



**ANNUAL STOCKHOLDERS' REPORT
FISCAL YEAR 2012-2013
&
NOTICE OF
ANNUAL STOCKHOLDERS' MEETING
FEBRUARY 19, 2014**



**** IMPORTANT INFORMATION ****

CHLORAMINES:

In 2014, Valencia Heights Water Company (VHWC) will permanently change from chlorine to chloramines for disinfection. This change is due to new disinfection by-product regulations, and a change in the water supplied by Covina Irrigating Company (CIC). While chloramines serve the same purpose as chlorine, the chloraminated water must be treated for use with the following:

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

IF THIS APPLIES TO YOU: PLEASE CONTACT THE APPROPRIATE PROFESSIONAL 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**

AUTOMATIC/RECURRING PAYMENTS

The Automatic/Recurring Payment Application can be accessed through the vhwc.org website, and also at 3009 E. Virginia Avenue, West Covina. Submit the application to our office and your monthly water bill payment amount will automatically deduct from your checking account. No need to worry about late or shut off fees. It's a great payment offer, so please take advantage of this time-saving approach to paying your water bill.

For our customers who currently pay their water bills through their bank's "Bill Pay" service, please consider changing to the Automatic/Recurring Payment service with VHWC. The change would save the Company time and money in processing bill pay checks. **We would greatly appreciate it if you would change to VHWC'S Auto Pay Service.**

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 on the 25th of every month.**
- 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.
- We only accept **Automatic/Recurring Payments**, 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.

If you are unable to make your payment by the 25th, and to prevent a \$30 late fee, please call the office before the 25th to set-up a payment arrangement. With just a phone call, you can prevent a \$30 late fee.

ANNUAL STOCKHOLDERS' MEETING

DAY: Wednesday

DATE: February 19, 2014

TIME: 7:00 p.m.

LOCATION: Mesa Elementary School
(Cafeteria)
409 South Barranca Street
West Covina, CA 91791-2209

Your Attendance Is Appreciated!

PLEASE SIGN THE ENCLOSED PROXY CARD and return it as soon as possible with your vote indicated. This allows the required business of the Company to be properly conducted. Should you attend the meeting, you may vote in person.

The Board of Directors and Management solicit your affirmative proxy vote for any and all matters presented at the Annual Meeting for approval.

The Board of Directors Proposed for Election is as Follows:

Curtis Feese	Incumbent/ Attorney S.C. Gas, Retired
Robert Ghirelli	Incumbent/ Assistant G.M., Orange Co. Sanitation District
Eugene Jacobs	Incumbent/General Contractor
Daniel Liese	Incumbent/Principal, AEPC Group, LLC
Wayne Partee	Incumbent/Pres., CEO of Partee Insurance Associates, Inc.
Norman Richman	Incumbent/Engineering Consultant, Retired
Ronald Wheeler	Incumbent/Facilities Manager, MWD of So. Cal., Retired

PLEASE SIGN THE PROXY CARD EXACTLY AS YOUR NAME(S) APPEAR(S) ON THE CARD.

IF STOCK IS JOINTLY-HELD THEN ALL OWNERS MUST SIGN THE PROXY CARD.

****PLEASE RETURN SIGNED PROXY CARD**
BY THURSDAY, FEBRUARY 13, 2014**

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, 2014	5
Daniel Liese	Vice-Chairman	February 19, 2014	9
Curtis Feese	Treasurer	February 19, 2014	14
Wayne Partee	Secretary	February 19, 2014	17
Robert Ghirelli	Director	February 19, 2014	1
Eugene Jacobs	Director	February 19, 2014	17
Norman Richman	Director	February 19, 2014	42

ADMINISTRATION

David Michalko	General Manager	27
Barbara Karady	Executive Administrator	20

OFFICE

Gloria Galindo	Customer Support/Accounting Clerk	11
Eunice White	Accounts Receivable - Retired September 2013	45
Monica Pena	Customer Service Assistant	1

FIELD

Tim Pacheco	Water System Supervisor	11
Ernest Romero	Water Tech II	4
Chad Latourelle	Water Tech I	2

VALENCIA HEIGHTS WATER COMPANY

Annual Stockholders' Meeting

Wednesday, February 19, 2014

7:00 - 8:00 p.m.

Mesa Elementary School

409 South Barranca Street - West Covina, CA 91791-2209

A G E N D A

- 1. Open Meeting**
- 2. General Manager's Report**
 - a. Water Supply**
 - b. Water Quality**
 - c. Capital Improvements**
 - d. Water Rates**
- 3. Report for a Quorum**
- 4. Call to Order**
- 5. Approval of Minutes of February 19, 2013**
- 6. Approval of the Financial Statements**
- 7. Ratification of Actions Taken by the Board for Year-Ending October 31, 2013**
- 8. Election of Directors**
 - a. Nomination of Directors**
 - b. Motion to Close Nominations**
- 9. Discussions, Questions and Answers**
- 10. Other Business**
- 11. Motion to Adjourn**

**VALENCIA HEIGHTS WATER COMPANY
ANNUAL STOCKHOLDERS' MEETING MINUTES**

Tuesday, February 19, 2013, 7:00 p.m.

