



ANNUAL STOCKHOLDERS' REPORT
FISCAL YEAR 2020-2021
&
NOTICE OF
ANNUAL STOCKHOLDERS' MEETING
FEBRUARY 17, 2022



**** 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 AND TAMPERING POLICY 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.

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Website: vhwc.org – Email: info@vhwc.org

ANNUAL STOCKHOLDERS' MEETING

DAY: Thursday

DATE: February 17, 2022

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 14, 2022.

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 17, 2022	6
Daniel Liese	Vice-Chairman	February 17, 2022	17
Ronald Wheeler	Treasurer	February 17, 2022	14
Robert Ghirelli	Secretary	February 17, 2022	9
John Akerboom	Director	February 17, 2022	2
Curtis Feese	Director	February 17, 2022	22
Dr. Sergio Hernandez	Director	February 17, 2022	2

ADMINISTRATION

David Michalko	General Manager	35
Gloria Galindo	Office Manager	19

OFFICE

Elizabeth Lopez	Billing Clerk/Customer Service	6
Tiffany Dickinson	Customer Service Assistant	5

FIELD

Tim Pacheco	Water System Supervisor	19
Ernest Romero	Lead Water Worker	12
Daniel Galindo	Water Tech I	1

VALENCIA HEIGHTS WATER COMPANY

Annual Stockholders' Meeting

Thursday, February 17, 2022

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 25, 2021
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, 2021
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

Wednesday, February 25, 2021, 7:00 p.m. - Via Zoom

Present via S. Beltran, Chairwoman; D. Liese, Vice-Chairman;
Teleconference: C. Feese, Treasurer; R. Ghirelli, Secretary; J. Akerboom, Director;
Dr. Hernandez, Director; R. Wheeler, Director

Staff via D. Michalko, General Manager; G. Galindo, Office Manager;
Teleconference: E. Lopez, Billing Clerk; T. Dickinson, Customer Support

Stockholders via David Minto, Irma Cooper, Angelica Therrien, Ernest Lee,
Teleconference: Peter Santillan - for Southern California District Council of Laborers

Others: Aida Babayan, UBS

The Chairwoman, S. Beltran welcomed everyone and introduced the Board of Directors; the General Manager, Dave Michalko; and Staff, Gloria Galindo, Elizabeth Lopez and Tiffany Dickinson. S. Beltran welcomed and thanked the shareholders for coming and asked that each shareholder in attendance introduce themselves.

1. Open Meeting
The Chairwoman opened the meeting at 7:05 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 2019-2020 and reported on the current projects that will be completed in fiscal year 2020-2021.
3. Report for a Quorum
The Chairwoman asked if there was a quorum present. G. Galindo reported that a quorum was present as follows:

2454 Shares Outstanding
1228 Shares Required for a Quorum
1995 Shares Present and/or Voting
4. Call to Order
After hearing that a quorum was present, the Chairwoman called the meeting to order. The Annual Shareholders' Meeting was called to order at 8:06 p.m.

Annual Stockholders' Meeting Minutes

February 25, 2021

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5. Approval of Minutes of February 19, 2020

The Chairwoman asked if there were any comments on the 2020 Annual Meeting Minutes. R. Ghirelli noted that the start and end time of the 2020 Annual Shareholders in the minutes was the same time. G. Galindo will correct start time on the minutes. The Chairwoman asked for the approval of the minutes.

- Motion by R. Ghirelli and seconded by J. Akerboom to approve the minutes of February 19, 2020.

Motion passed.

For	1082
Against	47
Abstain	866

6. Approval of the Financial Statements

The Chairwoman asked if there were any questions for the Treasurer regarding the Financial Statements for 2019-2020. The Chairwoman asked for a motion to receive and file the Financial Statements for 2019-2020.

- Motion by D. Liese and seconded by J. Akerboom to approve the Financial Statements as presented.

Motion passed.

For	1082
Against	47
Abstain	866

7. Ratification of Actions Taken by the Board for the Year-Ending October 31, 2020

The Chairwoman asked for a motion to ratify the actions taken by the Board for year-ending October 31, 2020.

