



**ANNUAL STOCKHOLDERS' REPORT
FISCAL YEAR 2019-2020
&
NOTICE OF
ANNUAL STOCKHOLDERS' MEETING
FEBRUARY 25, 2021**



**** 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.
- Tamperers with any property owned by or used by the utility to provide utility service.

ANNUAL STOCKHOLDERS' MEETING

DAY: Thursday

DATE: February 25, 2021

TIME: 7:00 p.m.

Due to the ongoing pandemic, this year's meeting will be held via Zoom - Please call the office at 626-332-8935 or email info@vhwc.org to receive the link to the meeting.

Your vote is important!

Please remember to mail the proxy card before February 20, 2021.

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

We look forward to seeing you at the meeting!

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>
Sylvia Beltran	Chairwoman	February 25, 2021	5
Daniel Liese	Vice-Chairman	February 25, 2021	16
Curtis Feese	Treasurer	February 25, 2021	21
Robert Ghirelli	Secretary	February 25, 2021	8
John Akerboom	Director	February 25, 2021	1
Dr. Sergio Hernandez	Director	February 25, 2021	1
Ronald Wheeler	Director	February 25, 2021	12

ADMINISTRATION

David Michalko	General Manager	34
Gloria Galindo	Office Manager	18

OFFICE

Elizabeth Lopez	Billing Clerk/Customer Service	5
Tiffany Dickinson	Customer Service Assistant	4

FIELD

Tim Pacheco	Water System Supervisor	18
Ernest Romero	Water Tech II	11

VALENCIA HEIGHTS WATER COMPANY

Annual Stockholders' Meeting

Thursday, February 25, 2021

7:00 – 8:00 p.m. – Via Zoom

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 19, 2020
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, 2020
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
Wednesday, February 19, 2020, 7:00 p.m.

- Present:** R. Wheeler, Chairman; S. Beltran, Vice-Chairman;
C. Feese, Treasurer; Wayne Partee, Secretary; J. Akerboom, Director;
R. Ghirelli, Director; D. Liese, Director
- Staff:** D. Michalko, General Manager; G. Galindo, Office Manager;
T. Dickinson, Customer Support
- Stockholders:** David Minto, Sandy Feese, Adolf Schultheiss, Elsbeth Schultheiss
Franciss Liese
- 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 and Tiffany Dickinson. R. Wheeler welcomed and thanked everyone for coming.

1. Open Meeting
The Chairman opened the meeting at 7:02 p.m., welcomed and thanked everyone for attending.
2. General Manager's Report
 - a. Water Supply
The General Manager reported on the rainfall, the drought, and how it is affecting the local water supply.
 - b. Projects
The General Manager provided a presentation on the completed Capital Projects for the fiscal year 2018-2019 and reported on the current projects that will be completed in fiscal year 2019-2020.
3. Report for a Quorum
The Chairman asked if there was a quorum present. T. Dickinson reported that a quorum was present as follows:

2452 Shares Outstanding
1227 Shares Required for a Quorum
1952 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 19, 2020

Page 2

5. Approval of Minutes of February 21, 2019
The Chairman asked if there were any comments on the 2019 Annual Meeting Minutes. Since there were no comments, the Chairman asked for the approval of the minutes.

- Motion by S. Beltran and seconded by W. Partee to approve the minutes of February 21, 2019.

Motion passed.

For	1031
Against	48
Abstain	873

6. Approval of the Financial Statements
The Chairman asked if there were any questions for the Treasurer regarding the Financial Statements for 2018-2019. The Chairman asked for a motion to approve of the Financial Statements for 2018-2019.

- Motion by W. Partee and seconded by S. Beltran to approve the Financial Statements as presented.

Motion passed.

For	1031
Against	48
Abstain	873

7. Ratification of Actions Taken by the Board for the Year-Ending October 31, 2019
The Chairman asked for a motion to ratify the actions taken by the Board for year-ending October 31, 2019.

- Motion by R. Ghirelli and seconded by W. Partee to ratify the Board’s actions for year-ending October 31, 2019.

Motion passed.

For	1031
Against	48
Abstain	873

8. Election of Directors
The Chairman opened nominations for the current Board.
- Motion by D. Liese and seconded by S. Beltran to nominate the current slate of Directors

Motion passed.

For	1031
Against	48
Abstain	873

Annual Stockholders’ Meeting Minutes

February 19, 2020

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- Motion by D. Minto and seconded by W. Partee to close nominations.

Motion passed

For	1031
Against	48
Abstain	873

- Motion by D. Liese and seconded by S. Beltran to elect the slate as nominated.