South Hills Country Club, 2655 S Citrus Ave., West Covina, CA 91791

Reception and Meeting

- Present:** R. Wheeler, Chairman; D. Liese, Vice-Chairman;
C. Feese, Treasurer; G. Kinsman, Jr., Secretary; G. Jacobs,
Director; W. Partee, Director; N. Richman, Director
- Staff:** D. Michalko, General Manager; B. Karady, Executive
Administrator; G. Galindo, Customer Support, M. Pena,
Customer Support, Eunice White, Accounts Receivable
- Stockholders:** W. Berger, Y. Cheng, J. & D. Davis, J. & J. Fabrega, G. & L.
Gutierrez, E. & M. Gutierrez, B. & A. Hsu, S. & L. Lazerson,
A. Lee, F. Liese, C. & S. Maden, K. McCann, A. & L. Miguel,
D. Minto, R. Molina, R. Newton, J. Pierson, F. Pierson,
M. Powers, M. Randazzo, A. & E. Schultheiss, R. Slaboda,
R. Smith, W. & U. Van Tongeren, A. & F. Wong
- Others:** G. Galindo, R. Ihsen, M. Richman, N. Schultheiss,
F. & C. Radmacher, J. & S. James

The Chairman, Ronald Wheeler, welcomed everyone and introduced the Board of Directors. Mr. Norman Richman was given an award for more than 40 years of service on the Board. The General Manager, Dave Michalko, was introduced. He welcomed and thanked everyone for coming, and presented a historical perspective of the Valencia Heights Water Company (VHWC) that began in 1912.

1. Open Meeting

The Chairman opened the meeting at 8:00 p.m., welcomed everyone and introduced the Board.

2. General Manager's Report

a. Capital Improvements

The General Manager reported on some of the issues presented in the Annual Report. He reported that the Meter Replacement Program is nearly complete, and will be complete by summer. He also reported on the ongoing pipe line replacement project currently in progress at Reservoir No. 1 (the office) and showed a few slides of the project.

The General Manager reported on the need and importance of pressure regulators and their maintenance. e also reported that everyone needs to continue their efforts on water use efficiency. Finally, he responded to questions about the importance of replacing water meters and the range of water pressure within the water system.

Annual Stockholders' Meeting Minutes

February 19, 2013

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3. Report for a Quorum

The Chairman asked if there was a quorum present. G. Galindo reported that a quorum was present as follows:

2410 Shares Outstanding
1206 Shares Required for a Quorum
1798 Shares Present and 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 8:12 p.m.

5. Approval of Minutes of February 15, 2012

The Chairman asked if there were any comments on the 2012 Annual Meeting Minutes. Since there were no comments, the Chairman asked for the approval of the minutes.

Motion by N. Richman and seconded by S. Maden to approve the minutes of February 15, 2012.

Motion passed.

For	1629
Against	38
Abstain	131

6. Approval of the Financial Statements

The Chairman asked for a motion to approve the Financial Statements for 2011-2012.

Motion by G. Einsman, Jr. and seconded by S. Maden to approve the Financial Statements as presented.

Motion passed.

For	1629
Against	38
Abstain	131

7. Ratification of Actions Taken by the Board for the Year-Ending October 31, 2011

The Chairman asked for a motion to ratify the actions taken by the Board for year-ending October 31, 2012. Motion by R. Molina and seconded by S. Maden to ratify the Board's actions for year-ending October 31, 2012.

Motion passed.

For	1629
Against	38
Abstain	131

Annual Stockholders' Meeting Minutes

February 19, 2013

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8. Election of Directors

The Chairman opened nominations

N. Richman nominated the current slate of directors, D. Minto seconded the nomination

Seeing no other nominations, the Chairman asked for a motion to close nominations

Motion by S. Maden and seconded by D. Minto to close nominations.

Motion passed

For 1629

Against 38

Abstain 131

The current slate of Directors was elected.

For 1629

Against 38

Abstain 131

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 8:25 p.m.

Motion by G. Gutierrez and seconded by S. Maden to adjourn the 2013 Annual Shareholders' Meeting.

Motion passed.

For 1629

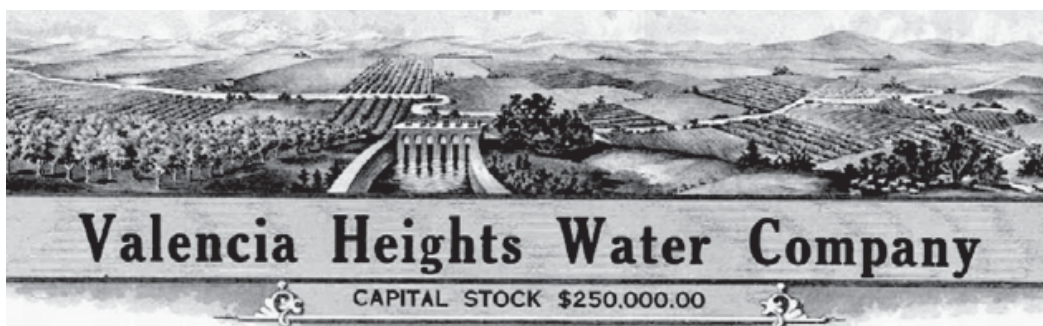
Against 38

Abstain 131

Respectfully Submitted,

Wayne Artee - Secretary

MANAGER'S REPORT



INCORPORATED NOVEMBER 1912 UNDER THE LAWS OF THE STATE OF CALIFORNIA

At last year's Annual Stockholder's Meeting, we took some time to acknowledge Valencia Heights Water Company's Company history those individuals that contributed to the Company's success, and 100 years of service to the community. For those of you who were able to attend the meeting, we hope that you enjoyed yourselves as much as we enjoyed visiting with all of you.

This year, we have another acknowledgement to announce. On September 25, 2013, Eunice White retired after working for the company for more than 45 years. When Eunice started working at the Company, she manually processed the monthly billing and accounts receivables for more than 20 years. As the Company evolved into the computer age, so did Eunice at the age of 70. As her job became more automated, Eunice never shied away from the challenge of learning new ways to do her job. In all, she learned more than three 3 new billing software programs. Though the billing was processed by computer, the daily accounts receivables continued to be manually processed. This process, Eunice performed with consistent and seemingly effortless accuracy.