- Motion by J. Akerboom and seconded by D. Minto to ratify the Board's actions for year-ending October 31, 2020.

Motion passed.

For	1082
Against	47
Abstain	866

8. Election of Directors

The Chairwoman opened nominations for the current Board.

- Motion by D. Minto and seconded by R. Ghirelli to nominate the current slate of Directors

Motion passed.

For	1082
Against	47
Abstain	866

Annual Stockholders’ Meeting Minutes

February 25, 2021

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- Motion by J. Akerboom and seconded by D. Minto to close nominations.
Motion passed

For	1082
Against	47
Abstain	866

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

Motion passed

For	1082
Against	47
Abstain	866

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 Chairwoman asked for a motion to adjourn the Annual Shareholders’ Meeting at 8:19 p.m.

- Motion by J. Akerboom and seconded by D. Minto to adjourn the Annual Shareholders’ Meeting.

Motion passed.

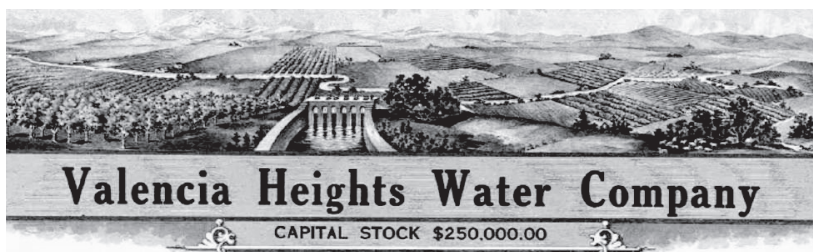
For	1082
Against	47
Abstain	866

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 you and your families have remained safe and healthy during the pandemic. Also, I want to thank everyone for their cooperation and understanding as we work through the pandemic. We also want to thank everyone for continuing to pay their water bill and do their best to keep their account current.

To continue to meet our goal, to provide a clean, safe and reliable water supply to you, our customers, we have taken all necessary precautions to ensure that all our staff remain safe and healthy. As many of you know, the office has remained closed to the public since March 2020 and will remain closed until we can be sure there is no threat to our staff. Office staff has been on a variety of alternate work schedules to limit exposure during peak outbreaks. However, the office staff is always 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 continue to 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 respect their request and please step back. If you have any questions regarding any work in your area, please call the office.

Supply Projections

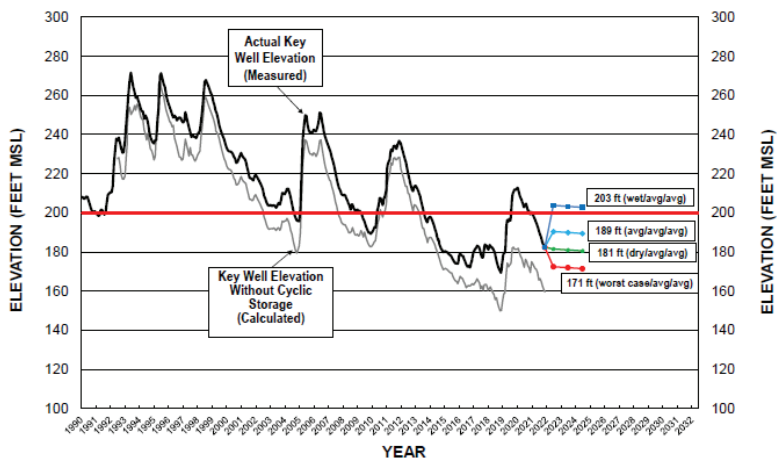
This year's winter forecast was projected to be below "normal" rainfall, to possibly a dry winter, due to La Nina. Many times, La Nina and El Nino winters are misrepresented. La Nina and El Nino are weather patterns that effect weather around the world. Here in California, they aren't necessarily dry or wet, respectively, in fact, they can be either. Historically, the really wet years have been El Nino years and the really dry years have been La Nina years. Although Southern California has seen dry El Nino's and wet La Nina's, let's hope for the latter this year.