Motion passed

For	1031
Against	48
Abstain	873

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 7:27 p.m.

- Motion by W. Partee and seconded by D. Minto to adjourn the Annual Shareholders’ Meeting.

Motion passed.

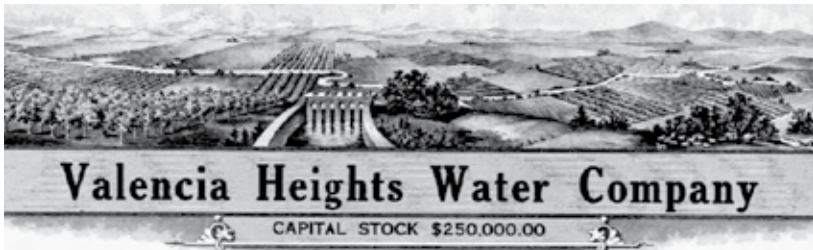
For	1031
Against	48
Abstain	873

Respectfully Submitted,

Robert Ghirelli - Secretary

Date

MANAGER'S REPORT



INCORPORATED NOVEMBER 1912 UNDER THE LAWS OF THE STATE OF CALIFORNIA

COVID-19

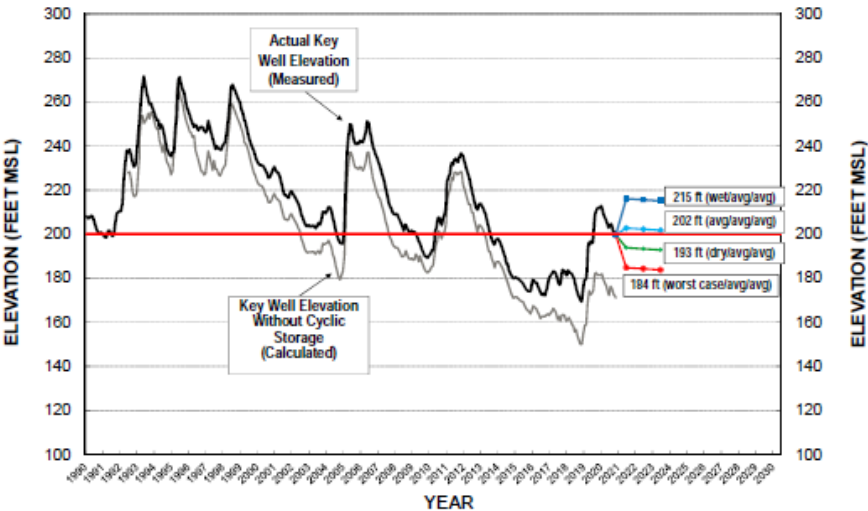
I would like to start off by saying that I hope that you and your family have remained safe and healthy during the pandemic. Also, I want to thank everyone for your cooperation and understanding as we work through the pandemic. Our goal remains the same, to provide a clean, safe and reliable water supply to you, our customers. To continue to meet this goal, we have taken all necessary measures to ensure that all our staff remains safe and healthy. As many of you know, the office has been closed to the public since March 2020 and will remain closed well into 2021. Office staff has been on either an alternate or remote work schedule. However, the office staff is available via phone or email during normal business hours, and if you require assistance after hours, our field staff will respond to any emergency. During this time, we ask that when field crews are in your area, you maintain a safe social distance. We operate with a small field crew and we want to ensure that they remain safe and healthy to be able to perform their jobs. If the crew asks you to maintain your distance, we ask that you please step back. If you have any questions regarding any work in your area, please call the office.

Supply Projections

This year's winter forecast is projected to be below "normal" rainfall, to possibly a dry winter, due to La Nina. As this report is being prepared, we have just received our first measurable rainfall, with some rain forecasted in mid- January 2021. The Main San Gabriel Basin (Basin), the Basin which provides local groundwater to Valencia Heights Water Company (Company) has recovered significantly from the drought. However, this was not the result of rainfall, but the result of purchased water stored in the Basin. The chart below, illustrates 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 the Basin groundwater level. The chart also shows small increases in the Basin groundwater level during the last few years which is the result of purchasing import water to supplement the lack of stormwater run-off, or rainfall.

The chart also shows Basin level projections based on rainfall. These projections are for the current year and two additional “normal” years, with/ no significant additional import supplies. A normal or average year is just over 15 inches of rainfall. A wet year is about 23 inches of rainfall, and a dry year is about 8 inches.