What the staff, Board, and those of you who took time out of your busy schedules to attend the Annual Meetings appreciated the most, were Eunice's homemade baked goods. No one seems to remember when Eunice started this tradition, but at each and every Annual Meeting, you could be sure of being treated to an assortment of delicious freshly baked goodies. At monthly Board Meetings, Eunice would provide a vast selection of food and treats. Weekly, she treated the staff to numerous sweets, birthday lunches, and Monday morning breakfast. All of this, she did out of the goodness of her heart.

On December 11, 2013, Eunice turned 90, and all of us at the Company are honored to have worked with a most amazing employee and friend. We will forever remember and be grateful to Eunice for having such dedication to her work, and strength to work for the Company for so many years.

So Eunice...Thank You, for all the years of service and dedication to the Company and the community. Your commitment to the Company is an example that just cannot be matched, and can only be admired. You will be missed

Capital Improvements

At last year's Annual Meeting, I reported on the replacement of a 100 year old pipe at the office location. This original pipe ran from Reservoir No. 1 to Pump Station No. 1. The pipeline was replaced due to its age and size. Over the years, the pump station was upgraded to increase its capacity and to allow the Company to pump at night when electricity rates are at their lowest. However, the 12 inch line installed in 1912 could no longer handle the capacity required of the new pumps. The new 24 inch line was completed and placed into operation in March 2013. For those of you who can attend this year's Annual Meeting, there will be a short slideshow presentation about the project.



On the left is a photo of the new 24" waterline going under the footing of the reservoir wall and floor. The footing is 24" deep by 36" wide. This was unknown until the trench was dug, and explains why the 100 year old reservoir is in such good shape.

On the right is the view inside Reservoir No. 1 where the completed new line is coming through the floor.



This year, prior to the City's repaving of Barranca, the Company also replaced another aging waterline. This waterline provides water to the Medici Apartment Complex and South Garvey. Sections of the old steel line were in excess of 60 years old. This new waterline was placed into service in October 2013.

During the past three years, I have been reporting on the Meter Replacement program. This four year program to replace all the water meters in the water system is almost complete. As part of the program, a secondary electronic register and radio was also installed on the meters to eliminate the need to physically read each meter in the water system. The electronic register will provide you the customer, with water usage data to help with leaks and high usage. After a year delay, due to warranty issues with the radio manufacturer, we will complete the project this year. Please watch for information included with your water bill about how this new meter reading system will help you reduce water loss due to leaks, malfunctioning irrigation systems, and other unknown water loss problems.

The final Capital Improvement Project has been in the planning for about a year. Just recently, we started using a new billing software program to allow the Company to send bills in envelopes, and provide return envelopes in a cost-effective manner. The new software has many benefits, and they will be explained during the next several months with enclosures in your water bills. By year's end, 2014, we expect to provide our customers the ability to view their bill and water meter usage online. In the coming months, please take a few minutes to review any notices enclosed with your water bill to take advantage of these benefits. Finally, as in past years, the projected 5 year Capital Improvement Plan is included on page 14 of this report.

Water Conservation

We would like to take this opportunity to acknowledge and thank everyone for their continued efforts in their Water Use Efficiency. In 2009, the Company adopted Phase I of the Water Conservation Plan to promote Water Use Efficiency. Since then, the Company has tried to continue to educate the community about the need to practice permanent water conservation (water use efficiency). The Plan lists about ten (10) practices to efficiently use water and eliminate water waste. We have posted the Water Conservation Plan on the website for your reference. Some of the more important practices are: watering between the hours of 7 p.m. and 7 a.m., not to allow excessive runoff, and the consumer's obligation to repair leaks. Most of the community has done a great job of improving their water usage however, some of you still have room for improvement. We encourage all of our customers to visit the Company website vhwc.org to review and implement the Plan to reduce waste and increase your water use efficiency. Eliminating water waste is the best way to control water rates.

Water Quality/Disinfection

Water quality continues to be good and exceeds all State and Federal water quality standards. The ongoing challenges of controlling nitrate and perchlorate levels are still manageable due to Well No. 7 and the use of the surface water from Covina Irrigating Company (CIC). The new water quality challenge is the new Disinfection By-products Rule (DBP).

The addition of chlorine to your water for disinfection can create bi-products based on the amount of organics in the water. On January 1, 2012, the regulation of these bi-products became more stringent. In the short-term, we have been able to control the bi-products by using more well water. However, in 2014, CIC will complete making treatment plant changes in order to control the formation of these bi-products, and to be compliant with the DBP. For the Company's well water to be compatible with the new treatment process at CIC, and to meet the new DBP, it is necessary for the Company to change its disinfection process from chlorine to chloramines, which is the combination of chlorine and ammonia.

This new disinfection process will control the disinfection bi-products but, it has drawbacks. Chloramine is a weaker disinfectant and can cause other, non-health-related water quality problems. Chloramines also come with an increased cost. There is additional chlorine, ammonia and equipment required, along with additional training required of the field staff to operate the equipment, and to recognize and address potential water quality changes problems within the water distribution system.

Two additional water quality issues facing the Company are the potential of a revised, and a new Maximum Contaminant Level (MCL). An MCL is the maximum amount of a contaminant allowed in drinking water. MCL's are set by the California Department of Health Services. State MCL's must meet or exceed federal MCL's which are set by the Environmental Protection Agency. The current MCL for perchlorate is 6 parts per billion. This MCL is expected to be reviewed and possibly revised and reduced during the next few years. Any significant change may result in additional treatment costs for the Company. Also, a new MCL will be set for hexavalent Chromium or Chrome 6. Chromium is naturally-occurring in the San Gabriel Valley, and depending at what level the MCL is set, this MCL could affect nearly every well in the Basin. If the MCL for hexavalent Chromium is set near or below the naturally-occurring level of Chromium in local groundwater, then additional treatment costs may be incurred by the Company. The potential for these two MCL's to impact our water supply is part of the reason why the rebuilding of the Company's reserves has been so critical.