As this report is being prepared, we are hopeful that the winter forecast is wrong. In October we started out with an above normal month for rainfall, only to be followed by the driest November on record, receiving no measurable rainfall. Now in December, we have seen record snow fall, along with above average rainfall. Storms are forecasted to continue into mid-January in Northern California, which will continue to build an already well above average snowpack. Locally, in the San Gabriel Valley, we are near 50 percent of the annual average rainfall and the snowpack is improving. Should the rainfall continue at just a “normal” rate, then this may allow the groundwater some recovery and raise water levels in the Main San Gabriel Basin (Basin). This is the Basin which provides local groundwater to Valencia Heights Water Company (Company). If the Basin sees some improvement this spring, and snowfall continues in the north, this should allow for an adequate supply of water without the need to impose mandatory cutbacks as were proposed by the Governor.

Looking below at the chart, it illustrates the continued drop of the groundwater level in the Basin during the past 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 (referred to as cyclic or supplemental) to supplement the lack of stormwater run-off, or rainfall. The increase in 2019 is largely due to the purchase of import water, not rainfall.

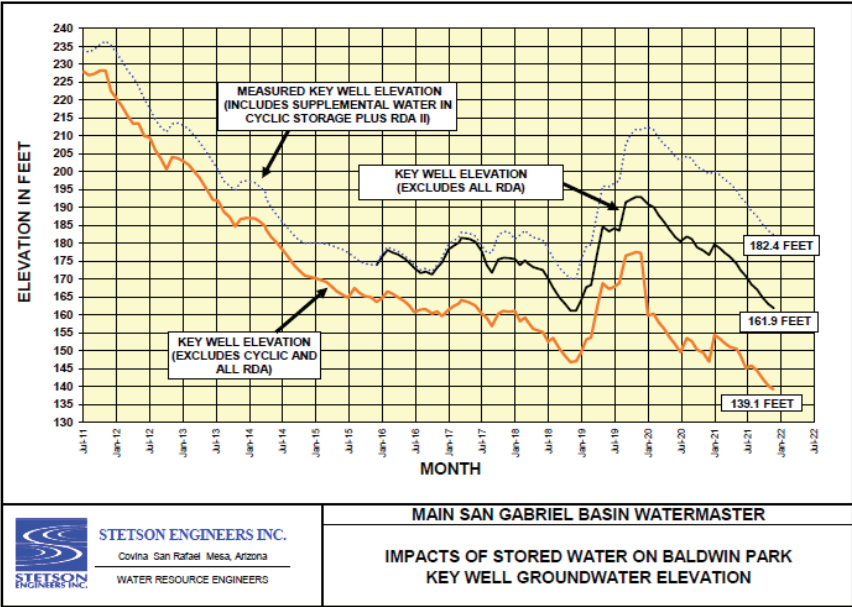
The chart also shows Basin level projections based on rainfall. These projections are for the current year and two additional “normal” years, with/ no significant additional import supplies. A normal or average year is just over 15 inches of rainfall. A wet year is about 23 inches of rainfall, and a dry year is about 8 inches. The red or bold line is the bottom of the basin operating range. As shown, a wet year barely gets back to the operating range.

**FORECASTED BALDWIN PARK KEY WELL ELEVATION
(THROUGH JUNE 30, 2024)**



The import water referred to on both charts, is 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 that started in 2019 on the chart below. 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 42 feet in the Basin water level. Without the purchased water, the Basin would be significantly worse off, and mandatory cutbacks would be necessary. Over time, the purchased water program will allow all producers a greater groundwater availability, even during a drought. This is shown as the black line starting in 2016. This is shown as the black line starting in 2016.

As a reminder, back in July 2017, the Company began collecting the assessment on your monthly water bill to fund the Company’s share of the purchased water, at a rate of \$0.08 per unit of water used. This assessment has been increasing each year and is now set at \$0.31 per unit of water used. Any additional increase would only be the result in the increase cost of purchasing the import water. The purpose of this 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, now fully implemented, will help offset any lack of local stormwater and store water in the Basin for the dry years. However, we will need a little cooperation from Mother Nature as well. This groundwater reliability is costing the San Gabriel Valley water producers more than \$35,000,000 annually.