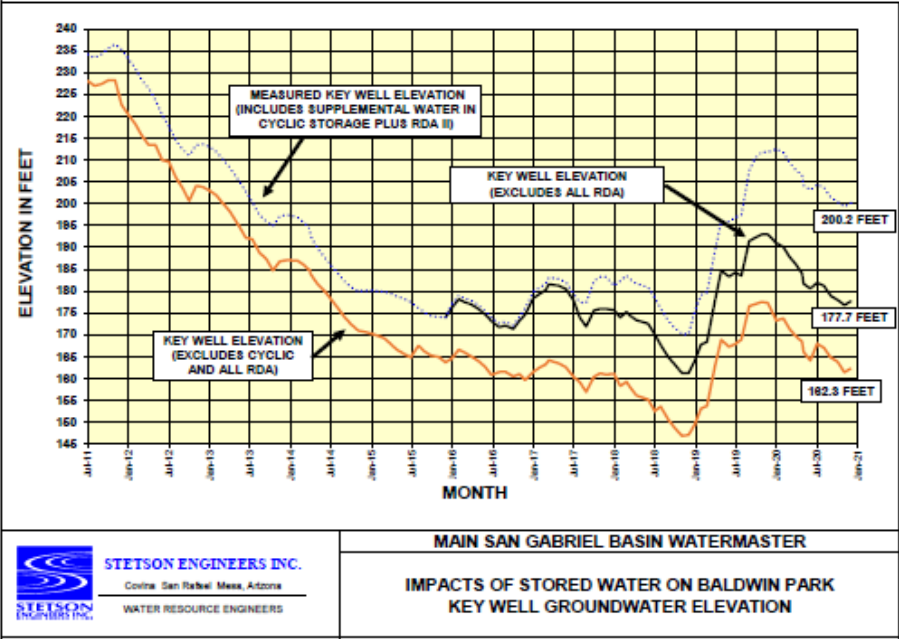
**FORECASTED BALDWIN PARK KEY WELL ELEVATION
(THROUGH JUNE 30, 2023)**



The import water, shown on the chart, was purchased on behalf of the producers (water agencies) by the Main San Gabriel Basin Watermaster (Watermaster), the court appointed entity created to manage the Basin. As reported previously, the plan to purchase import water to help augment the lack of stormwater run-off is now ongoing. As mentioned earlier, the result is shown in the dramatic increase in ground water levels on the chart below starting in 2019. Also, in the chart below, you can see the result of purchasing the import water (blue dotted line) and where the Basin would be without any import water (bottom, gold line). This is reflected in the difference between the two lines, which amounts to an increase of about 40 feet in the Basin water level. Without the purchased water, the Basin would be significantly worse off. Over time, this program will allow all producers a greater groundwater availability, even during a drought. This is shown as the black line starting in 2015.

In July 2017, the Company began collecting an assessment on your monthly water bill at a rate of \$0.08 per unit of water used, to fund our share of this purchased water. This assessment has been increasing each year and will eventually be increased to about \$0.35 per unit of water used, which is expected to occur during fiscal year 2022. In November of 2020, this assessment was set at \$0.28 per unit of water consumed. The purpose of the assessment is to manage the Basin in a way that ensures a reliable water supply well into the future, without the need for mandatory conservation or rationing. 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.



Water Rates

In September 2020, 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 operations on the meter charge. This has allowed the Company to meet its budget regardless of the variable water sales. Also, due to the unknown financial impact of the pandemic, the Board postponed any significant increase to water rates. However, the operational costs generally continue to increase, and the Board voted that a 1 percent increase would be necessary to cover the Company’s fixed costs, and to continue to be pro-active with the Capital Improvement Program.

In addition, as discussed earlier, we must continue collecting the Watermaster Assessment. In November 2020, the Company increased this assessment from \$0.24 per unit to \$0.28 per unit to collect the \$192,000 that we will be billed by Watermaster in September 2021.

Capital Improvement Plans

The Board continues to be very proactive in the replacement of aging infrastructure. By the end of 2020, the Company completed the replacement of all the old, “high risk” waterlines. This does not mean that there are no longer any old waterlines in the water system, rather we have just addressed the waterlines that were likely to cause damage to personal property. Below are the projects that were completed this past year and the projects planned for 2020.

Geographic Information System (GIS)

This year, the Company continued to upgrade to a GIS mapping system which allows the staff to compile all 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 nearly two years 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 60% of the surveying. In the coming year, if you see blue paint dots on or near your property, this is in preparation for the surveyor. These marks are usually within the landscaping or on the street. You may also see small blue flags, please leave them in place and we will remove them.

The GIS has allowed 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 and warnings may also be provided to you via text messaging when possible.