Water Supply

In order to provide the most cost-effective water service to your residence or business, the Company has re-evaluated the Company's normal water supply options. Historically, the Company has relied on well water, and San Gabriel River water treated by CIC in Glendora. During the past several years, treatment costs combined with the leasing of CIC water rights, along with pumping costs have been increasingly expensive. It has now become more efficient and cost-effective to purchase a percentage of our annual water supply from the Metropolitan Water District Met by using the Company's aka MWD Emergency Connection during certain times of the year. The Company began using Met water in early October 2013 until December 21, 2013. Before using Met Water, the Company notified everyone about the upcoming change in the disinfection process and the use of chloramines vs. free chlorine. That letter can be found on our website. **If you have any type of home dialysis equipment then the water must be treated. People with fish ponds and aquariums must also treat the water before putting it in their ponds and tanks. If this change applies to you then please contact the appropriate professional to address the change in the disinfection process.**

The financial savings from using the Met water are enhanced by the reduction in the demand on our ground water rights. This is currently a great added benefit since local groundwater levels are near record lows. Last winter was the third consecutive dry year, and has begun to impact the ground water levels in the San Gabriel valley. Should there be another dry winter this year, the Company's water supply options will be impacted. The 2013-2014 water supply is expected to be about 50 percent local groundwater, 30 percent CIC water, and 20 percent Met water. The Company's water sources are evaluated annually, and can change significantly based on rainfall, water rights, and cost.

Water Rates

This past November, it was necessary to increase water rates to cover increased costs. A five (5) percent water rate increase was approved by the Board for each of the next two years. The increase in water rates is a direct result of increases in purchased power, purchased water, regulations, and pumping right assessments. In addition, the Board is committed to replacing aging infrastructure to ensure a safe, clean, and reliable drinking water supply. That notice was mailed in October 2013 and is posted on the website.

Water Pressure and Regulators

A common call received at the office is about water pressure and pressure regulators. The area 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. 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 maintain and monitor 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. 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 in which you are served. If you notice any change in the pressure in 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 responsibility of the homeowner to service, maintain or replace the pressure regulator as needed.

Finally, 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 location and duration of an outage on the website. This information is posted on the upper right-hand corner of the homepage 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, it will be a helpful tool to check-on the repair progress and estimated completion time. We hope that the site will help keep you informed about current water outages, and when service will be restored. Also, you can follow us on Twitter [@valenciaheights](https://twitter.com/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. Additional information available on the website is: the past five (5) years of Consumer Confidence Reports along with several years of Annual Reports.

Also, as mentioned earlier, this year we hope to add two new links on the site to better help you monitor your water bill and usage. The first will allow you to access your account and check your account balance the second will allow you to view your water usage on an hourly basis. We hope this will help reduce unexplained water loss at your property.

As in the past, the following pages contain two years of audited financial statements.

Please take a few moments to review them and bring your questions to the Annual Meeting. This year's Annual Stockholder's Meeting will once again be held at Mesa Elementary School, in the Cafeteria, on Wednesday, February 19, 2014, at 7 p.m. The cafeteria is located just inside the main entrance to the right. 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 2014-2018

2014

Meter Replacement Program (Final phase)	\$	113,000
Well No. 6 Rehab	\$	75,000
Chloramination Project	\$	20,000
Emergency Preparedness Equipment	\$	35,000
12" Waterline Grand Avenue, Virginia to Holt	\$	30,000
Miscellaneous Reservoir Work	\$	75,000
Mapping/Miscellaneous System Work	\$	15,000
Total	\$	363,000

2015

Reservoir Rehabilitation	\$	80,000
Well No. 1 and 2 Destruction	\$	50,000
Backhoe Replacement	\$	35,000
Pump Station No. 2 Rehab, Phase 1	\$	125,000
Caltrans (10 Freeway widening)		TBD
Miscellaneous System Work	\$	20,000
Total	\$	310,000

2016

Pump Station No. 2 Rehab, Phase 2	\$	275,000
Service Truck Replacement	\$	35,000
Miscellaneous System Work	\$	10,000
Total	\$	320,000

2017

Pump Station No. 2 Rehab	\$	100,000
Well No. 7 Rehab	\$	100,000
Pickup Truck Replacement	\$	30,000
Buenos Aires Reservoir 5 waterline	\$	100,000
Miscellaneous System Work	\$	10,000
Total	\$	340,000

2018

Parkview Water Line (under freeway)	\$	150,000
Reservoir No. 1 to Reservoir No. 2 Line	\$	200,000
Miscellaneous System Work	\$	10,000
Total	\$	360,000

Estimated Cost Over 5 Years \$ 1,693,000
Average Cost Per Year \$ 338,600

Additional/Future Projects

Emergency Portable Generator(s) and Set-up	Buenos Aires and Lorencita Lines
Golden Bough Line	Cameron and Grand Crossing
Buenos Aires Line to Limecrest to Damerl	Additional Waterline Replacements
Additional Reservoir Resurfacing	Service Line Replacements (System-Wide)
Potential Treatment Facility/Softening/Perchlorate	
6" Line at the End of Buenos Aires	

**VALENCIA HEIGHTS WATER COMPANY
(A California Mutual Water Company)**

FINANCIAL STATEMENTS

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

OCTOBER 31, 2013 AND 2012

**VALENCIA HEIGHTS WATER COMPANY
(A California Mutual Water Company)**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Alhambra Heights Water Company
West Covina, California

We have audited the accompanying financial statements of Alhambra Heights Water Company, a nonprofit organization, which comprise the balance sheets as of October 31, 2013 and 2012, 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 audits 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 auditor's 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 Company'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 Company's internal control. Accordingly, we do not express such an opinion. An audit also includes evaluating the appropriateness of 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of October 31, 2013 and 2012, and the results of its operations, changes in its members' equity and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

White Nelson Nick Evans LLP
Irvine, California
December 31, 2013

VALENCIA HEIGHTS WATER COMPANY
(A California Mutual Water Company)