Water Rates

In September 2021, 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. In 2020, due to the unknown financial impact of the pandemic to our customers, the Board postponed any significant increase to water rates. However, the operational costs have continued to increase, and the Board voted to approve about a 5 percent increase necessary to cover the Company's fixed costs, and to continue to be proactive with the Capital Improvement Program for 2022. All customers received the schedule of new rates in October of 2021.

In addition, as discussed earlier, we must continue collecting the Watermaster Assessment. In November 2021, the Company increased this assessment from \$0.28 per unit to \$0.31 per unit to collect the \$192,000 that we will be billed by Watermaster in September 2022. These funds are accounted for separately and should the Company ever over or under collect, we will adjust this rate annually.

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 most of 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 is a list of the projects that were completed this past year and the projects planned for 2022.

Capital Projects that have been completed this year are;

- As reported in previous years the Company was required to perform a Risk and Resilience Assessment (RRA) that followed Federal guidelines. This was part of Federal legislation called the American Water Infrastructure Act or AWIA. This was a year-long process that also included the revising of the Company's Emergency Response Plan (ERP). In June 2021, the Company certified the completion of the RRA. This will be used as a planning tool in the coming years and will need to be we certified every five years.
- The ERP was also developed following Federal guidelines, also in conjunction with the emergency response group (PWAG) that we are a part of. PWAG is a group of 20 water agencies in LA County that have signed on to a memorandum of understanding to provide mutual aid to each other in time of need. The ERP is in its final stages and was certified that it met the federal guidelines on December 23, 2021. This group has

also purchased two-way radios that can communicate throughout Southern California. This ensures that if and when cell service is lost, the group can still communicate with each other.

- During this past year, the inside of the office got a fresh coat of paint and new flooring. This job had been postponed in 2020 due to COVID
- We performed additional site work, paving and slurring roads to our reservoir sites
- We replaced and upgraded the Reservoir No. 1 pump station discharge piping
- Upgrades were completed to the water system serving the Medici apartment complex, installing new valves, fire hydrants and meter services.

The Projects planned for this year are:

- The replacement of a 12-inch transmission line within an easement near the 700 block of Grand Avenue, going from Cameron Avenue on the south to Wrede Way on the north. Replacement of this line is necessary due to the increasing number of leaks on the waterline.
- The Replacement of the remaining 1600 feet of old steel line on Golden Bough Drive. This will go from Grand Avenue eastward.
- The purchase of a replacement truck. This was planned for 2021, but due to COVID supply chain issues, the truck that met the Company's needs was not available.
- This is the first year of a 4-year plan, to re-plumb and re-coat and paint the inside and outside of the Company's welded steel reservoirs.

Geographic Information System (GIS)

The Company continues to upgrade to a GIS mapping system. However, COVID has delayed this project by more than a year. GIS 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 are working to 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 three 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. Surveying is what has been delayed due to COVID, we expect to get back to it in January of 2022. 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 now allows 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 are now being provided to you via text messaging, when possible. If we do not have up to date contact information we are unable to contact you via text. Texting is the most timely and effective way for the Company to contact you.

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.

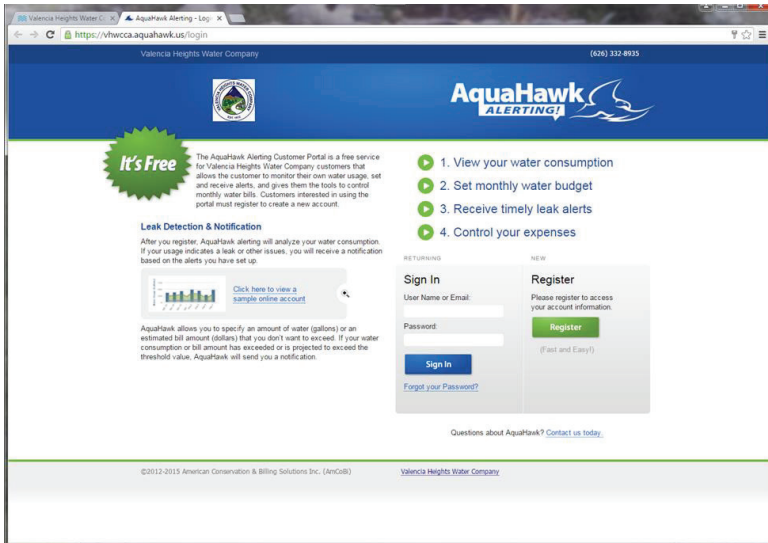
Emergency Preparedness

Over the past several years, and also as 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!**

