



ANNUAL STOCKHOLDERS' REPORT
FISCAL YEAR 2018-2019
&
NOTICE OF
ANNUAL STOCKHOLDERS' MEETING
FEBRUARY 19, 2020



**** IMPORTANT INFORMATION ****

CHLORAMINES:

From time to time, Valencia Heights Water Company's (VHWC) water may contain chloramines for disinfection. Chloramines are a combination of chlorine and ammonia. This is due to disinfection by-product regulations, and in the water supplied by Covina Irrigating Company (CIC) and Metropolitan Water District (MET). While chloramines serve the same purpose as chlorine, the chloraminated water must be treated prior to and for the use with the following:

- **Dialysis Equipment, and**
- **Exotic Fish Tanks & Ponds**

IF THIS APPLIES TO YOU: PLEASE CONTACT THE APPROPRIATE PROFESSIONAL AND VHWC TO ADDRESS THE ISSUE.

Valencia Heights Water Company

3009 East Virginia Avenue
West Covina, CA 91791-2252

Phone: (626) 332-8935 or (626) 332-3577

Fax: (626) 332-9441

Website: vhwc.org

Email: info@vhwc.org

Office Hours:

Monday – Thursday: 8 a.m. to 6 p.m.

Fridays: **CLOSED**

PAPERLESS BILLING

VHWC now offers ebills. We encourage everyone to sign up to receive their monthly water bill via email. Please call the office at (626) 332-8935 or simply email us at info@vhwc.org to make the change

AUTOMATIC/RECURRING PAYMENTS

The Automatic/Recurring Payment Application can be accessed through the vhwc.org website. Submit the signed and dated application, along with a voided check, to our office, and your monthly water bill payment amount will automatically deduct from your checking account on the 18th of every month. You can also login to your water account through our website and sign-up for automatic payments by using your credit card (small fee applies for credit cards only)

BILLING & PAYMENTS:

- Water bills are mailed near or on the fifth (5th) of every month [in envelopes with a return envelope enclosed.](#)
- **Water bill payments are due upon receipt.**
- Please remember to include your remittance stub with your payment.
- Past Due Notices are mailed, [in envelopes](#), on the next business day after the 25th of every month.
- In the office we accept Cashier and Personal Checks, Money Orders, and Cash. For your convenience, payments can be left at our office during regular business hours, or you can use the front door mail-slot to drop payments after-hours and holidays.
- We offer Automatic/Recurring Payments (applications are available online @ vhwc.org and in the office); **Credit Card Payments are available only through our website: vhwc.org**
- **If you are unable to make your payment please call the office to make a payment arrangement and to prevent a \$25 late fee.**

CUSTOMER SHUT-OFF VALVE NOTICE

In emergency situations, it is crucial that all properties have an operating shut-off valve installed at the home and at the customer side of the meter. The shut-off valve near the home controls the water going into the home, and the shut-off valve located on the property-side of the meter controls the water coming into the property. Not all properties have shut-off valves on their property, and it is important for each resident to know whether or not a shut-off valve exists on their property. If a shut-off valve does not exist, Valencia Heights Water Company (VHWC) highly recommends that they are installed.

When a shut-off valve, as described above does not exist on your property, it is recommended that you call Valencia Heights Water Company (VHWC) **before** turning any valve within the meter box. The valve in the meter box closest to the street is company property. Turning the Company valve and causing damage to it could result in significant cost to the property owner.

All facilities owned or maintained by VHWC, including but not limited to reservoirs, wells, pump stations, main water lines, fire hydrants, water meters and/or radios are not to be tampered with by anyone other than authorized VHWC personnel. If you are unsure if the equipment belongs to you or the water company, it is recommended that you call VHWC (626-332-8935). Our field staff is available 24 hours a day. If there is any damage or repairs needed as a result of your actions, you, the owner will be responsible for the cost of the repairs.

When water service has been shut off at a property, for any reason, it will not be restored until the property's existing issue is resolved whether it is repairs, past-due bill, or new buyer requirements. Once a meter is shut off by VHWC personnel, service can only be restored by VHWC personnel. If a meter is tampered with by **anyone** other than VHWC personnel, then a **\$500 Tampering Fee** may be charged to the shareholder or consumer account. If a meter is tampered with, it will be locked off or may be removed at the expense of shareholder or consumer until all fees (labor & materials), and past-due bills are paid; and if required, all documents be submitted to transfer water stock. The reinstallation of the meter will be at the expense of the shareholder or consumer account.

California Penal Code Section 498

"Any person who, with intent to obtain for himself or herself utility service without paying the full lawful charge therefor, or with intent to enable another person to do so, or with intent to deprive any utility of any part of the full lawful charge for utility services it provides, commits, authorizes, solicits, aids, or abets any of the following shall be guilty of a misdemeanor."

The below situations are two (2) examples of tampering:

- Prevents any utility meter, or other device used in determining the charge for utility services, from accurately performing its measuring function by tampering or by any other means.
- Tamper with any property owned by or used by the utility to provide utility service.

ANNUAL STOCKHOLDERS' MEETING

DAY: Wednesday

DATE: February 19, 2020

TIME: 7:00 p.m.

LOCATION: Mesa Elementary
(Multipurpose Room)
409 S. Barranca Avenue
West Covina, CA 91791

Your vote is important!

*Please remember to mail the proxy card before
February 15, 2020.*

*Your vote is necessary for the Board to conduct
its business.*

We look forward to seeing you at the meeting!

Message from the Board Chairman

Dear Valencia Heights Water Company Shareholder:

The Valencia Heights Water Company (VHWC) Board of Directors would like to provide its shareholders the opportunity to attend a water tour of the Colorado River Aqueduct. This tour is funded and sponsored by Metropolitan Water District of Southern California (MET), and hosted by Three Valleys Municipal Water District. The tour is a two and half day round trip bus ride to Parker Dam, on the Colorado River, via MET facilities such as Diamond Valley Lake. The tour will be scheduled for spring 2020.

The purpose of extending the invitation of this tour is to educate VHWC shareholders and potential Board Directors about Southern California's water supply and other issues facing water agencies. The tour will inform participants about Southern California's water sources, storage and how water is distributed around the state.

Due to the anticipated interest in the tour, and the limited number of spaces that will be available for VHWC, we are requesting that interested stockholders show their support and interest, by attending the Annual Shareholders Meeting in February. Prior to the start of the meeting, interested shareholders will be allowed to register for the tour. At that time, you will be given the actual dates, times, departing location, and travel guidelines. Should there be more interest than available seats, the Board will hold a drawing for the available seats, and reserve other seats on other tours. Additional tours to Northern California facilities may be available, depending on space availability.



This tour is recognized as one the best water tours in California. All accommodations are compliments of MET and the only requirement to participate in the tour will be for you to attend the Annual Shareholders Meeting in February. Please know that space is limited and couples are encouraged.

Ronald Wheeler

Chairman of the Board

VALENCIA HEIGHTS WATER COMPANY

West Covina, California

Los Angeles County

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>	<u>YEARS OF SERVICE</u>
Ronald Wheeler	Chairman	February 19, 2020	11
Sylvia Beltran	Vice-Chairman	February 19, 2020	4
Curtis Feese	Treasurer	February 19, 2020	20
Wayne Partee	Secretary	February 19, 2020	23
Eugene Jacobs	Director	February 19, 2020	23
Robert Ghirelli	Director	February 19, 2020	7
Daniel Liese	Director	February 19, 2020	15

ADMINISTRATION

David Michalko	General Manager	33
Gloria Galindo	Office Manager	17

OFFICE

Elizabeth Lopez	Billing Clerk/Customer Service	4
Tiffany Dickinson	Customer Service Assistant	3

FIELD

Tim Pacheco	Water System Supervisor	17
Ernest Romero	Water Tech II	10
Chad Latourelle	Water Tech I	8

VALENCIA HEIGHTS WATER COMPANY

Annual Stockholders' Meeting

Wednesday, February 19, 2020

7:00 – 8:00 p.m.