Capital Projects that have been completed this year are;

- All generator connections have been completed at each site. This now allows for the connection of our portable generator, that the Company owns, 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 completion of one of the last two remaining sections of the old transmission line from the Covina Irrigating Company connection and Reservoir No. 1, up to Reservoir No. 2. This project was approximately 350 feet of 16” waterline crossing Virginia Avenue. We would like to thank the property owner in the area, for his cooperation with the project and for granting an easement to the Company to facilitate this project. Thank you for your assistance.

- The replacement of about 300 feet of a 6” waterline with a 12” waterline that goes under the 10 freeway from South Garvey Avenue to Parkview Drive. This project has been in planning for several years until the development of Parkview was planned to be completed. 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 contributed to these improvements.
- The replacement of the waterline within the easement between Dameral Drive and Limecrest Drive, along with the replacement of approximately 850 feet of waterline within Limecrest Drive. As part of this project, additional fire hydrants were added to provide better fire protection in the area.
- The construction of a fuel storage facility at the shop. This is part of the Company’s Emergency Preparedness 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.

The Projects planned for this year are:

- During this year, the Company is required to meet the requirements of a recently passed Federal regulation, the American Water Infrastructure Act. This is a Risk assessment process and a certification of the Company’s Emergency Response Plan.
- Continued replacement of system-wide aging infrastructure. We are not taking on any major waterline or other water facilities replacements this year, but rather a variety of smaller projects throughout the water system.

The complete 5-year plan is on page 16 of the report. This plan is updated annually based on the Company’s most current needs, and review of the water system operations.

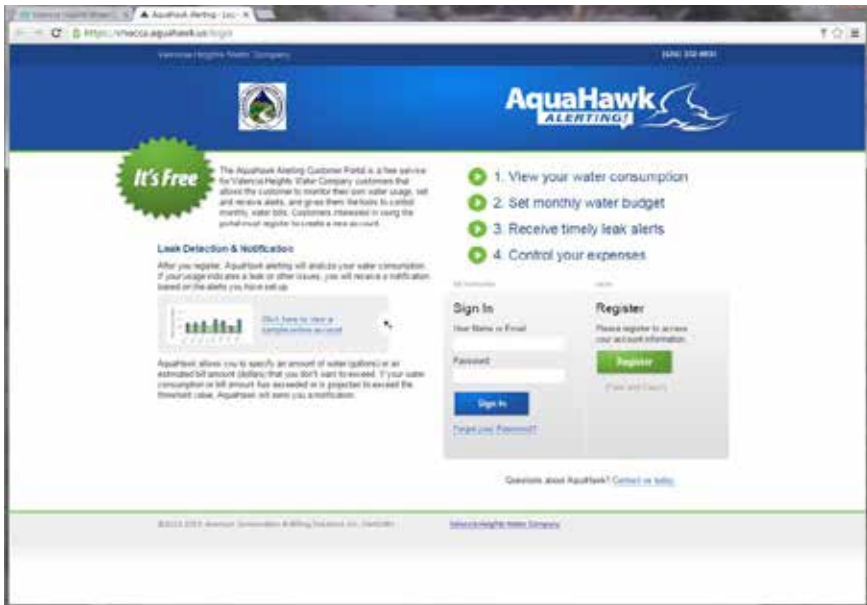
Emergency Preparedness

Over the past several years, and also an ongoing task, staff has, and is, making great efforts to obtain up-to-date contact information from our customers, which allows the staff to communicate with our customers. We are using a texting service to communicate with you with regards to your water account or during an emergency situation. In addition to emergency communication, the Company will use your information to contact you for water outages, either planned or unplanned and general important information. Please remember that **having emergency contact information is very critical for the Company during an emergency event affecting our customers. Please help us keep you informed!**

New Website and Links

This past year we launched a new website, ***vhwc.org***. One of the new features is the ability to check for water outages both planned and unplanned. This link will also keep informed on the progress of repairs and the estimated duration of an outage. We hope that the website will be a useful tool to communicate with our customers.

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.