BALANCE SHEETS

October 31, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 821,116	\$ 797,864
Investments	955,585	654,198
Accounts receivable	246,510	319,231
Other receivable	1,025	11,421
Inventory	57,455	56,476
Prepaid expenses	-	177
Prepaid income taxes	59	671
Prepaid water, current portion	-	32,500
Note receivable, current portion	67,934	67,159
 TOTAL CURRENT ASSETS	 2,149,684	 1,939,697
 PROPERTY, PLANT AND EQUIPMENT, NET	 4,824,289	 4,865,509
OTHER ASSETS:		
Deposit	6,250	6,250
Investment in Covina Irrigating Company	918,890	918,890
Deferred compensation plan assets	92,331	77,148
Water rights	720,000	720,000
Prepaid water, net of current portion	215,893	215,893
Note receivable, net of current portion	600,161	668,095
 TOTAL OTHER ASSETS	 2,553,525	 2,606,276
 TOTAL ASSETS	 \$ 9,527,498	 \$ 9,411,482

(Continued)

See independent auditors' report and notes to financial statements.

VALENCIA HEIGHTS WATER COMPANY
(A California Mutual Water Company)

BALANCE SHEETS
(CONTINUED)

October 31, 2013 and 2012

	2013	2012
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 173,496	\$ 60,356
Property taxes payable	31,718	33,057
Note payable, current portion	30,788	29,945
	236,002	123,358
TOTAL CURRENT LIABILITIES		
LONG-TERM LIABILITIES:		
Deferred compensation vested liability	92,331	77,148
Compensated absences	41,339	42,108
Note payable, net of current portion	86,136	117,137
	219,806	236,393
TOTAL LONG-TERM LIABILITIES		
	455,808	359,751
TOTAL LIABILITIES		
MEMBERS' EQUITY:		
Contributions in aid of construction, net of amortization	1,492,564	1,565,075
Common stock - 10,000 shares authorized; \$100 par value; 1,099 and 1,127 shares issued and outstanding as of October 31, 2013 and 2012, respectively	109,900	112,700
Class A common stock - 10,000 shares authorized; \$100 par value; 1,313 shares issued and outstanding as of October 31, 2013; 2 shares subscribed and 1,281 shares issued and outstanding as of October 31, 2012	131,300	128,300
Less: stock subscription receivable	-	(1,943)
Additional paid-in-capital	790,095	783,195
Retained earnings	6,547,831	6,464,404
	9,071,690	9,051,731
TOTAL MEMBERS' EQUITY		
	\$ 9,527,498	\$ 9,411,482
TOTAL LIABILITIES AND MEMBERS' EQUITY		

See independent auditors' report and notes to financial statements.

VALENCIA HEIGHTS WATER COMPANY
(A California Mutual Water Company)

STATEMENTS OF OPERATIONS

For the years ended October 31, 2013 and 2012

	2013	2012
OPERATING REVENUES:		
Water sales and services	\$ 2,364,192	\$ 2,500,128
OPERATING EXPENSES:		
Utility plant operation expenses:		
Purchased water	621,294	522,013
Purchased power	215,664	199,290
Leased water rights	119,652	122,726
Operations	64,272	57,328
Water testing	7,364	8,861
Vehicles	31,908	23,094
Repairs and maintenance	96,026	37,659
Total utility plant operation expenses	1,156,180	970,971
Depreciation	224,101	216,943
General and administrative expenses:		
Salaries and benefits	559,954	536,354
Directors' fees	28,700	30,150
Legal and accounting	23,414	17,418
Office expenses and utilities	84,777	69,178
Insurance	31,661	50,968
Taxes and licenses	144,031	141,905
Assessments	32,471	35,462
Total general and administrative expenses	905,008	881,435
TOTAL OPERATING EXPENSES	2,285,289	2,069,349
INCOME FROM OPERATIONS	78,903	430,779
OTHER INCOME (EXPENSE):		
Interest income	15,003	13,598
Other income (expense)	(957)	6,695
Interest expense	(2,281)	(3,034)
TOTAL OTHER INCOME (EXPENSE)	11,765	17,259
INCOME BEFORE TAXES	90,668	448,038
PROVISION FOR INCOME TAXES	(7,241)	(6,459)
NET INCOME	\$ 83,427	\$ 441,579

See independent auditors' report and notes to financial statements.

VALENCIA HEIGHTS WATER COMPANY
(A California Mutual Water Company)

STATEMENTS OF CHANGES IN MEMBERS' EQUITY

For the years ended October 31, 2013 and 2012

	Number of Shares *	Common Stock	Contributions in Aid of Construction	Stock Subscription Receivable	Additional Paid In Capital	Retained Earnings	Total
Balance - October 31, 2011	2,406	\$ 240,600	\$ 1,641,195	\$ (19,426)	\$ 753,576	\$ 6,022,825	\$ 8,638,770
Net income	-	-	-	-	-	441,579	441,579
Stock issued	4	400	-	-	29,619	-	30,019
Payments received on stock sale	-	-	-	17,483	-	-	17,483
Amortization	-	-	(76,120)	-	-	-	(76,120)
Balance - October 31, 2012	2,410	241,000	1,565,075	(1,943)	783,195	6,464,404	9,051,731
Net income	-	-	-	-	-	83,427	83,427
Stock issued	3	300	-	-	12,000	-	12,300
Stock repurchased and cancelled	(1)	(100)	-	-	(5,100)	-	(5,200)
Payments received on stock sale	-	-	-	1,943	-	-	1,943
Amortization	-	-	(72,511)	-	-	-	(72,511)
Balance - October 31, 2013	<u>2,412</u>	<u>\$ 241,200</u>	<u>\$ 1,492,564</u>	<u>\$ -</u>	<u>\$ 790,095</u>	<u>\$ 6,547,831</u>	<u>\$ 9,071,690</u>

* During the years ended October 31, 2013 and 2012, respectively, 28 and 25 shares of Common Stock were retired and re-issued as Class A Common Stock.