Another tool that the Company uses to communicate during an emergency is our website. On the home page, you will be able to see if there is a water outage (planned or unplanned). You can click the link on the bottom left and look at the map to see if your property is affected, see the progress of the repairs and estimated duration of an outage.

You can also follow us on Twitter @valenciaheights as another source of information. We will periodically send tweets about any useful information; as well as any water outages in the water system. To help our customers know what is going on, especially during outages and emergencies, we ask that every one of our customers sign up to follow @valenciaheights on Twitter.

AquaHawk Alerting



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.

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 the California Association of Mutual Water Companies (CalMutuals). CalMutuals continues to grow and catch the eye and earn the respect of the State Legislature. With the formation of a Joint Powers Authority (JPA) to provide a cost-effective, best in class, insurance program, CalMutuals now has a significant funding source to perform the support and advocacy that is so critically needed 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 they are the bed rock of water agencies. It is important that there be support and a voice for mutuals in the state.

This year, during the legislation process in Sacramento, the Association will once again introduce a bill to propose that California mutual water companies be exempt from state income tax as they are exempt federally. Mutual water companies are formed under the not-for-profit corporation code. This is our third attempt, and we feel we have a good chance of success in 2022.

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 17, 2022, at 7:00 p.m.** If you would like to join the meeting, please call or email the office at info@vhwc.org 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 2022-2026

2022

Capital Debt Payment(s)	\$ 114,500
AWIA / Emergency Preparedness	\$ 35,000
Well No. 7 Rehab	\$ 150,000
Reservoir No. 3 Easement Transmission Line, Phase 1	\$ 350,000
Golden Bough Waterline Replacement	\$ 350,000
Reservoir 4B Rehab	\$ 300,000
Replace Pick-up Truck, 3/4 ton	\$ 55,000
Miscellaneous CIP	\$ 40,000
Mapping/GIS Development	\$ 30,000
Total	<u><u>\$ 1,424,500</u></u>

2023

Capital Debt Payment(s)	\$ 165,000
Buenos Aires/ Santiago Waterline Replacement	\$ 250,000
Reservoir No. 6B Inside Rehab	\$ 260,000
Miscellaneous CIP	\$ 50,000
Mapping/GIS Development	\$ 30,000
Total	<u><u>\$ 755,000</u></u>

2024

Capital Debt Payment(s)	\$ 165,000
Grand Ave Crossing	\$ 300,000
Reservoir No. 6A Inside Rehab	\$ 260,000
Miscellaneous CIP	\$ 50,000
Total	<u><u>\$ 775,000</u></u>

2025

Capital Debt Payment(s)	\$ 190,000
Reservoir No. 4A Rehab	\$ 275,000
Holt Avenue Line, Holt and Grand (intersection)	\$ 150,000
Miscellaneous CIP	\$ 50,000
Total	<u><u>\$ 665,000</u></u>

2026

Capital Debt Payment(s)	\$ 190,000
Reservoir No. 4A Inside Rehab	\$ 175,000
Additonal Earthquake Valves	\$ 80,000
Miscellaneous CIP	\$ 35,000
Total	<u><u>\$ 480,000</u></u>

Estimated Cost Over 5 Years **\$ 4,099,500**

Average Cost Per Year **\$ 819,900**

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

FINANCIAL STATEMENTS

YEARS ENDED OCTOBER 31, 2021 AND 2020



WEALTH ADVISORY | OUTSOURCING
AUDIT, TAX, AND CONSULTING

CLAconnect.com

VALENCIA HEIGHTS WATER COMPANY
(A California Mutual Water Company)

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October 31, 2021 and 2020

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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, 2021 and 2020, 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.