Mesa Elementary School (Multipurpose Room)
409 S. Barranca Street – West Covina, CA 91791

A G E N D A

1. Open Meeting
2. General Manager's Report
 - a. Projects
 - b. Water Supply
3. Report for a Quorum
4. Call to Order
5. Approval of Minutes of February 21, 2019
6. Approval of the Financial Statements
 - a. Report from the Investment Committee
7. Ratification of Actions Taken by the Board for Year-Ending October 31, 2019
8. Election of the Board
 - a. Nomination of Directors
 - b. Motion to Close Nominations
 - c. Election of Directors
9. Discussions, Questions and Answers
10. Other Business
11. Motion to Adjourn

VALENCIA HEIGHTS WATER COMPANY
ANNUAL STOCKHOLDERS' MEETING MINUTES
Mesa Elementary School - 409 South Barranca Avenue,
West Covina, CA 91791
Thursday, February 21, 2019, 7:00 p.m.

- Present:** R. Wheeler, Chairman; S. Beltran, Vice-Chairman;
C. Feese, Treasurer; Wayne Partee, Secretary; R. Ghirelli;
E. Jacobs, Director; D. Liese, Director
- Staff:** D. Michalko, General Manager; G. Galindo, Office Manager;
E. Lopez, Billing Clerk; T. Dickinson, Customer Support
- Stockholders:** David Minto, Sandy Feese, Adolf Schultheiss, Elsbeth Schultheiss
- Others:** Aida Babayan, UBS; Norman Schultheiss

The Chairman, R. Wheeler welcomed everyone and introduced the Board of Directors; the General Manager, Dave Michalko; and Staff, Gloria Galindo, Elizabeth Lopez and Tiffany Dickinson. R. Wheeler welcomed and thanked everyone for coming.

1. Open Meeting
The Chairman opened the meeting at 7:03 p.m., welcomed and thanked everyone for attending.
2. General Manager's Report
 - a. Water Supply
The General Manager reported on the rain, the drought, and how it is affecting the local water supply.
 - b. Projects
The General Manager provided a presentation on the Reservoir No. 2 project and other 2018 Capital Projects
3. Report for a Quorum
The Chairman asked if there was a quorum present. E. Lopez reported that a quorum was present as follows:

2452 Shares Outstanding
1227 Shares Required for a Quorum
1994 Shares Present and/or Voting
4. Call to Order
After hearing that a quorum was present, the Chairman called the meeting to order.
The Annual Shareholders' Meeting was called to order at 7:27 p.m.

Annual Stockholders’ Meeting Minutes

February 21, 2019

Page 2

5. Approval of Minutes of February 21, 2018
The Chairman asked if there were any comments on the 2018 Annual Meeting Minutes. There was a correction to the minutes that was noted, the Chairman asked for the approval of the minutes.

- Motion by R. Ghirelli and seconded by W. Partee to approve the minutes of February 21, 2018.

Motion passed.

For	1060
Against	43
Abstain	891

6. Approval of the Financial Statements
The Chairman asked if there were any questions for the Treasurer regarding the Financial Statements for 2017-2018. The Chairman asked for a motion to approve of the Financial Statements for 2017-2018.

- Motion by S. Beltran and seconded by R. Ghirelli to approve the Financial Statements as presented.

Motion passed.

For	1060
Against	43
Abstain	891

7. Ratification of Actions Taken by the Board for the Year-Ending October 31, 2018
The Chairman asked for a motion to ratify the actions taken by the Board for year-ending October 31, 2018.

- Motion by S. Beltran and seconded by R. Ghirelli to ratify the Board’s actions for year-ending October 31, 2018.

Motion passed.

For	1060
Against	43
Abstain	891

8. Election of Directors
The Chairman opened nominations for the current Board.
- Motion by R. Ghirelli and seconded by D. Minto to nominate the current slate of Directors

Motion passed.

For	1060
Against	43
Abstain	891

Annual Stockholders’ Meeting Minutes

February 21, 2019

Page 3

- Motion by D. Minto and seconded by S. Beltran to close nominations.

Motion passed

For	1060
Against	43
Abstain	891

- Motion by D. Liese and seconded by W. Partee to elect the slate as nominated.

Motion passed

For	1060
Against	43
Abstain	891

9. Discussions, Questions and Answers

There were no questions brought before the Board at this time.

10. Other Business

There was no other business to come before the Board.

11. Motion to Adjourn

The Chairman asked for a motion to adjourn the Annual Shareholders’ Meeting at 7:40 p.m.

- Motion by R. Ghirelli and seconded by E. Jacobs to adjourn the Annual Shareholders’ Meeting.

Motion passed.

