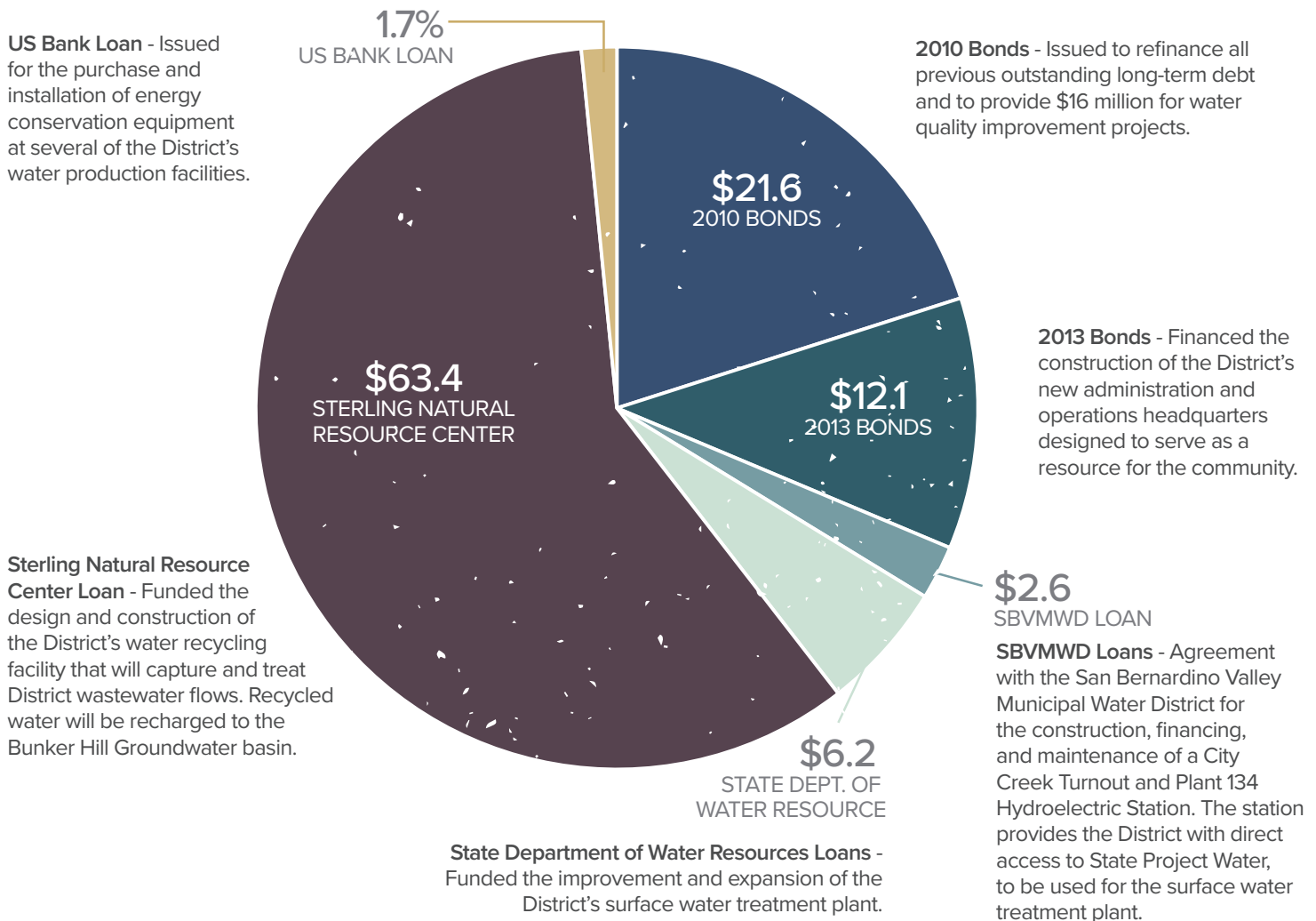


Outstanding Long-Term Debt

Much like how a mortgage is financed to spread costs over 30 years, East Valley Water District has incurred debt to fund large capital projects. The District has adopted a Debt Management Policy to clearly state that long-term borrowing is only to be used for Capital Improvement Projects that cannot be funded from current revenues.

Similar to an individual's credit score, public agencies have a bond rating used by investors to determine risk. The District has a bond rating of AA- by both the Fitch and the Standard and Poor's rating services. This is considered a high quality investment grade.

Explanation of Debt (in millions)



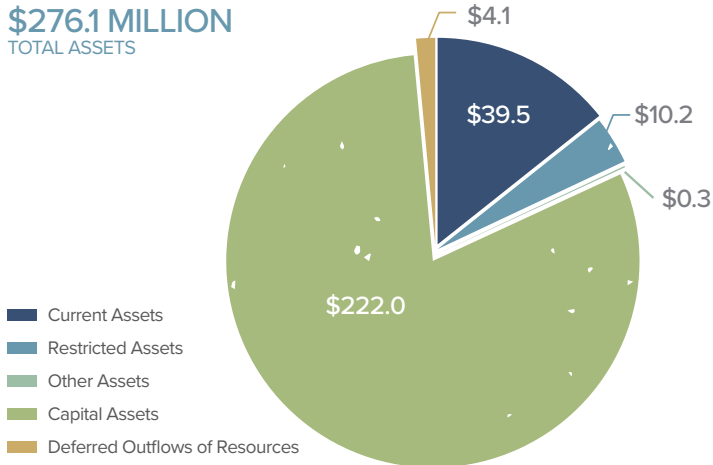
East Valley Water District's long-term debt consists of bonds, loans and installment purchases.