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

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 at your property. 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. 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. Please take a few moments to review the Financial Statements and bring your questions to the Annual Meeting. Due to the ongoing pandemic, this years' Annual Stockholders' Meeting will be held via Zoom on **Thursday, February 25, 2021, at 7:00 p.m.** If you would like to join the meeting, please call or email the office so that we can send you the Zoom meeting invitation. 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 2021-2025

2021

Capital Debt Payment(s)	\$ 115,000
AWIA	\$ 75,000
Well No. 7 Rehab (if required)	\$ 150,000
Fuel Storage at Shop	\$ 95,000
Medici Apts. Waterline	\$ 125,000
Replace Pick-up Truck	\$ 45,000
Miscellaneous/Site Work/Office Work	\$ 65,000
Mapping/GIS Development	\$ 30,000
Total	\$ 700,000

2022

Capital Debt Payment(s)	\$ 115,000
AWIA	\$ 34,500
Well No. 7 Rehab	\$ 150,000
Replace 2005 Chevy Trail Blazer	\$ 40,000
Reservoir No. 4B Inside Rehab	\$ 75,000
Miscellaneous/Site Work	\$ 50,000
Mapping/GIS Development	\$ 30,000
Total	\$ 494,500

2023

Capital Debt Payment(s)	\$ 115,000
Grand Ave Crossing	\$ 300,000
Reservoir No. 6B Inside Rehab	\$ 125,000
Miscellaneous/Site Work	\$ 30,000
Total	\$ 570,000

2024

Capital Debt Payment(s)	\$ 115,000
Reservoir No. 6A	\$ 125,000
Golden Bough Line	\$ 350,000
Miscellaneous System Work	\$ 50,000
Total	\$ 640,000

2025

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	\$ 540,000

Estimated Cost Over 5 Years	\$ 2,944,500
Average Cost Per Year	\$ 588,900

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

FINANCIAL STATEMENTS

YEARS ENDED OCTOBER 31, 2020 AND 2019



CLAconnect.com

WEALTH ADVISORY
OUTSOURCING
AUDIT, TAX, AND
CONSULTING

VALENCIA HEIGHTS WATER COMPANY
(A California Mutual Water Company)

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CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Valencia Heights Water Company
West Covina, California

We have audited the accompanying financial statements of Valencia Heights Water Company (a California mutual water company) (the Organization), which comprise the statements of financial position as of October 31, 2020 and 2019, and the related statements of operations, changes in members' equity and cash flows for the years 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.

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

Board of Directors
Valencia Heights Water Company

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, 2020 and 2019, and respective changes in its equity and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Glendora, California
January 14, 2021

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
STATEMENTS OF FINANCIAL POSITION
OCTOBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 850,845	\$ 665,042
Investments	2,962,550	3,225,504
Accounts Receivable	331,725	299,413
Interest Receivable	18,391	18,989
Inventory - Materials and Supplies	67,032	65,989
Prepaid Water, Current Portion	220,095	44,100
Total Current Assets	<u>4,450,638</u>	<u>4,319,037</u>
PROPERTY, PLANT AND EQUIPMENT, Net	<u>8,818,648</u>	<u>8,387,460</u>
OTHER ASSETS		
Deposit	6,250	6,250
Investment in Covina Irrigating Company	918,890	918,890
Deferred Compensation Plan Assets	162,694	141,685
Water Rights	720,000	720,000
Prepaid Water	494,897	167,831
Deferred Income Taxes	10,616	7,616
Total Other Assets	<u>2,313,347</u>	<u>1,962,272</u>
Total Assets	<u><u>\$ 15,582,633</u></u>	<u><u>\$ 14,668,769</u></u>

See accompanying Notes to Financial Statements.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
STATEMENTS OF FINANCIAL POSITION (CONTINUED)
OCTOBER 31, 2020 AND 2019**

	2020	2019
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	\$ 99,067	\$ 277,912
Income Taxes Payable	-	1,539
Notes Payable, Current Portion	84,903	83,478
Accrued Interest	10,039	10,540
Reimbursable Expenses	7,500	-
Total Current Liabilities	<u>201,509</u>	<u>373,469</u>
NONCURRENT LIABILITIES		
Deferred Compensation Vested Liability	162,694	141,685
Compensated Absences	61,550	66,936
Notes Payable, Net of Current Portion	<u>1,686,666</u>	<u>1,771,569</u>
Total Noncurrent Liabilities	<u>1,910,910</u>	<u>1,980,190</u>
Total Liabilities	<u>2,112,419</u>	<u>2,353,659</u>
MEMBERS' EQUITY		
Contributions in Aid of Construction, Net of Amortization	1,923,320	1,814,112
Common stock - 10,000 Shares Authorized; \$100 Par Value; 898 and 934 Shares Issued and Outstanding as of October 31, 2020 and 2019, Respectively	89,800	93,400
Class A Common Stock - 10,000 Shares Authorized; \$100 Par Value; 1,556 and 1,518 Shares Issued and Outstanding as of October 31, 2020 and 2019, Respectively	155,600	151,800
Additional Paid-In Capital	1,307,695	1,279,495
Retained Earnings	<u>9,993,799</u>	<u>8,976,303</u>
Total Members' Equity	<u>13,470,214</u>	<u>12,315,110</u>
Total Liabilities and Members' Equity	<u>\$ 15,582,633</u>	<u>\$ 14,668,769</u>