For	1060
Against	43
Abstain	891

Respectfully Submitted,

Wayne Partee - Secretary

Date

MANAGER'S REPORT

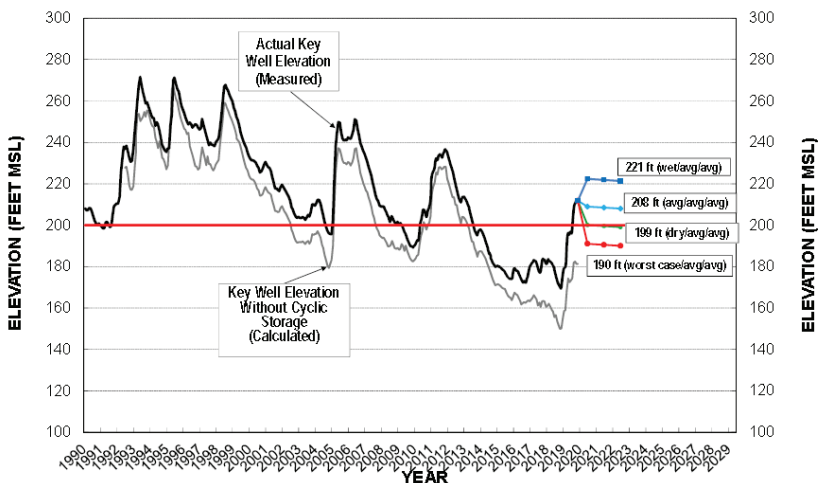


INCORPORATED NOVEMBER 1912 UNDER THE LAWS OF THE STATE OF CALIFORNIA

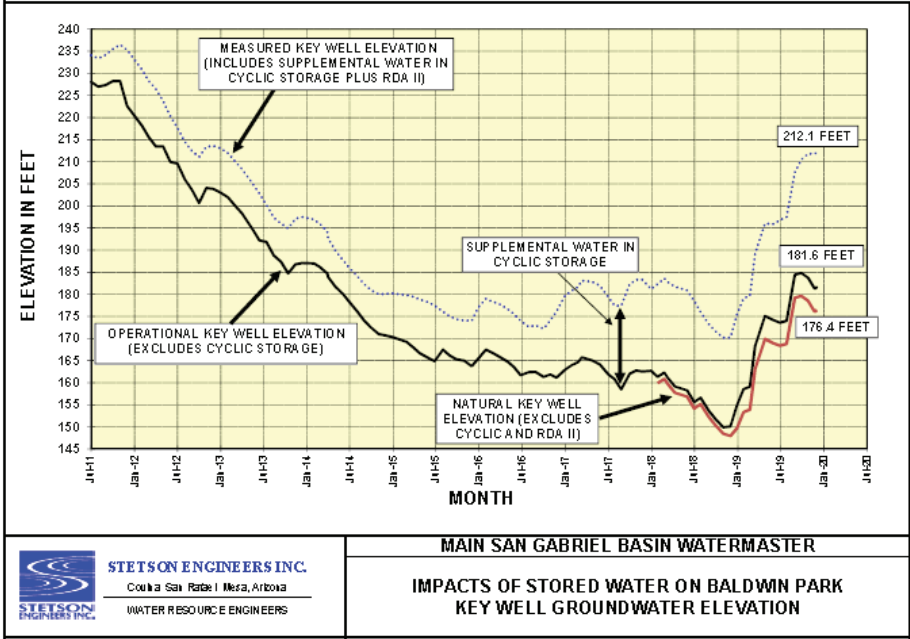
Supply Projections

The long-term 2019-2020 winter forecast is projected to be about “normal” rainfall. However, we are off to a good start, and currently, here in the Valley, rainfall is above normal. The Main San Gabriel Basin (Basin), the Basin which provides local groundwater to Valencia Heights Water Company (Company) has recovered significantly from one year ago. However, this is not the result of last winter’s rainfall. The chart below shows the continued drop of the groundwater level in the basin during the last 20 years. The years with substantial rainfall are reflected in the dramatic, but temporary, increase in Basin groundwater level. The chart also shows small increases in the Basin groundwater level during the last two (2) years which is the result of purchasing import water to supplement stormwater run-off.

**FORECASTED BALDWIN PARK KEY WELL ELEVATION
(THROUGH JUNE 30, 2022)**



Last year, I reported that the Basin was at a record low and had reached a critical level to meet the needs of the residents of the San Gabriel Valley. As a result, the Main San Gabriel Basin Watermaster (Watermaster), the court appointed entity created to manage the Basin, had developed a plan to purchase import water to help augment the lack of stormwater run-off. Although it has taken this program a few years to build enough revenues to begin purchasing large enough volumes of water to make an impact, we are now seeing the positive result of this program. The result is shown in the dramatic increase in ground water levels in the chart. Also, in the chart below, you can see the result of purchasing the import water and where the Basin would be without any import water. This is reflected in the difference between the two lines, which amounts to an increase in the Basin water level of about 40 feet. Without the purchased water, the Basin would be in severely worse shape. Over time, this program will allow all producers greater groundwater availability, even during a drought. The assessment, when fully implemented, will help offset any lack of local stormwater. However, this reliability will cost water producers more than \$35,000,000 annually.



assessment is to manage the Basin in a way to ensure a reliable water supply well in to the future, without the need for mandatory conservation or rationing.

Watermaster Outreach

As part of the management philosophy of the Basin, Watermaster has embarked on an outreach campaign to inform both water users and decision makers on the importance we all play in the management of our Basin. Recently, the San Gabriel Valley went through an extreme drought that lasted somewhere between 10 to 15 years depending on how a drought is defined. When the rain started to fall, many people throughout the state started to declare that the drought was over. We received numerous calls from many of you wanting to confirm the information that the media was broadcasting regarding the drought ending. This posed a problem for water producers in the San Gabriel Valley because our water source, the Basin, was years from recovering and conservation efforts were still very important. This got all of the producers talking on how we can communicate the drought and recovery to individuals that rely on the Basin.

The outreach campaign will focus on the status of the Basin which is always in some stage of drought, either preparing for a drought, in a drought or recovering from a drought. Currently, the Basin is in a recovery phase, assuming that we continue having “normal” winters for the next several years. Otherwise, we could already be in a preparing phase. While this concept may seem simple, the media only expresses the fact that we are in a drought or that it is over. The recovery, like any natural disaster, takes much longer than the event itself, which will take years.

Water Rates

In September 2019, as part of the budget process, the Board reviewed the current revenue projections. These projections are based on the quantity of water sold annually by the Company. Over the past 5 years, either due to drought or a cool wet winter and summer, it has been difficult to predict water sales. About 10 years ago, the Board developed a water rate philosophy to recover a larger portion of the “fixed” costs of operation on the meter charge. This has allowed the Company to meet its budget regardless of the water sales variable. However, the operational costs generally continue to increase and the Board voted that a 5 percent increase would be necessary, mostly to continue the ongoing, pro-active, Capital Improvement Program.

In addition, as discussed earlier, we must continue collecting the Watermaster Assessment. Beginning November 2019, the Company will be required to increase this assessment from the current amount of \$0.22 per unit to \$0.24 per unit in order to collect the \$160,000 that we will be billed by Watermaster in 2020. In November 2020, the assessment will increase to approximately \$0.30 per unit.

order to collect the \$160,000 that we will be billed by Watermaster in 2020. In November 2020, the assessment will increase to approximately \$0.30 per unit.

The Company also continues to implement technology to improve efficiency in operations, billing, and communication with the consumer. These technologies are also intended to help the consumer save money by reducing water waste and unknown water loss. While there may be some upfront costs associated with this philosophy, there are significant long-term savings in all of these investments.

Internship Program

This past year, the Company started a “Water Profession” Educational Internship Program. The purpose of this program was to expose high school students to the water industry as a career objective in domestic, recycling, and waste water treatment. In addition, we wanted to give the students an opportunity to see where their water comes from and learn the day-to-day operational activities of the Company and the industry. The Company selected four (4) high school students that lived within the Company service area. These four students worked with both the field and the office staff. The interns helped perform various day to day jobs throughout the Company. We hope that this program has some success in the community and would like to continue this program next summer.

Capital Improvement Plans

The Board continues to be very proactive in the replacement of aging infrastructure, as discussed above, in water rates. By the end of 2020, the Company will have completed the replacement of all the old, “high risk” waterlines. Below are the projects that were completed this past year and the projects planned for 2020.

Geographic Information System (GIS)

The Company has been very proactive in using technology whenever possible. One outdated resource that needed upgrading was the Company’s water system mapping. This year, the Company upgraded to a GIS mapping system that allows the staff to compile all of the water system information in one location. This includes work orders, system maintenance and repairs, design drawings, customer information, shut-down procedures, virtually anything staff could need to perform their job. We have been working on developing a GIS software that will benefit both the Company and the customer. The development and implementation of the system has been underway for over a year and is now being utilized in the day to day operations to track work orders and other tasks. Development entails surveying the entire water system, locating waterlines, valves, hydrants, meters and other infrastructure. We have completed about 50% of the surveying. In the coming year, if you see blue paint dots on or near your property, this means the Company has marked facilities for the surveyor. These marks are usually within

the landscaping or on the street. You may also see small blue flags and we ask that you please leave them in place and we will remove them.

The GIS will allow the Company to post planned and unplanned outages on our website which will provide you, the customer, with timely information about an outage and the estimated duration of an outage. Outage information will be provided to you via text messaging.

Capital Projects that have been completed this year are:

- Completion of the Reservoir No. 5 waterline.
- The replacement of 2500 feet of an old 6 inch line with 8 inch waterline in North Cameron Avenue from Limecrest Drive north to Grand Avenue, along with 600 feet of new line on the east side of Grand Avenue.
- Ongoing work on the generator connections at the remaining sites. This allows for the connection of the portable generator that the Company recently purchased to pump water during either a short localized, or long-term widespread power outage. The generator is capable of powering any of the Company's facilities.