See independent auditors' report and notes to financial statements.

VALENCIA HEIGHTS WATER COMPANY
(A California Mutual Water Company)

STATEMENTS OF CASH FLOWS

For the years ended October 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 83,427	\$ 441,579
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	224,101	216,943
(Increase) decrease in operating assets:		
Accounts receivable	72,721	(112,039)
Other receivable	10,396	
Inventory	(979)	(10,983)
Prepaid expenses	177	39,661
Prepaid income taxes	612	(131)
Prepaid water	32,500	32,500
Increase (decrease) in operating liabilities:		
Accounts payable	113,140	(10,930)
Property taxes payable	(1,339)	1,459
Compensated absences	(769)	8,663
NET CASH PROVIDED BY OPERATING ACTIVITIES	533,987	606,722
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(255,392)	(195,478)
Principal proceeds from installment sale of land	67,159	66,577
Sale (purchase) of investments	(301,387)	(445,995)
NET CASH USED BY INVESTING ACTIVITIES	(489,620)	(574,896)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on note payable	(30,158)	(29,404)
Issuance of stock	12,300	30,019
Repurchase of stock	(5,200)	
Payments received on stock subscription receivable	1,943	17,483
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(21,115)	18,098
NET INCREASE IN CASH AND CASH EQUIVALENTS	23,252	49,924
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	797,864	747,940
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 821,116	\$ 797,864
SUPPLEMENTAL DISCLOSURES:		
Transferred construction in progress to property, plant and equipment	\$ 200,496	\$ 108,067
Cash paid for interest	\$ 2,281	\$ 3,034
Cash paid for income taxes	\$ 6,629	\$ 6,590

See independent auditors' report and notes to financial statements.

AGENCIAS DE AGUAS CALIFORNIA
A California Mutual Water Company

NOTES TO FINANCIAL STATEMENTS

October 31, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Method of Accounting:

The financial statements are presented using the accrual basis of accounting. 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.

B. Cash and Cash Equivalents:

For purposes of the statements of cash flows, cash and cash equivalents have been defined as cash and other highly liquid investments purchased with an original maturity of 90 days or less. Cash and cash equivalents consisted of demand deposits in the amount of \$821,116 and \$797,864 at October 31, 2013 and 2012, respectively.

C. Investments:

The Company considers all federally-insured certificates of deposit with original maturities of more than three months as investments. The Company records these investments at fair value and expects them to be held to maturity.

Marketable securities held by the Company, are classified as available-for-sale securities. Available-for-sale securities are recorded at fair value in investments on the balance sheets, with the change in fair value during the period excluded from earnings and recorded net of tax as a component of other comprehensive income. For the years ended October 31, 2013 and 2012, the fair value of the investments approximates the cost.

The Company's investment in the common stock of the Covina Irrigating Company, in which the Company holds less than a 20 percent interest, is recorded at cost. See Note 4.

D. 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 assumptions used by market participants when pricing the asset 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 a Company'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 14.

AGENCIAS DE AGUAS CALIFORNIA
A California Mutual Water Company

NOTES TO FINANCIAL STATEMENTS
CONTINUED

October 31, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED :

E. Accounts Receivable:

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

F. Inventory:

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

G. 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 currently depreciated over estimated lives ranging from 3 to 40 years using the straight-line method.

Contributed property, plant and equipment are recorded at the cost of property constructed, and are currently amortized over estimated lives ranging from 20 to 40 years using the straight-line method. Amortization is recorded as a reduction of contributions in aid of construction in members' equity.

H. Contributions in Aid of Construction:

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

AGENCIA EIGHTS WATER COMPANY
A California Mutual Water Company

NOTES TO FINANCIAL STATEMENTS
CONTINUED

October 31, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED :

I. Income Tax Status:

The Company is exempt from federal income taxes under Internal Revenue Code Section 501(c)(12). However, for California income tax purposes, the Company is taxed only for non-business related income.

The Company's Forms 990, Return of Organization Exempt from Income Tax, for the years ended 2010, 2011 and 2012 are subject to examination by the Internal Revenue Service generally for three years after they are filed.

. Concentrations of Credit Risk:

The Company maintains its cash deposit accounts at several financial institutions. At October 31, 2013, accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At October 31, 2012, accounts at each institution are insured by the FDIC up to \$250,000 for interest bearing accounts and unlimited insurance for non-interest bearing accounts. At October 31, 2013, the Company had \$301,194 in cash deposits in excess of limits covered by the FDIC. At October 31, 2012, the Company did not have any cash deposits in excess of limits covered by the FDIC.

The Company also maintains investments with a brokerage firm that is covered by the Securities Investor Protection Corporation (SIPC). The investments are insured by SIPC up to a maximum of \$1,000,000 per eligible account. At October 31, 2013 and 2012, the Company did not have any investments in excess of coverage of the SIPC.

. Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

AGENCIAS DE SERVICIOS DE AGUAS
 A California Mutual Water Company

NOTES TO FINANCIAL STATEMENTS
 CONTINUED

October 31, 2013 and 2012

2. ORGANIZATION AND NATURE OF SERVICES:

The Company was incorporated in the State of California on November 8, 1912. The Company is a privately held mutual water company formed to furnish water services for the benefit and use of its members.