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, 2021 and 2020, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Glendora, California
January 6, 2022

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
STATEMENTS OF FINANCIAL POSITION
OCTOBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 519,256	\$ 553,747
Cash Held for Investment	493,498	297,098
Investments	3,332,913	2,962,550
Accounts Receivable	349,174	331,725
Interest Receivable	20,918	18,391
Inventory - Materials and Supplies	64,272	67,032
Prepaid Water, Current Portion	-	220,095
Total Current Assets	<u>4,780,031</u>	<u>4,450,638</u>
PROPERTY, PLANT AND EQUIPMENT, Net	<u>8,816,874</u>	<u>8,818,648</u>
OTHER ASSETS		
Deposit	6,250	6,250
Investment in Covina Irrigating Company	918,890	918,890
Deferred Compensation Plan Assets	199,086	162,694
Water Rights	720,000	720,000
Prepaid Water	329,243	494,897
Deferred Income Taxes	17,930	10,616
Total Other Assets	<u>2,191,399</u>	<u>2,313,347</u>
Total Assets	<u><u>\$ 15,788,304</u></u>	<u><u>\$ 15,582,633</u></u>

See accompanying Notes to Financial Statements.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
STATEMENTS OF FINANCIAL POSITION (CONTINUED)
OCTOBER 31, 2021 AND 2020**

LIABILITIES AND MEMBERS' EQUITY	<u>2021</u>	<u>2020</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 149,877	\$ 99,067
Notes Payable, Current Portion	86,353	84,903
Accrued Interest	9,558	10,039
Property Tax Payable	1,298	-
Reimbursable Expenses	<u>7,500</u>	<u>7,500</u>
Total Current Liabilities	<u>254,586</u>	<u>201,509</u>
NONCURRENT LIABILITIES		
Deferred Compensation Vested Liability	199,086	162,694
Compensated Absences	77,181	61,550
Notes Payable, Net of Current Portion	<u>1,600,314</u>	<u>1,686,666</u>
Total Noncurrent Liabilities	<u>1,876,581</u>	<u>1,910,910</u>
 Total Liabilities	 <u>2,131,167</u>	 <u>2,112,419</u>
MEMBERS' EQUITY		
Contributions in Aid of Construction, Net of Amortization	1,834,065	1,923,320
Common stock - 10,000 Shares Authorized; \$100 Par Value; 882 and 898 Shares Issued and Outstanding as of October 31, 2021 and 2020, Respectively	88,200	89,800
Class A Common Stock - 10,000 Shares Authorized; \$100 Par Value; 1,574 and 1,556 Shares Issued and Outstanding as of October 31, 2021 and 2020, Respectively	157,400	155,600
Additional Paid-In Capital	1,334,895	1,307,695
Retained Earnings	<u>10,242,577</u>	<u>9,993,799</u>
Total Members' Equity	<u>13,657,137</u>	<u>13,470,214</u>
 Total Liabilities and Members' Equity	 <u>\$ 15,788,304</u>	 <u>\$ 15,582,633</u>

See accompanying Notes to Financial Statements.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
STATEMENTS OF OPERATIONS
YEAR ENDED OCTOBER 31, 2021 AND 2020**