The Projects planned for this year are:

- One of the last two remaining sections of the old transmission line from the Covina Irrigating connection and Reservoir No. 1, up to Reservoir No. 2.
- Replacement of about 200 feet of 6 inch waterline with 12 inch waterline that goes under the 10 freeway from Garvey Avenue to Parkview Drive. This project has been in planning for several years and is now moving forward as a result of the planned developments on Parkview. This year we will see the construction of a 110 bed senior facility (Oakmont) and the construction of a Kaiser Permanente medical building. These projects will contribute to these improvements.
- Replacement of the waterline within the easement between Damerall Drive and Limecrest Drive, along with the replacement of approximately 850 feet of waterline within Limecrest Drive.
- The Company is currently going through permitting to install fuel storage at the shop. This is part of the Company's Emergency Response planning. As you are aware, there have been many public announcements advising you to be prepared for at least 3 days in the event of an emergency. The Company is also preparing and being proactive to meet fuel demands to operate trucks and generators for extended periods. Fuel storage is critical in meeting this need.
- Completion of the generator connections at the remaining 4 sites. This year we will complete the pump station connections and the final well connection.

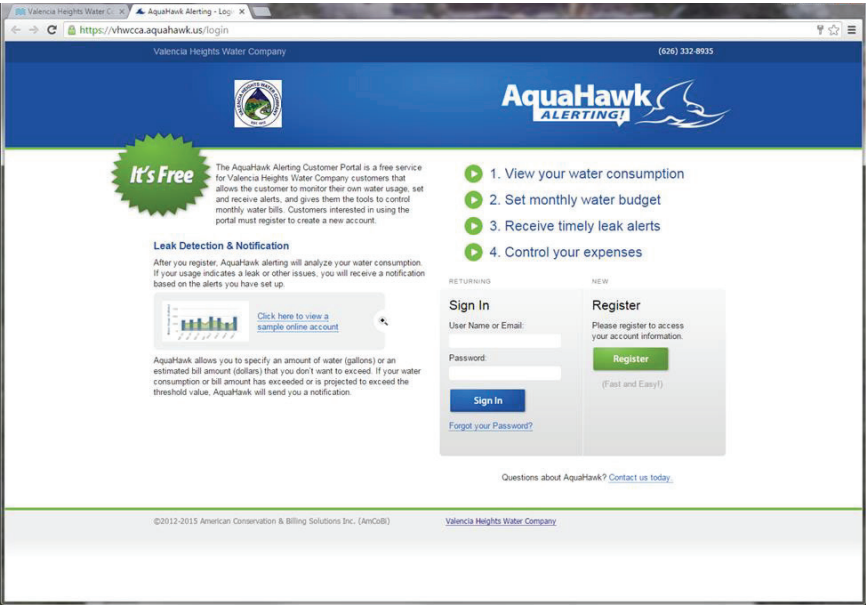
The complete 5-year plan is on page 17 of the report. This plan is updated annually based on the Company’s most current needs, and review of the water system operations.

Emergency Preparedness

During this past year, the Company upgraded the billing system which has allowed us the capability communicate with you directly via text message, auto-call and email. Over the past few years, staff has taken great effort to obtain up-to-date contact information from our customers which has allowed the staff to communicate with many customers. This past month, many of you received a text informing you that you have now subscribed to Valencia Heights Utility Notices. We will use the texting service to communicate with you as best we can with regards to your water account or during an emergency situation. Please remember that **having emergency contact information is very critical for the Company during an emergency event affecting our customers.** In addition to emergency communication, the company will use your contact information to contact you for water outages, either planned or unplanned and general important information. **Please help us keep you informed!**

Lastly, the Company has joined forces with 17 other local water agencies to form an Emergency Preparedness Group. This group has hired a coordinator to conduct training, planning and preparedness. In the past year significant progress has been made to improve the Company’s overall preparedness.

Website and Links



New Website and Links

At the time of this report our new website was still under construction. However, we have added a few features that we are looking forward to have available very soon on our site. You will be able to check for water outages both planned and unplanned. This will also keep informed on the progress of repairs and the estimated duration of an outage. Watch for much more on the new website in the coming months.

Below is a brief explanation of the AquaHawk System and the benefits it provides. You will find the link under “View Water Usage Online”

Each year, we would like to continue directing your attention to the Company’s website ***vhwc.org***. We hope that the website will be a useful tool to communicate with our customers. One such tool is for water outages. If water service appears to be out at your property, please check the website to see if there is an outage affecting your area. Staff will make every attempt to post the most updated information regarding the location and duration of an outage on the website. It is our goal to have the information posted within 30 minutes of an outage, and we will update the website when new information is available. Once the outage is posted, this is a helpful tool to check on the repair progress and/or estimated completion time. We hope that the site will help keep you informed about current water outages, and when service will be restored. You can also follow us on Twitter **@valenciaheights** as another source of information. We will periodically send tweets about any useful information; as well as any water outages in the water system. To help our customers know what is going on, especially during outages and emergencies, we ask that every one of our customers sign up to follow **@valenciaheights** on Twitter.

AquaHawk Alerting allows our customers to take control of their water bill and water usage through monitoring and alerting. Register your water account by visiting our website, ***vhwc.org***. Once your water account is registered, you will have access to your daily usage, set alerts on your account, and much more. By setting alerts, you will be notified by text or email if the water bill has exceeded a user-selected, specific dollar or usage amount, or if water has been running continuously at your property. Also, by registering your account, and giving the most current contact information, VHWC will be able to contact you during any emergency situation. Since the inception of Aquahawk, the Company has been able to notify many customers of possible leaks or continual usage at their properties. If a customer signs up directly, you will be notified much quicker, which will provide greater savings for you, of both money and water. To register your account, please visit our website at ***vhwc.org*** and follow the link. Many of you may have received a text or phone call from the Company alerting you of an urgent matter on your property or to update you about an ongoing project. If you do receive a call from the Company, and you are questioning the call or number, please give our office a call to verify that the call did come from the Company.

Water Pressure and Regulators

A common call received at the office is about water pressure and pressure regulators. The area that the Company provides water service to varies greatly in elevation. Since the water lines must traverse up and down the hills, pressure can vary greatly from one block to the next. Water pressure within your home should be sufficient at about 50 pounds per square inch (psi), and pressure greater than **60 psi** can cause damage to appliances within the home. The pressure at your water meter can range from **40 psi to 160 psi**, but will not vary more than 5psi. For this reason, it is critical that you monitor and maintain the pressure regulator at your property. Pressure regulators should last three (3) to five (5) years; however, there is no guarantee how long it will last. The pressure within the water system seldom varies and **cannot** be adjusted by the Water Company. The pressure at your property is determined by the location (elevation) of the reservoir from which you are served. If you notice any change in the pressure within your home, you should consider contacting a plumber to have your pressure regulator serviced. Building codes require that all homes have a pressure regulator, and it is the **homeowner's responsibility** to service, maintain or replace the pressure regulator as needed.

Mutual Water Company Association, CalMutuals

The Company continues to assist with the growth and development of CalMutuals. The Association continues to grow and catch the eye, and earn the respect of the State Legislature. With the formation of a JPA to provide insurance, CalMutuals now has a significant funding source to perform the support and advocacy that is so critically need for small agencies. The Associations website is **www.calmutuals.org**. Please take a minute to see what is happening in the world of Mutual Water Companies. There are over 500 Mutual Water Companies in the State, and it is important that there be support and a voice for Mutuals in the State.