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
STATEMENTS OF OPERATIONS
YEAR ENDED OCTOBER 31, 2020 AND 2019**

	2020	2019
OPERATING REVENUES		
Water Sales and Services	\$ 2,919,572	\$ 2,647,365
Connection Charges (Note 11)	524,400	-
	<u>3,443,972</u>	<u>2,647,365</u>
OPERATING EXPENSES		
Utility Plant Operation Expenses:		
Purchased Water	477,906	540,012
Purchased Power	210,621	186,620
Operations	104,213	81,771
Water Testing	7,415	7,028
Vehicles	30,609	31,413
Repairs and Maintenance	75,123	81,933
Total Utility Plant Operation Expenses	<u>905,887</u>	<u>928,777</u>
DEPRECIATION	<u>445,652</u>	<u>412,777</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and Benefits	760,159	723,614
Directors' Fees	33,960	30,780
Professional Services and Permitting	82,863	84,081
Office Expenses and Utilities	50,013	56,048
Insurance	74,167	48,918
Taxes and Licenses	56,059	55,512
Assessments	175,188	196,395
Total General and Administrative Expenses	<u>1,232,409</u>	<u>1,195,348</u>
Total Operating Expenses	<u>2,583,948</u>	<u>2,536,902</u>
Income From Operations	<u>860,024</u>	<u>110,463</u>
OTHER REVENUES (EXPENSES)		
Investment Income:		
Interest and Dividend Income	106,971	105,558
Net Realized and Unrealized Gains	56,766	245,740
Total Investment Income (Loss)	<u>163,737</u>	<u>351,298</u>
OTHER INCOME	27,406	33,773
Provision for State Income Taxes	(2,989)	(2,687)
Interest Expense	(30,682)	(41,523)
Total Other Revenues (Expenses)	<u>157,472</u>	<u>340,861</u>
NET INCOME	<u>\$ 1,017,496</u>	<u>\$ 451,324</u>

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEAR ENDED OCTOBER 31, 2020 AND 2019**

	Number of Shares *	Common Stock	Contributions in Aid of Construction	Additional Paid-In Capital	Retained Earnings	Total
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	2,452	245,200	1,814,112	1,279,495	8,976,303	12,315,110
Net Income	-	-	-	-	1,017,496	1,017,496
Contributions	-	-	196,057	-	-	196,057
Stock Issued	2	200	-	28,200	-	28,400
Amortization	-	-	(86,849)	-	-	(86,849)
BALANCE - OCTOBER 31, 2020	<u>2,454</u>	<u>\$ 245,400</u>	<u>\$ 1,923,320</u>	<u>\$ 1,307,695</u>	<u>\$ 9,993,799</u>	<u>\$ 13,470,214</u>

* During the years ended October 31, 2020 and 2019, respectively, 36 and 18 shares of Common Stock were retired and re-issued as Class A Common Stock for both years.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
STATEMENT OF CASH FLOWS
YEAR ENDED OCTOBER 31, 2020 AND 2019**

	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES		
Net Income	\$ 1,017,496	\$ 451,324
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Depreciation	445,652	412,777
Deferred Income taxes	(10,616)	(7,616)
Amortization of Premiums/(Discounts) on Investments	14,553	22,467
Net Realized and Unrealized (Gain)/Loss on Investments	(56,766)	(245,740)
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(32,312)	(23,766)
Other Receivable	-	566,788
Interest Receivable	598	(1,070)
Inventory	(1,043)	(559)
Prepaid Water	(503,061)	91,424
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(178,845)	154,987
Income Taxes Payable	(1,539)	-
Compensated Absences	(5,386)	6,174
Net Cash Provided by Operating Activities	<u>688,731</u>	<u>1,427,190</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(767,632)	(962,649)
Proceeds from Sale or Maturity of Investments	1,370,994	939,341
Purchase of Investments	(1,051,212)	(1,467,768)
Net Cash Used by Investing Activities	<u>(447,850)</u>	<u>(1,491,076)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principle Payments on Note Payable	(83,478)	(124,512)
Issuance of Stock	28,400	-
Net Cash Provided (Used) by Financing Activities	<u>(55,078)</u>	<u>(124,512)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	185,803	(188,398)
Cash and Cash Equivalents - Beginning of Year	<u>665,042</u>	<u>853,440</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 850,845</u></u>	<u><u>\$ 665,042</u></u>
SUPPLEMENTAL DISCLOSURES:		
Contributions in Aid of Construction	<u>\$ 196,057</u>	<u>\$ -</u>
Cash Paid for Interest	<u>\$ 31,183</u>	<u>\$ 41,523</u>
Cash Paid for Income Taxes	<u>\$ 7,528</u>	<u>\$ 8,610</u>