	2021	2020
OPERATING REVENUES		
Water Sales and Services	\$ 3,179,321	\$ 2,919,572
Connection Charges (Note 11)	<u>6,200</u>	<u>524,400</u>
	<u>3,185,521</u>	<u>3,443,972</u>
OPERATING EXPENSES		
Utility Plant Operation Expenses:		
Purchased Water	832,406	477,906
Purchased Power	286,546	210,621
Operations	118,167	104,213
Water Testing	7,020	7,415
Vehicles	37,806	30,609
Repairs and Maintenance	<u>58,762</u>	<u>75,123</u>
Total Utility Plant Operation Expenses	<u>1,340,707</u>	<u>905,887</u>
DEPRECIATION	<u>465,140</u>	<u>445,652</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and Benefits	803,334	760,159
Directors' Fees	32,460	33,960
Professional Services and Permitting	168,866	82,863
Office Expenses and Utilities	56,954	50,013
Insurance	59,367	74,167
Taxes and Licenses	61,528	56,059
Assessments	<u>292,904</u>	<u>175,188</u>
Total General and Administrative Expenses	<u>1,475,413</u>	<u>1,232,409</u>
Total Operating Expenses	<u>3,281,260</u>	<u>2,583,948</u>
Income (Loss) From Operations	<u>(95,739)</u>	<u>860,024</u>
OTHER REVENUES (EXPENSES)		
Investment Income:		
Interest and Dividend Income	101,643	106,971
Net Realized and Unrealized Gains	<u>255,006</u>	<u>56,766</u>
Total Investment Income	<u>356,649</u>	<u>163,737</u>
OTHER INCOME		
Other Revenues	29,404	27,406
Provision for State Income Taxes	(12,260)	(2,989)
Interest Expense	<u>(29,276)</u>	<u>(30,682)</u>
Total Other Revenues (Expenses)	<u>344,517</u>	<u>157,472</u>
NET INCOME	<u>\$ 248,778</u>	<u>\$ 1,017,496</u>

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEAR ENDED OCTOBER 31, 2021 AND 2020**

	Number of Shares *	Common Stock	Contributions in Aid of Construction	Additional Paid-In Capital	Retained Earnings	Total
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	2,454	245,400	1,923,320	1,307,695	9,993,799	13,470,214
Net Income	-	-	-	-	248,778	248,778
Contributions	-	-	1,268	-	-	1,268
Stock Issued	2	200	-	27,200	-	27,400
Amortization	-	-	(90,523)	-	-	(90,523)
BALANCE - OCTOBER 31, 2021	<u>2,456</u>	<u>\$ 245,600</u>	<u>\$ 1,834,065</u>	<u>\$ 1,334,895</u>	<u>\$ 10,242,577</u>	<u>\$ 13,657,137</u>

* During the years ended October 31, 2021 and 2020, respectively, 16 and 36 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, 2021 AND 2020**

	2021	2020
CASH FLOW FROM OPERATING ACTIVITIES		
Net Income	\$ 248,778	\$ 1,017,496
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Depreciation	465,140	445,652
Deferred Income taxes	(17,930)	(10,616)
Net Realized and Unrealized (Gain)/Loss on Investments	(255,006)	(56,766)
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(17,449)	(32,312)
Interest Receivable	(2,527)	598
Inventory	2,760	(1,043)
Prepaid Water	385,749	(503,061)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	50,810	(178,845)
Income Taxes Payable	-	(1,539)
Compensated Absences	15,631	(5,386)
Net Cash Provided by Operating Activities	<u>875,956</u>	<u>674,178</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(552,621)	(767,632)
Proceeds from Sale or Maturity of Investments	449,988	1,370,994
Purchase of Investments	(553,912)	(1,036,659)
Net Cash Used by Investing Activities	<u>(656,545)</u>	<u>(433,297)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principle Payments on Note Payable	(84,902)	(83,478)
Issuance of Stock	27,400	28,400
Net Cash Used by Financing Activities	<u>(57,502)</u>	<u>(55,078)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	161,909	185,803
Cash and Cash Equivalents - Beginning of Year	<u>850,845</u>	<u>665,042</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,012,754</u></u>	<u><u>\$ 850,845</u></u>
SUPPLEMENTAL DISCLOSURES:		
Contributions in Aid of Construction	\$ 1,268	\$ 196,057
Cash Paid for Interest	<u>\$ 29,757</u>	<u>\$ 32,183</u>
Cash Paid for Income Taxes	<u>\$ 24,163</u>	<u>\$ 7,528</u>

See accompanying Notes to Financial Statements.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2021 AND 2020**

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 \$519,256 and \$553,747 at October 31, 2021 and 2020, respectively.