Finally, as in the past, the following pages contain two years of audited financial statements. This past year we changed audit firms so you may notice that the opinion was provided by Clifton Laron Allen. Please take a few moments to review the Financial Statements, and bring your questions to the Annual Meeting. This years' Annual Stockholders' Meeting will be held in the Mesa Elementary School cafeteria, at 409 S. Barranca Street, on **Wednesday, February 19, 2020, at 7:00 p.m.** We look forward to your attendance to discuss the business and success of the Company.

Sincerely,
Dave Michalko
General Manager

VALENCIA HEIGHTS WATER COMPANY

Capital Improvement Projects 2020-2024

2020

Capital Debt Payment(s)	\$	115,000
Water Line - Virginia to Great Mountain	\$	175,000
Limecrest to Dameral Water line	\$	250,000
Emergency Preparedness Equipment/Electrical	\$	50,000
Fuel Storage at Shop	\$	100,000
Federal Risk and Resilience Assesment (AWIA)	\$	10,000
Parkview Waterline Upgrades (reimbursable)	est. \$350,000	TBD
Mapping/GIS Development	\$	30,000
Miscellaneous Site/Office Work	\$	75,000
Total	\$	805,000

2021

Capital Debt Payment(s)	\$	115,000
AWIA	\$	50,000
Well No. 7 Rehab	\$	150,000
Reservoir No. 4B Inside Rehab	\$	75,000
Replace Pick-up Truck	\$	40,000
Miscellaneous/Site Work	\$	50,000
Total	\$	480,000

2022

Capital Debt Payment(s)	\$	115,000
Grand Ave Crossing	\$	300,000
Reservoir No. 6B Inside Rehab	\$	125,000
Miscellaneous/Site Work	\$	50,000
Total	\$	590,000

2023

Capital Debt Payment(s)	\$	115,000
Reservoir No. 6A	\$	125,000
Golden Bough Line	\$	250,000
Miscellaneous System Work	\$	50,000
Total	\$	540,000

2024

Capital Debt Payment(s)	\$	115,000
Reservoir No. 4A Inside Rehab	\$	175,000
Holt Avenue Line, Holt and Grand	\$	150,000
Miscellaneous System Work	\$	100,000
Total	\$	425,000

Estimated Cost Over 5 Years **\$ 2,840,000**

Average Cost Per Year **\$ 568,000**

Additional/Future Projects

Lorencita Water Line
 Potential Treatment Facility/Softening/Perchlorate
 6" Line at the End of Buenos Aires
 Final Section of Res. No. 5 Waterline
 Santiago Waterline

Additional Waterline Replacements
 Service Line Replacements (System-Wide)
 Virginia Avenue Mainline
 Reservoir No. 1 & 2 Roofs

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)**

FINANCIAL STATEMENTS

**WITH REPORT ON AUDIT
BY INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS**

Years Ended October 31, 2019 and 2018



CLAconnect.com

**WEALTH ADVISORY
OUTSOURCING**

**AUDIT, TAX, AND
CONSULTING**

VALENCIA HEIGHTS WATER COMPANY
(A California Mutual Water Company)

TABLE OF CONTENTS
October 31, 2018 and 2017

	<u>Page</u>
Independent Auditors' Report	20-21
Financial Statements:	
Statements of Financial Position	22-23
Statements of Operations	24
Statements of Changes in Member’s Equity	25
Statements of Cash Flows	26
Notes to Financial Statements	27-38



CliftonLarsonAllen LLP
CLAAconnect.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Valencia Heights Water Company
West Covina, CA

We have audited the accompanying financial statements of Valencia Heights Water Company (a California mutual water company) (the Organization), which comprise the statement of financial position as of October 31, 2019, and the related statements of operations, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Board of Directors
Valencia Heights Water Company

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Valencia Heights Water Company as of October 31, 2019, and respective changes in its equity and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Prior Period Financial Statements

The October 31, 2018 financial statements were audited by other auditor whose report dated January 7, 2019, expressed an unmodified opinion on those financial statements.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP
Glendora, California
December 30, 2019

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
STATEMENTS OF FINANCIAL POSITION
October 31, 2019 and 2018**

Assets

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash and cash equivalents	\$ 665,042	\$ 853,440
Investments	3,225,504	2,461,571
Accounts receivable	299,413	275,647
Accounts receivable - other	-	566,788
Interest receivable	18,989	17,919
Inventory - materials and supplies	65,989	65,430
Prepaid water, current portion	<u>44,100</u>	<u>150,000</u>
Total Current Assets	<u>4,319,037</u>	<u>4,390,795</u>
 Property, Plant and Equipment, Net	 <u>8,387,460</u>	 <u>7,926,700</u>
 Other Assets		
Deposit	6,250	6,250
Investment in Covina Irrigating Company	918,890	918,890
Deferred compensation plan assets	141,685	139,341
Water rights	720,000	720,000
Prepaid water	167,831	153,355
Deferred income taxes	<u>7,616</u>	<u>1,693</u>
Total Other Assets	<u>1,962,272</u>	<u>1,939,529</u>
 Total Assets	 <u>\$ 14,668,769</u>	 <u>\$ 14,257,024</u>

See accompanying notes to the financial statements.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
STATEMENTS OF FINANCIAL POSITION
October 31, 2019 and 2018**

Liabilities and Members' Equity

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Accounts payable	\$ 277,912	\$ 122,925
Income taxes payable	1,539	1,539
Notes payable, current portion	83,478	120,594
Accrued interest	<u>10,540</u>	<u>-</u>
Total Current Liabilities	<u>373,469</u>	<u>245,058</u>
Noncurrent Liabilities		
Deferred compensation vested liability	141,685	139,341
Compensated absences	66,936	60,762
Notes payable, net of current portion	<u>1,771,569</u>	<u>1,858,965</u>
Total Noncurrent Liabilities	<u>1,980,190</u>	<u>2,059,068</u>
Total Liabilities	<u>2,353,659</u>	<u>2,304,126</u>
Members' Equity		
Contributions in aid of construction, net of amortization	1,814,112	1,903,224
Common stock - 10,000 shares authorized; \$100 par value; 934 and 952 shares issued and outstanding as of October 31, 2019 and 2018, respectively	93,400	95,200
Class A common stock - 10,000 shares authorized; \$100 par value; 1,518 and 1,500 shares issued and outstanding as of October 31, 2019 and 2018, respectively	151,800	150,000
Additional paid-in capital	1,279,495	1,279,495
Retained earnings	<u>8,976,303</u>	<u>8,524,979</u>
Total Members' Equity	<u>12,315,110</u>	<u>11,952,898</u>
Total Liabilities and Members' Equity	<u>\$ 14,668,769</u>	<u>\$ 14,257,024</u>

See accompanying notes to the financial statements.

VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
STATEMENTS OF OPERATIONS
For the Fiscal Years Ended October 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Water sales and services	\$ 2,647,365	\$ 2,985,447
Operating Expenses		
Utility plant operation expenses:		
Purchased water	540,012	818,716
Purchased power	186,620	208,836
Operations	81,771	82,824
Water testing	7,028	6,462
Vehicles	31,413	31,967
Repairs and maintenance	81,933	54,854
Total utility plant operation expenses	<u>928,777</u>	<u>1,203,659</u>
Depreciation	<u>412,777</u>	<u>318,154</u>
General and Administrative Expenses		
Salaries and benefits	723,614	692,651
Directors' fees	30,780	28,480
Professional services and permitting	84,081	71,539
Office expenses and utilities	56,048	60,270
Insurance	48,918	41,291
Taxes and licenses	55,512	53,534
Assessments	196,395	141,682
Total general and administrative expenses	<u>1,195,348</u>	<u>1,089,447</u>
Total Operating Expenses	<u>2,536,902</u>	<u>2,611,260</u>
Income From Operations	<u>110,463</u>	<u>374,187</u>
Other Revenues (Expenses)		
Investment income:		
Interest and dividend income	105,558	98,701
Net realized and unrealized gains (losses)	245,740	(157,093)
Total Investment Income (Loss)	<u>351,298</u>	<u>(58,392)</u>
Other income	33,773	26,237
Provision for state income taxes	(2,687)	(5,146)
Interest expense	(41,523)	(1,840)
Total Other Revenues (Expenses)	<u>340,861</u>	<u>(39,141)</u>
Net Income	<u>\$ 451,324</u>	<u>\$ 335,046</u>

See accompanying notes to the financial statements.

VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
For the Fiscal Years Ended October 31, 2019 and 2018

	Number of Shares *	Common Stock	Contributions in Aid of Construction	Additional Paid-In Capital	Retained Earnings	Total
BALANCE - OCTOBER 31, 2017	2,451	\$ 245,100	\$ 1,986,554	\$ 1,265,895	\$ 8,189,933	\$ 11,687,482
Net Income	-	-	-	-	335,046	335,046
Contributions	-	-	8,300	-	-	8,300
Stock issued	1	100	-	13,600	-	13,700
Amortization	-	-	(91,630)	-	-	(91,630)
BALANCE - OCTOBER 31, 2018	2,452	245,200	1,903,224	1,279,495	8,524,979	11,952,898
Net Income	-	-	-	-	451,324	451,324
Contributions	-	-	-	-	-	-
Stock issued	-	-	-	-	-	-
Amortization	-	-	(89,112)	-	-	(89,112)
BALANCE - OCTOBER 31, 2019	<u>2,452</u>	<u>\$ 245,200</u>	<u>\$ 1,814,112</u>	<u>\$ 1,279,495</u>	<u>\$ 8,976,303</u>	<u>\$ 12,315,110</u>

* During the years ended October 31, 2019 and 2018, 18 shares of Common Stock were retired and re-issued as Class A Common Stock for both years.

See accompanying notes to the financial statements.

VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
STATEMENT OF CASH FLOWS
For the Fiscal Years Ended October 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Net Income	\$ 451,324	\$ 335,046
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation	412,777	318,154
Deferred Income taxes	(7,616)	(1,693)
Amortization of premiums/(discounts) on investments	22,467	20,765
Net realized and unrealized (gain)/loss on investments	(245,740)	157,093
(Increase) decrease in operating assets:		
Accounts receivable	(23,766)	25,752
Other receivable	566,788	(566,788)
Interest receivable	(1,070)	(1,841)
Inventory	(559)	1,034
Prepaid income taxes	-	1,942
Prepaid water	91,424	64,995
Increase (decrease) in operating liabilities:		
Accounts payable	154,987	(106,884)
Income taxes payable	-	1,539
Compensated absences	6,174	10,503
	<u>1,427,190</u>	<u>259,617</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(962,649)	(2,036,337)
Proceeds from sale or maturity of investments	939,341	366,023
Purchase of investments	(1,467,768)	(659,331)
	<u>(1,491,076)</u>	<u>(2,329,645)</u>
NET CASH USED BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Principle payments on note payable	(124,512)	(40,672)
Proceeds from note payable	-	1,939,868
Issuance of stock	-	13,700
	<u>(124,512)</u>	<u>1,912,896</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVES		
NET CHANGE IN CASH AND CASH EQUIVALENTS	(188,398)	(157,132)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>853,440</u>	<u>1,010,572</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 665,042</u>	<u>\$ 853,440</u>
SUPPLEMENTAL DISCLOSURES:		
Noncash investing and financing activities:		
Contributions in aid of construction	\$ -	\$ 8,300
Cash paid for interest	\$ 41,523	\$ 1,842
Cash paid for income taxes	\$ 8,610	\$ 4,011

See accompanying notes to the financial statements.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
Notes to the Financial Statements
For the Fiscal Years Ended October 31, 2019 and 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History, Organization and Nature of Business

Valencia Heights Water Company was incorporated in the State of California on November 8, 1912, as a California nonprofit corporation for the purpose of furnishing water services for the benefit and use of its members.

Basis of Accounting and Financial Statement Presentation

The financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. Contributions in aid of construction are recorded when received.

Cash and Cash Equivalents and Concentration of Credit Risk

For the purposes of the statement of cash flows, cash and cash equivalents have been defined as cash and highly liquid investments purchased with an original maturity of 90 days or less. Cash and cash equivalents consist of demand deposits and outstanding checks in the amount of \$665,042 and \$853,440 at October 31, 2019 and 2018, respectively.

The Organization maintains its cash deposit accounts at several financial institutions. At October 31, 2019 and 2018, accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At October 31, 2019 the Organization's cash deposits did not exceed the limits covered by the FDIC. At October 31, 2018, the Organization's cash deposits exceeded the limits covered by the FDIC by \$19,169.

Investments

Marketable securities held by the Organization are classified as available-for-sale securities. Available-for-sale securities are recorded at fair value in the investments on the statement of financial position, with the change in fair value during the period reported on the statement of operations as part of the investment income.

The Organization's investment in the common stock of the Covina Irrigation Company, in which the Organization holds less than 20 percent interest, is recorded at cost (see note 5).

Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value is based on the

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
Notes to the Financial Statements
For the Fiscal Years Ended October 31, 2019 and 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

assumption used by market participants when pricing the assets or liability, which include observable and unobservable inputs. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect an organization's own assumptions about the assumptions market participants would use in pricing the asset or liability. There is a three tiered fair value hierarchy that maximizes the use of observable inputs and prioritizes financial assets and liabilities measured with such inputs. (See note 2).

Accounts Receivable

The Organization assesses the need for an allowance for doubtful accounts based upon the historical losses and a review of past due accounts at year-end. The Organization considers accounts receivable to be fully collectable. Accordingly, no allowance for doubtful accounts has been recorded.

Inventory

Inventory consists primarily of parts and material used for construction and repair. Inventory is recorded at cost on the first-in, first out method.

Property, Plant and Equipment

Property, plant and equipment of \$5,000 or more, with an expected useful life of more than one year, are recorded at cost and are currently depreciated over estimated lives ranging from 3 to 60 years using the straight-line method.

Contributed property, plant and equipment are recorded at the cost of the property constructed or estimated acquisition value and are currently amortized over estimated lives ranging from 10 to 40 years using the straight-line method. Amortization is recorded as a reduction of contributions in aid of construction in members' equity.

Contributions in Aid of Construction

Contributions in aid of construction represent the unamortized balance of property, plant and equipment contributed to the Organization by the property owners or developers desiring services that require capital expenditures or capacity commitments.

See accompanying notes to the financial statements.

VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
Notes to the Financial Statements
For the Fiscal Years Ended October 31, 2019 and 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing financial statements in conformity with US GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Compensated Absences

Employees of the Organization are entitled to paid vacation and personal leave. Amounts accruable are dependent on length of service and current pay rate. At October 31, 2019 and 2018, the Organization's accumulated compensated absence liability totaled \$66,936 and \$60,762, respectively.