See accompanying Notes to Financial Statements.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History, Organization and Nature of Business

Valencia Heights Water Company (the Organization) 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 \$850,845 and \$665,042 at October 31, 2020 and 2019, respectively.

The Organization maintains its cash deposit accounts at several financial institutions. At October 31, 2020 and 2019, accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At October 31, 2020 and 2019 the Organization's cash deposits did not exceed the limits covered by the FDIC.

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, is evaluated and measured at its cost minus impairment, plus or minus changes resulting from recent observable price changes in orderly transactions for the identical investment of the same issuer. (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 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).

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires 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 accrueable are dependent on length of service and current pay rate. At October 31, 2020 and 2019, the Organization's accumulated compensated absence liability totaled \$61,550 and \$66,936, respectively.

Revenue Recognition

Revenue is recognized when earned. Payments received in advance are deferred to the applicable period in which the related services are performed or expense are incurred, respectively.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2020 the components of the provisions for state income taxes were current income tax expense amount of \$2,989 and a deferred income tax refund amount of \$4,539. The deferred income refund amount related to the \$11,531 of remaining capital loss carryover created in the fiscal year ended October 31, 2017. There was no valuation allowance during the current year.

For the year ended October 31, 2019, the components of the provisions for state income taxes were income tax expense amount of \$2,687 and a deferred income tax refund amount of \$5,923. The deferred income refund amount related to the \$17,454 remaining capital loss carryover created in the fiscal year ended October 31, 2017. 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, 2020 and 2019, the Organization had no uncertain tax positions requiring accrual.

Changes in Accounting Principle

The Organization has early adopted ASU No. 2014-09 Revenue from Contracts with Customers (Topic 606). Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

The Organization has also adopted ASU No. 2016-01 Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10). Analysis of various provisions of this standard resulted in no significant changes in the way the Organization records the value of its capital stock investment of Covina Irrigating Company (CIC). The standard is applied prospectively, and therefore, no changes to the previously issued audited financial statements were required.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 nonrecognized 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 January 14, 2021, 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.

Risks and Uncertainties

During the fiscal year, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. Subsequent to year end, the COVID-19 pandemic continues to have significant effects on global markets, supply chains, businesses, and communities. Specific to the Organization, COVID-19 may impact various parts of its 2020-21 operations and financial results, including, but not limited to, costs for increased use of technology, or potential shortages of personnel. Management believes the Organization is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

NOTE 2 FAIR VALUE MEASUREMENTS AND DISCLOSURE

As of October 31, 2020, the Organization's investments are reported at fair value in the accompanying the statements of financial position as follows:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets Level 1	Observable Other Observable Inputs Level 2	Unobservable Inputs Level 3
Investments by Fair Value Level:				
Corporate Bonds	\$ 1,645,250	\$ -	\$ 1,645,250	\$ -
Municipal Bonds	358,588	-	358,588	-
Mutual Funds	958,712	958,712	-	-
Total Investments by Fair Value Level	<u>\$ 2,962,550</u>	<u>\$ 958,712</u>	<u>\$ 2,003,838</u>	<u>\$ -</u>

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2020 AND 2019**

NOTE 2 FAIR VALUE MEASUREMENTS AND DISCLOSURE (CONTINUED)

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

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

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 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.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2020 AND 2019**

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, 2020 and 2019 were \$41,084 and \$35,446, 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, 2020 and 2019, the vested deferred compensation plan assets totaled \$162,694 and \$141,685, respectively. These amounts were reported both as an asset and liability in the accompanying financial statements, as the Organization administers the 457 Plan.