3. PROPERTY, PLANT AND EQUIPMENT:

Changes in property, plant and equipment for the year ended October 31, 2013 were as follows:

	<u>Balances at</u> <u>Nov. 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances at</u> <u>October 31, 2013</u>
Property, plant and equipment, not being depreciated amortized:				
Land and land rights	105,374	-	-	105,374
Construction in progress	<u>74,866</u>	<u>245,285</u>	<u>200,496</u>	<u>119,655</u>
Total capital assets, not being depreciated amortized	<u>180,240</u>	<u>245,285</u>	<u>200,496</u>	<u>225,029</u>
Property, plant and equipment, being depreciated amortized:				
Office equipment and maps	56,839	-	-	56,839
Machinery, treatment and pumping equipment	849,435	-	-	849,435
Building and structures	250,789	-	-	250,789
Trucks, vehicles, tools and equipment	193,910	-	-	193,910
Storage tanks and reservoirs	988,297	44,700	-	1,032,997
Transmission and distribution	5,123,895	165,903	-	5,289,798
Wells	1,128,947	-	-	1,128,947
SCADA computer equipment	<u>161,800</u>	<u>-</u>	<u>-</u>	<u>161,800</u>
Total property, plant and equipment being depreciated amortized	8,753,912	210,603	-	8,964,515
Less accumulated depreciation amortization	<u>4,068,643</u>	<u>296,612</u>	<u>-</u>	<u>4,365,255</u>
Total property, plant and equipment being depreciated amortized, net	<u>4,685,269</u>	<u>86,009</u>	<u>-</u>	<u>4,599,260</u>
Property, plant and equipment, net	<u>4,865,509</u>	<u>159,276</u>	<u>200,496</u>	<u>4,824,289</u>

See independent auditors' report.

AGENCY EIGHTS WATER COMPANY
A California Mutual Water Company

NOTES TO FINANCIAL STATEMENTS
CONTINUED

October 31, 2013 and 2012

3. PROPERTY, PLANT AND EQUIPMENT CONTINUED :

Depreciation and amortization expense for the year ended October 31, 2013 was 296,612. Depreciation expense of 224,101 was recorded as an operating expense and amortization expense of 72,511 was recorded as a reduction of contributions in aid of construction in members' equity.

Changes in property, plant and equipment for the year ended October 31, 2012 were as follows:

	<u>Balances at</u> <u>Nov. 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances at</u> <u>October 31, 2012</u>
Property, plant and equipment, not being depreciated/amortized:				
and land rights	105,374	-	-	105,374
Construction in progress	<u>4,000</u>	<u>178,933</u>	<u>108,067</u>	<u>74,866</u>
Total capital assets, not being depreciated/amortized	<u>109,374</u>	<u>178,933</u>	<u>108,067</u>	<u>180,240</u>
Property, plant and equipment, being depreciated/amortized:				
Office equipment and maps	53,863	2,976	-	56,839
Machinery, treatment and pumping equipment	849,435	-	-	849,435
Building and structures	250,789	-	-	250,789
Vehicles, tools and equipment	193,910	-	-	193,910
Storage tanks and reservoirs	988,297	-	-	988,297
Transmission and distribution	5,002,259	121,636	-	5,123,895
Wells	1,128,947	-	-	1,128,947
SCADA computer equipment	<u>161,800</u>	<u>-</u>	<u>-</u>	<u>161,800</u>
Total property, plant and equipment being depreciated/amortized	8,629,300	124,612	-	8,753,912
Less accumulated depreciation/amortization	<u>3,775,580</u>	<u>293,063</u>	<u>-</u>	<u>4,068,643</u>
 Total property, plant and equipment being depreciated/amortized, net	<u>4,853,720</u>	<u>168,451</u>	<u>-</u>	<u>4,685,269</u>
 Property, plant and equipment, net	<u>4,963,094</u>	<u>10,482</u>	<u>108,067</u>	<u>4,865,509</u>

AGENCIA EIGHTS WATER COMPANY
A California Mutual Water Company

NOTES TO FINANCIAL STATEMENTS
CONTINUED

October 31, 2013 and 2012

3. PROPERTY, PLANT AND EQUIPMENT CONTINUED:

Depreciation and amortization expense for the year ended October 31, 2012 was 293,063. Depreciation expense of 216,943 was recorded as an operating expense and amortization expense of 76,120 was recorded as a reduction of contributions in aid of construction in members' equity.

4. INVESTMENT IN COVINA IRRIGATING COMPANY:

The Company owned 453.25 shares of capital stock of Covina Irrigating Company (CIC) as of October 31, 2013 and 2012, respectively. Each share entitles the owner to delivery of approximately one acre-foot of water each year. This investment is recorded at cost since the Company owns less than 20% of the capital stock and does not have the ability to exercise significant influence over CIC's operating and financial policies.

5. WATER RIGHTS:

The Company owns 1,061 adjudicated water rights as of October 31, 2013 and 2012. 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.

In order to stabilize the cost of water, the Company has also leased water rights from some of the stockholders of Covina Irrigating Company. These water rights ensure a source of water to supplement the Company's ground water supply and enhance water quality as part of the Company's water supply permit. Leased water rights contracts for the periods July 1, 2013 through June 30, 2014 and July 1, 2012 through June 30, 2013 totaled 115,239 and 120,901, respectively. Most payments are made on a quarterly basis. Future lease payments under the existing water rights contracts total 87,071 through July 2014. Payments on these leases are expensed and included in operating expenses in the accompanying statements of operations.

6. REPAID WATER:

The Company has purchased 836 acre-foot of cyclic storage water. The Company made this purchase to offset the increasing cost of replenishment water which is currently at 836 per acre-foot. For the year ended October 31, 2013, this water is reflected as prepaid water of 215,893 in long-term assets for future years, as no amount is projected to be used in 2014. For the year ended October 31, 2012, this water is reflected as prepaid water of 248,393, of which 32,500 is current and 215,893 is long-term.