Income Taxes

The Organization is exempt from federal income taxes under Internal Revenue Code Section 501(c)(12). However, for California income tax purposes, the Organization is taxed only for the nonbusiness related income. For the year ended October 31, 2019 the components of the provisions for state income taxes were current income tax expense amount of \$(2,687) and a deferred income tax refund amount of \$5,923. The deferred income refund amount related to a \$19,147 capital loss carryover created in the prior fiscal year ended October 31, 2018. There was no valuation allowance during the current year. For the year ended October 31, 2018, the components of the provisions for state income taxes were income tax expense amount of \$(6,839) and a deferred income tax refund amount of \$1,693. The deferred income refund amount related to a \$19,147 capital loss carryover created in the 2018. There was no valuation allowance in 2018.

The Organization evaluates uncertain tax positions through its review of the sources of income to identify unrelated business taxable income (UBTI) and certain other matters, including those which may affect its tax-exempt status. The effect of the uncertainty would be recorded if the outcome were considered probable and reasonably estimable. As of October 31, 2019 and 2018, the Organization had no uncertain tax positions requiring accrual.

Subsequent Events

The Company defines subsequent events as events or transactions that occur after the balance sheet date, but before the financial statements are issued or available to be issued. Subsequent events are recognized in two categories: recognized subsequent events, which provide additional evidence about conditions that existed at the statement of financial position date, and non-

See accompanying notes to the financial statements.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
Notes to the Financial Statements
For the Fiscal Years Ended October 31, 2019 and 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

recognized subsequent events, which provide evidence about conditions that did not exist as of the statement of financial position date but arose after that date. Recognized subsequent events are required to be disclosed. Management has evaluated subsequent events through December 30, 2019, which is the date the accompanying financial statements were available to be issued, and no events have occurred from the statement of financial position date that would impact the financial statements.

Recent Accounting Pronouncements

ASU No. 2014-09 Revenue from Contracts with Customers (Topic 606):

This standard provides a robust framework for addressing revenue recognition issues and almost all existing revenue recognition guidance, including industry-specific guidance in U.S. GAAP. The standard requires entities to apply a five step model to identify the performance obligations within the customer contract and to allocate the transaction price to those performance obligations using their standalone selling prices. The Organization must assess impact (either internally or engage a third party) the impact this standard will have on their various revenue streams prior to implementation of the standard. For the Organization, this standard is effective for the fiscal year ending October 31, 2020.

ASU No. 2016-01 Financial Instruments (Topic 825) – Overall Recognition and Measurement of Financial Assets and Financial Liabilities:

The standard provides guidance on the topic of financial instruments, such as, accounting for different financial instruments, including financial assets, financial liabilities, and equities. The standard also provides guidance on applicable occurrence dates on which the fair value option election can take place. The standard applies to not-for-profit entities, employee benefit plans, split interest agreements and permanent endowment funds. This amendment is effective for the Organization's October 31, 2020 financial statements.

ASU No. 2016-02 Leases (Topic 842):

This standard changes the accounting requirements so that lessees are required to recognize the rights and obligations resulting from leases as assets and liabilities for leases classified as operating leases. The core principle in the standard is that all leases create an asset and a liability. Although, there continues to be a differentiation between finance leases and operating leases, both will be recognized on the statement of financial position. This amendment is effective for the Organization's October 31, 2021 financial statements.

See accompanying notes to the financial statements.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
Notes to the Financial Statements
For the Fiscal Years Ended October 31, 2019 and 2018**

NOTE 2: FAIR VALUE MEASUREMENTS AND DISCLOSURE

As of October 31, 2019, the Organization's investments are reported at fair value in the accompanying the statements of financial position as follows:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Unobservable Inputs
	Fair Value	Level 1	Level 2	Level 3
<u>Investments by Fair Value Level:</u>				
Corporate bonds	\$ 1,353,148	\$ -	\$ 1,353,148	\$ -
Municipal bonds	392,714	-	392,714	-
Mutual funds	<u>1,029,282</u>	<u>1,029,282</u>	<u>-</u>	<u>-</u>
Total Investments by Fair Value Level	2,775,144	1,029,282	1,745,862	-
<u>Investment Measure at Net Assets Value :</u>				
Certificates of deposit	<u>450,360</u>	<u>450,360</u>	<u>-</u>	<u>-</u>
Total Investments:	\$ 3,225,504	\$ 1,479,642	\$ 1,745,862	\$ -

At October 31, 2018, the Organization's investments are reported at fair value in accompanying the statements of financial position as follows:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Unobservable Inputs
	Fair Value	Level 1	Level 2	Level 3
<u>Investments by Fair Value Level:</u>				
Corporate bonds	\$ 1,160,950	\$ -	\$ 1,160,950	\$ -
Municipal bonds	382,292	-	385,292	-
Mutual funds	918,329	918,329	-	-
Total Investments by Fair Value Level	\$ 2,461,571	\$ 918,329	\$ 1,546,242	\$ -

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of observable inputs other than quoted prices for identical assets and Level 3 inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally

See accompanying notes to the financial statements.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
Notes to the Financial Statements
For the Fiscal Years Ended October 31, 2019 and 2018**

NOTE 2: FAIR VALUE MEASUREMENTS AND DISCLOSURE

provide the most reliable evidence at fair value. Level 3 inputs were only used when Level 1 or Level 2 inputs were not available. The three levels are defined as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Valuations based on quoted prices in market that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The preceding methods described may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at that reporting date.

NOTE 3: RETIREMENT PLANS

The Organization sponsors a defined contributions 401(k) pension plan for the benefit of its employees. Pretax employees and employer contributions are held in trust and invested by a third party trustee, and therefore, are not reported in the accompanying financial statements. Organization contributions to the plan for the years ended October 31, 2019 and 2018 were \$33,962 and \$34,058, respectively.

The Organization also sponsors a Section 457 deferred compensation plan (the 457 Plan). Organization contributions to the 457 Plan were suspended effective July 1, 2010. At October 31, 2019 and 2018, the vested deferred compensation plan assets totaled \$141,685 and \$139,341, respectively. These amounts were reported both as an asset and liability in the accompanying financial statements, as the Organization administers the 457 Plan.

See accompanying notes to the financial statements.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
Notes to the Financial Statements
For the Fiscal Years Ended October 31, 2019 and 2018**

NOTE 4: PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment for the year ended October 31, 2019 were as follows:

	Balances at November 1, 2018	Additions	Deletions	Balances at October 31, 2019
Property, Plant and Equipment not being depreciated/amortized:				
Land and land rights	\$ 171,150	\$ -	\$ -	\$ 171,150
construction in progress	5,961	70,131	(4,641)	71,451
Total capital assets:			-	
not being depreciated/amortized	177,111	70,131	(4,641)	242,601
Property, Plant and Equipment, being depreciated /amortized				
Office equipment and maps	85,715	56,687	-	142,402
Machinery, treatment and pumping equipment	2,474,357	155,886	-	2,630,243
Building and structures	362,239	19,061	-	381,300
Vehicles, tools, and equipment	400,902	15,711	-	416,613
Storage tanks and reservoirs	1,335,594	-	-	1,335,594
Transmissions and distributions	7,560,462	643,203	-	8,203,665
Wells	1,128,947	-	-	1,128,947
SCADA computer equipment	405,953	6,611	-	412,564
Total property, plant and equipment being depreciated /amortized	13,754,169	897,159	-	14,651,328
Less Accumulated depreciation/amortization	(6,004,580)	(501,889)	-	(6,506,469)
Total property, plant and equipment being depreciated/amortized, net	7,749,589	395,270	-	8,144,859
Property, plant and equipment, net	\$ 7,926,700	\$ 465,401	\$ (4,641)	\$ 8,387,460

Depreciation and amortization expense for the year ended October 31, 2019 was \$501,889. Depreciation expense of \$412,777 was recorded as an operating expense and amortization expense of \$89,112 was recorded as a reduction of contributions in aid of construction in members' equity.