NOTE 4 PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment for the year ended October 31, 2020 were as follows:

	Balances at November 1, 2019	Additions	Transfers/Deletions	Balances at October 31, 2020
Property, Plant and Equipment not Being Depreciated/Amortized:				
Land and Land Rights	\$ 171,150	\$ -	\$ -	\$ 171,150
Construction in Progress	71,451	970,019	(982,491)	58,979
Total Capital Assets:	-	-	-	-
Not Being Depreciated/Amortized	242,601	970,019	(982,491)	230,129
Property, Plant and Equipment, Being Depreciated/Amortized				
Office Equipment and Maps	142,402	16,990	-	159,392
Machinery, Treatment and Pumping Equipment	2,630,243	37,038	-	2,667,281
Building and Structures	381,300	-	-	381,300
Vehicles, Tools, and Equipment	416,613	-	-	416,613
Storage Tanks and Reservoirs	1,335,594	-	-	1,335,594
Transmissions and Distributions	8,203,665	922,134	-	9,125,799
Wells	1,128,947	-	-	1,128,947
SCADA Computer Equipment	412,564	-	-	412,564
Total Property, Plant and Equipment Being Depreciated /Amortized	14,651,328	976,162	-	15,627,490
Less: Accumulated Depreciation/Amortization	(6,506,469)	(532,502)	-	(7,038,971)
Total Property, Plant and Equipment Being Depreciated/Amortized, Net	8,144,859	443,660	-	8,588,519
Property, Plant and Equipment, Net	<u>\$ 8,387,460</u>	<u>\$ 1,413,679</u>	<u>\$ (982,491)</u>	<u>\$ 8,818,648</u>

Depreciation and amortization expense for the year ended October 31, 2020 was \$532,502. Depreciation expense of \$445,652 was recorded as an operating expense and amortization expense of \$86,849 was recorded as a reduction of contributions in aid of construction in members' equity.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2020 AND 2019**

NOTE 4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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	<u>\$ 7,926,700</u>	<u>\$ 465,401</u>	<u>\$ (4,641)</u>	<u>\$ 8,387,460</u>

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.

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, 2020 and 2019. At both October 31, 2020 and 2019, each share entitles the owner to the delivery of approximately 1.00 acre-feet of water, for both years.

In fiscal year 2020, the Organization adopted ASU No. 2016-01 Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10). The standard provides relevant guidance for the measurement of investments in equity securities without a readily determinable fair value which characterizes the Organization's capital stock investment in CIC. The standard supersedes prior authoritative guidance which permitted the investment to be reported at cost. The implementation of the standard resulted in no significant changes in the way the Organization records the value of its investment in CIC.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2020 AND 2019**

NOTE 5 INVESTMENT IN COVINA IRRIGATION COMPANY (CONTINUED)

In connection with the adoption of the standard, beginning in the fiscal year ended October 31, 2020, the investment will be evaluated annually and measured at its cost minus impairment, plus or minus changes resulting from recent observable price changes in orderly transactions for the identical investment of the same issuer. For the fiscal year ended October 31, 2020, no impairment was identified, and no observable inputs were measurable. Therefore, the value of the Organization's investment in CIC remained unchanged from the fiscal year end October 31, 2019 and is reported at cost of \$918,890.

NOTE 6 WATER RIGHTS

The Organization owns 1,061 adjudicated water rights as of October 31, 2020 and 2019. 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 \$789 per acre-foot. As of October 31, 2020, 971 acre-feet of this water is reflected as prepaid water of \$494,897 in long term assets for future years, and \$220,095 in current assets to reflect the projected usage in 2020. As of October 31, 2019, 648 acre-feet of water is reflected as prepaid water of \$167,831 in long-term assets for future years. Prepaid water is recorded at cost on the last-in, first-out method.

NOTE 8 NOTES PAYABLE

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 \$1,771,569 as of October 31, 2020 .

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2020 AND 2019**

NOTE 8 NOTES PAYABLE (CONTINUED)

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

<u>Year Ending October, 31.</u>	<u>Principal</u>
2021	\$ 84,903
2022	86,352
2023	87,826
2024	89,326
2025	90,851
2026-2030	478,056
2031-2035	520,281
2036-2038	333,974
Total	<u>\$ 1,771,569</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 Organization's jurisdiction. Shares are cancelled if forfeited through foreclosure of the property or prolonged failure to pay for water services provided.

NOTE 10 LOAN MANAGEMENT ACCOUNT

At October 31, 2020, 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, 2020.

NOTE 11 CONNECTION FEES

The Company collects connection charges based on annual water demand of a home or a development within the water system boundary. The dollar amount of a connection charge is reviewed or set annually based on the cost or current value of a Main Basin pumping right. The current charge is \$15,200 per acre-foot of annual water demand. Funds collected are used to off-set the cost of prepaid purchased water that is stored in the Main Basin for future use. During 2019-2020 the Company collected \$524,400 in connection charges, \$471,200 was paid by Oakmont Senior Living, and \$25,300 was paid by Caltrans and the remainder was a private property owner.

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



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