AGENCY INVESTMENTS WATER COMPANY
A California Mutual Water Company

NOTES TO FINANCIAL STATEMENTS
CONTINUED

October 31, 2013 and 2012

7. NOTE RECEIVABLE:

ursuant to a purchase, exchange and sale agreement signed in March of 2001, the Company received a \$1,215,000 promissory note from the City of West Covina for the sale of Maverick Field to the City. The sale was consummated when escrow closed in June 2003. The note bears interest at a rate that is adjustable every three years to the then current, two-year, treasury bill rate plus 0.5%. The rate for the three years ended October 31, 2013 has been 0.873%. Effective November 1, 2013, the rate has been adjusted to 0.809%. It is secured by a deed of trust on the land. Principal and interest are receivable monthly over a twenty-year period. The monthly amount has been \$6,109. Effective November 1, 2013, the new monthly amount is \$6,090. The balance of the note receivable as of October 31, 2013 and 2012 was \$668,095 and \$735,254, respectively.

8. NOTE PAYABLE:

On January 5, 1999, the Company entered into a sublease agreement with Walnut Valley Water District. The capitalized principal balance at October 31, 2013 and 2012 was \$116,924 and \$147,082, respectively. Principal and interest payments of \$16,219 have been due semiannually, on February 1 and August 1, with a maturity date of February 1, 2018. Originally, interest had been paid at a rate of 4.47% per year. In April 2011, the terms of the note were revised and the interest rate was changed to a variable interest rate based on 0.50 percent above a simple average of the average purchase yield to maturity, as determined by Walnut Valley Water District for each semiannual period. During the year ended October 31, 2013, the average interest rate incurred by the District was 1.63%.

The following is an estimated schedule of future combined principal and interest payments for the years ending October 31 based upon an estimated interest rate of 1.63%.

2014	32,439
2015	32,439
2016	32,439
2017	23,706
	<u>121,023</u>
less interest	<u>4,099</u>
	116,924
less current portion	<u>30,788</u>
long-term portion	<u><u>86,136</u></u>

AGENCIA EIGHTS WATER COMPANY
A California Mutual Water Company

NOTES TO FINANCIAL STATEMENTS
CONTINUED

October 31, 2013 and 2012

9. LINE OF CREDIT:

The Company had a line of credit with a limit of \$200,000 that was secured by personal property. The line of credit matured in July 2013. Borrowings under the line of credit bore interest at the prime rate plus 1.25% but in no case less than 6% per annum. There was no balance outstanding as of October 31, 2013 and 2012. The Company did not renew its line of credit.

10. STOCK DESCRIPTION RECEIVABLE:

At October 31, 2012, the Company had a note receivable from stock sales of \$1,943, reported as a reduction to members' equity. The note is a full recourse promissory note bearing interest at 7% and is collateralized by the stock issued. The note was repaid during the year ended October 31, 2013.

11. COMMON STOCK :

The Company 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 Company's jurisdiction. Shares are cancelled if forfeited through foreclosure of the property or prolonged failure to pay for water services provided.

12. RETIREMENT PLANS:

The Company sponsors a defined contribution 401(k) pension plan for the benefit of its employees. Pre-tax employee and employer contributions are held in trust and invested by a third-party trustee, and therefore, are not reported in the accompanying financial statements. Company contributions to the plan for the years ended October 31, 2013 and 2012 were \$25,785 and \$19,341, respectively.

The Company also sponsors a Section 457 deferred compensation plan (the 457 plan). Company contributions to the 457 plan were suspended effective July 1, 2010. At October 31, 2013 and 2012, the vested deferred compensation plan assets totaled \$92,331 and \$77,148, respectively. These amounts were reported both as an asset and liability in the accompanying financial statements, as the Company administers the 457 plan.

A ENCIA EIG TS WATER COM ANY
A California Mutual Water Company

NOTES TO FINANCIA STATEMENTS
CONTIN ED

October 31, 2013 and 2012

13. COM ENSATED ABSENCES:

Employees of the Company are entitled to paid vacation and personal leave. Amounts accruable are dependent on length of service and current pay rate. At October 31, 2013 and 2012, the Company's accumulated compensated absence liability totaled 41,339 and 42,108, respectively.

14. FAIR A E MEAS REMENTS:

At October 31, 2013, the Company's investments are reported at fair value in the accompanying balance sheet as follows:

	Fair alue	Measurements Quoted prices in Active Markets for Identical Assets evel 1	sing Significant Other Observable Inputs evel 2
Certificates of deposit	161,703	-	161,703
Corporate bonds	248,131	248,131	-
Municipal bonds	239,121	239,121	-
Mutual Funds	306,630	306,630	-
Deferred compensation plan assets:			
Mutual Funds	92,331	92,331	-
	<u>1,047,916</u>	<u>886,213</u>	<u>161,703</u>

At October 31, 2012, the Company's investments are reported at fair value in the accompanying balance sheet as follows:

	Fair alue	Measurements Quoted prices in Active Markets for Identical Assets evel 1	sing Significant Other Observable Inputs evel 2
Certificates of deposit	654,198	-	654,198
Deferred compensation plan assets:			
Mutual Funds	77,148	77,148	-
	<u>731,346</u>	<u>77,148</u>	<u>654,198</u>

AGENCIA EIGHTS WATER COMPANY
A California Mutual Water Company

NOTES TO FINANCIAL STATEMENTS
CONTINUED

October 31, 2013 and 2012

14. FAIR VALUE MEASUREMENTS CONTINUED :

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This 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 Company uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Company measures fair value using level 1 inputs because they generally provide the most reliable evidence of 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 markets 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.

15. RELATED PARTY TRANSACTIONS:

During the years ended October 31, 2013 and 2012, a company owned by a member of the Board of Directors, brokered an insurance policy for the Company. Premiums paid to the insurance company for the years ended October 31, 2013 and 2012 totaled \$31,363 and \$11,128, respectively. During the years ended October 31, 2013 and 2012, total compensation for services rendered for the year totaled 2 percent and 15 percent of premiums, respectively.

16. SUBSEQUENT EVENTS:

The Company has evaluated subsequent events through December 31, 2013, the date on which the financial statements were available to be issued.

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

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