See accompanying notes to the financial statements.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
Notes to the Financial Statements
For the Fiscal Years Ended October 31, 2019 and 2018**

NOTE 4: PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment for the year ended October 31, 2018 were as follows:

	Balances at November 1, 2017	Additions	Deletions	Balances at October 31, 2018
Property, Plant and Equipment not being depreciated/amortized:				
Land and land rights	\$ 171,150	\$ -	\$ -	\$ 171,150
construction in progress	495,224	2,048,673	(2,537,936)	5,961
Total Capital assets:				
not being depreciated/amortized	666,374	2,048,673	(2,537,936)	177,111
Property, Plant and Equipment, being depreciated /amortized:				
Office equipment and maps	85,715	-	-	85,715
Machinery, treatment and pumping equipment	1,190,961	1,283,396	-	2,474,357
Building and structures	250,789	111,450	-	362,239
Vehicles, tools, and equipment	359,259	41,643	-	400,902
Storage tanks and reservoirs	1,335,594	-	-	1,335,594
Transmissions and distributions	6,838,227	722,235	-	7,560,462
Wells	1,128,947	-	-	1,128,947
SCADA computer equipment	161,800	375,174	(131,021)	405,953
Total property, plant and equipment being depreciated /amortized	11,351,292	2,533,898	(131,021)	13,754,169
Less Accumulated depreciation/amortization	(5,725,817)	(409,784)	131,021	(6,004,580)
Total property, plant and equipment being depreciated/amortized, net	5,625,475	2,124,114	-	7,749,589
Property, plant and equipment, net	\$ 6,291,849	\$ 4,172,787	\$ (2,537,936)	\$ 7,926,700

Depreciation and amortization expense for the year ended October 31, 2018 was \$409,784. Depreciation expense of \$318,154 was recorded as an operating expense and amortization expense of \$91,630 was recorded as a reduction of contributions in aid of construction in members' equity

NOTE 5: INVESTMENT IN COVINA IRRIGATION COMPANY

The Organization owns 453.25 shares of capital stock of Covina Irrigating Company (CIC) as of October 31, 2019 and 2018. At both October 31, 2019 and 2018 each share entitles the owner to the delivery of approximately 1.00 acre-feet of water, for both years. This investment is recorded at cost since the Organization owns less than 20% of the capital stock and does not have the ability to exercise significant influence over CIC's operating financial policy.

See accompanying notes to the financial statements.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
Notes to the Financial Statements
For the Fiscal Years Ended October 31, 2019 and 2018**

NOTE 6: WATER RIGHTS

The Organization owns 1,061 adjudicated water rights as of October 31, 2019 and 2018. Each water right entitles the owner to delivery of approximately one acre-foot of water each year. Adjudicated rights have been subjected to comprehensive litigation in the courts, are typically quantified and are actively managed for optimization and sustainability of the resource. Water rights are carried on the books at cost.

NOTE 7: PREPAID WATER

The Organization makes purchases of cyclic storage water to offset the increasing cost of replacement water which is currently \$798 per acre-foot. As of October 31, 2019, 648 acre-feet of this water is reflected as prepaid water of \$167,831 in long term assets for future years, and \$44,100 in current assets to reflect the projected usage in 2020. As of October 31, 2018, 942 acre-feet of water is reflected as prepaid water of \$153,355 in long-term assets for future years. Prepaid water is recorded at cost on the last-in, first-out method.

NOTE 8: NOTES PAYABLE

On September 15, 2016, the Organization entered into an equipment finance agreement with a bank. The original amount of the note is for \$64,974. The note is collateralized by specified equipment. The note calls for monthly principle and interest payments of \$1,935, bears an effective interest rate of 4.85%, and matured on August 2019. The Organization paid the note in full in 2019 and there is no outstanding balance as of October 31, 2019.

During October 2016, the Organization financed the purchase of a vehicle with a separate lender. The original amount of the note is \$56,886. The promissory note is collateralized by specific equipment. The note bears interest at 1.13%, calls for monthly principle payments of \$1,608, and matures in November 2019. The Organization paid the note in full in 2019 and there is no outstanding balance as of October 31, 2019.

In January 2018, the Organization entered into an agreement with the state water resource control board for a loan to facilitate the construction of the Organizations replacement reservoir pump station and water line project. At October 31, 2018 the State Water Resources Control Board had disbursed \$1,939,868 to the Organization under the loan contract. The loan bears interest at a rate of 1.70%, calls for semi-annual principle and interest payments of \$57,330 beginning January 2019, and matures in July 2038. The outstanding balance totaled \$1,855,047 as of October 31, 2019.

Minimum future principle payments under the notes payable are as follows for the years ending in October 31:

See accompanying notes to the financial statements.

VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
Notes to the Financial Statements
For the Fiscal Years Ended October 31, 2019 and 2018

NOTE 8: NOTES PAYABLE

<u>Year Ending October, 31,</u>	<u>Principal</u>
2020	\$ 83,478
2021	84,903
2022	86,352
2023	87,826
2024	89,326
2025-2029	470,032
2030-2034	511,548
2035-2038	441,582
Total	<u>\$ 1,855,047</u>

NOTE 9: COMMON STOCK

The Organization has two classifications for its common stock. Class A common stock refers to shares of stock, issued after January 1, 1991, that are appurtenant to a parcel of land. One share of Class A common stock is issued to each parcel of land less than 28,500 square feet. A maximum of two shares is issued to each owner of land exceeding 28,500 square feet. Regular common stock is non-appurtenant to land ownership and was issued prior to 1991.

Shares are issued to property owners upon purchase of land within the Organizations jurisdiction. Shares are cancelled if forfeited through foreclosure of the property or prolonged failure to pay for water services provided.

NOTE 10: RELATED PARTY TRANSACTION

During the years ended October 31, 2019 and 2018, a company owned by a member of the Board of Directors, brokered an insurance policy for the Organizations. During the fiscal year ended October 31, 2019, the Organization changed insurance brokers to a company that is not related. Premiums paid to the insurance company for the years ended October 31, 2019 and 2018 totaled \$9,914 (partial annual coverage) and \$42,594, respectively. During the years ended October 31, 2019 and 2018, total compensation for the Board Member's services rendered for the year totaled \$1,239 and \$5,550, respectively.

See accompanying notes to the financial statements.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
Notes to the Financial Statements
For the Fiscal Years Ended October 31, 2019 and 2018**

NOTE 11: LOAN MANAGEMENT ACCOUNT

At October 31, 2019, the Organization has a line of credit which is secured by the Organization's investments held in an account with that bank. The Organization did not utilize this resource during the year ended October 31, 2019.

See accompanying notes to the financial statements.

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC,
an SEC-registered investment advisor. | CliftonLarsonAllen LLP



VALENCIA HEIGHTS WATER COMPANY
3009 East Virginia Avenue
West Covina, CA 91791-2252

PRESORTED
FIRST-CLASS MAIL
U.S. POSTAGE
PAID
Covina, California
Permit No. 8PS