Two-Year Comparative Net Position (In Millions)

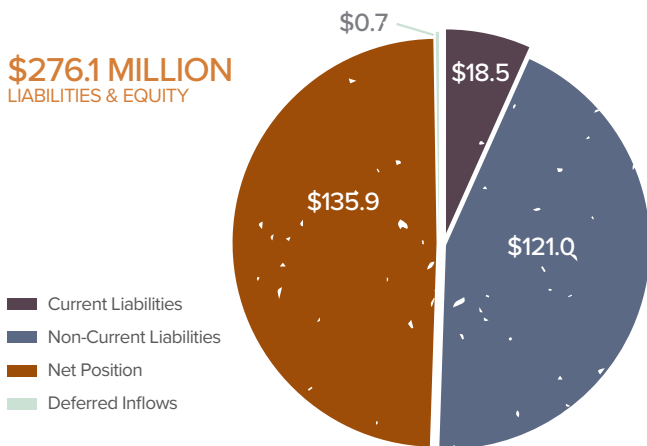
As an infrastructure based organization, the District directs significant resources in capital investments to maintain and improve its water and wastewater system. Comparative net position offers perspective of the District's assets, liabilities, and equity. The information presented below applies to fiscal years ended June 30, 2020 and 2019.

Net Position 2020

\$276.1 MILLION
TOTAL ASSETS

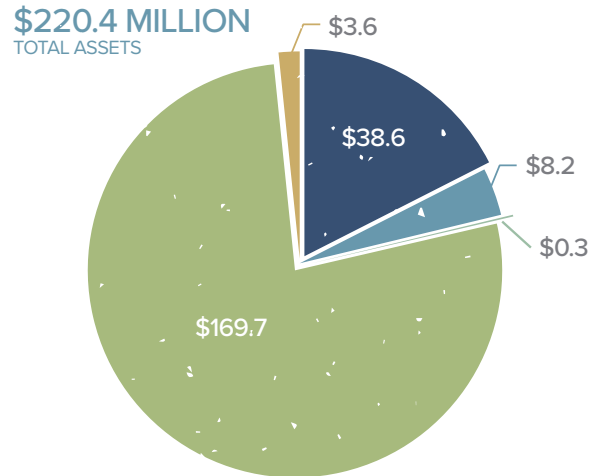


\$276.1 MILLION
LIABILITIES & EQUITY

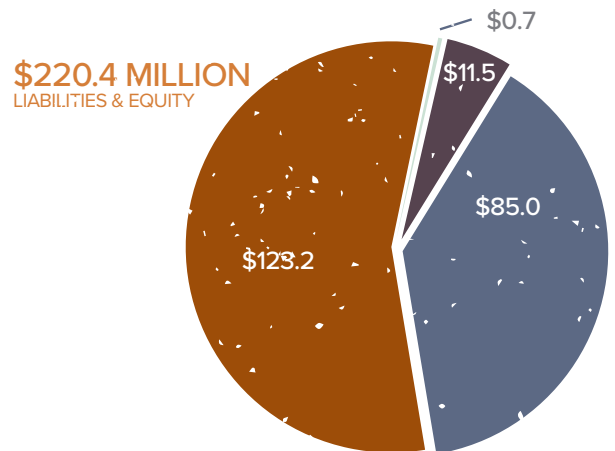


Net Position 2019

\$220.4 MILLION
TOTAL ASSETS



\$220.4 MILLION
LIABILITIES & EQUITY



Explanation of Assets

Current Assets - Cash and cash equivalents, customer utility receivables, inventory, prepaid expenses, and other liquid assets that can be readily converted to cash.

Restricted Assets - Cash equivalents, grants and bonds restricted for a specific purpose and therefore not readily available to use.

Other Assets - Special Assessments receivable from certain property owners for system improvements that benefit only their properties.

Capital Assets - Any land, building, equipment, vehicles, inventory, treatment plants, pipeline, and water distribution systems owned by the District.

Deferred Outflow of Resources - Use of net assets attributed to future reporting periods, such as prepaid items and deferred charges.

Explanation of Liabilities and Equity (Net Position)

Current Liabilities - Present financial obligations including, payments to vendors, payroll, and employee benefits.

Non-Current Liabilities - Long-term financial obligations including payments for loans, bonds, and employee retirement benefits.

Deferred Inflow of Resources - Receipt of net assets attributed to future reporting periods, such as deferred revenue and advance collections.

Equity (Net Position) - Represents the excess of assets over liabilities.



Safe Reliable Water & Wastewater Service Provider



East Valley Water District was formed in 1954 and provides water and wastewater services to over 103,000 residents within the cities of Highland and San Bernardino, and portions of San Bernardino County. EVWD operates under the direction of a 5-member elected Board.

Office Hours

Monday – Thursday 8:00am – 5:00pm
2nd and 4th Tuesday 9:00am – 5:00pm
Friday 7:30am – 4:30pm

Customer Service & After-Hours

Emergency Service
(909) 889-9501

District Headquarters

3111 Greenspot Road
Highland, California 92346
(909) 889-9501 www.eastvalley.org

District Board Meetings

Second and Fourth Wednesday of Each Month
To attend online or telephonically or through the Microsoft Teams App, visit www.eastvalley.org/AgendaCenter for details and login information.