The Organization maintains its cash deposit accounts at several financial institutions. At October 31, 2021 and 2020, accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At October 31, 2021 and 2020 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, 2021 AND 2020**

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 \$2,500 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 accruable are dependent on length of service and current pay rate. At October 31, 2021 and 2020, the Organization's accumulated compensated absence liability totaled \$77,181 and \$61,550, respectively.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

The Organization recognizes revenue at the point in time when water sales are delivered, or related services are performed. All of the Organization's operating revenue is from water sales and related services. Revenues are reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for delivering water and providing related services. The performance obligation consists of delivering water or the performance of related services.

The Organization invoices its customers in monthly billing cycles that occur after water has been delivered or related services have been performed, and performance obligations are satisfied.

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, 2021 the components of the \$12,260 provision for state income taxes consisted of current income tax expense of \$19,533 offset by a deferred income tax refund of \$7,273. The deferred income tax refund relates to overpayment of prior year state income taxes and partial recognition of a \$19,147 of capital loss carryover created in the fiscal year ended October 31, 2017, of which \$8,454 remains available. There was no valuation allowance during the current year.

For the year ended October 31, 2020 the components of the \$2,989 provision for state income taxes consisted of current income tax expense of \$7,258 offset by a deferred income tax refund of \$4,539. The deferred income tax refund relates to overpayment of prior year state income taxes and partial recognition of a \$19,147 of capital loss carryover created in the fiscal year ended October 31, 2017, of which \$11,454 remains available. There was no valuation allowance during the current year.

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, 2021 and 2020, the Organization had no uncertain tax positions requiring accrual.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2021 AND 2020**

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 not recognized subsequent events, which provide evidence about conditions that did not exist as of the statement of financial position date but arose after that date. Recognized subsequent events are required to be disclosed. Management has evaluated subsequent events through January 6, 2022, 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

In early 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. 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 2021-22 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.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2021 AND 2020**

NOTE 2 FAIR VALUE MEASUREMENTS AND DISCLOSURE

As of October 31, 2021, the Organization's investments are reported at fair value in the accompanying 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	\$ 1,856,896	\$ -	\$ 1,856,896	\$ -
Municipal Bonds	305,832	-	305,832	-
Mutual Funds	536,132	536,132	-	-
Equity Securities	634,053	634,053	-	-
Total Investments by Fair Value Level	<u>\$ 3,332,913</u>	<u>\$ 1,170,185</u>	<u>\$ 2,162,728</u>	<u>\$ -</u>

At October 31, 2020, the Organization's investments are reported at fair value in the accompanying 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	494,840	494,840	-	-
Equity Securities	463,872	958,712	-	-
Total Investments by Fair Value Level	<u>\$ 2,962,550</u>	<u>\$ 1,453,552</u>	<u>\$ 2,003,838</u>	<u>\$ -</u>

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.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2021 AND 2020**

NOTE 2 FAIR VALUE MEASUREMENTS AND DISCLOSURE (CONTINUED)

The three levels are defined as follows:

- Level 1* – Quoted market prices in active markets for identical assets or liabilities.
- Level 2* – Valuations based on quoted prices in market that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3* – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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

NOTE 3 RETIREMENT PLANS

The Organization sponsors a defined contributions 401(k) pension plan for the benefit of its employees. Pretax employees and employer contributions are held in trust and invested by a third-party trustee, and therefore, are not reported in the accompanying financial statements. Organization contributions to the plan for the years ended October 31, 2021 and 2020 were \$50,188 and \$41,084, 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, 2021 and 2020, the vested deferred compensation plan assets totaled \$199,086 and \$162,694, respectively. These amounts were reported both as an asset and liability in the accompanying financial statements, as the Organization administers the 457 Plan.

**VALENCIA HEIGHTS WATER COMPANY
(A CALIFORNIA MUTUAL WATER COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2021 AND 2020**

NOTE 4 PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment for the year ended October 31, 2021 were as follows:

	Balances at November 1, 2020	Additions	Transfers/Deletions	Balances at October 31, 2021
Property, Plant and Equipment not Being Depreciated/Amortized:				
Land and Land Rights	\$ 171,150	\$ -	\$ -	\$ 171,150
Construction in Progress	58,979	638,945	(594,014)	103,910
Total Capital Assets:				
Not Being Depreciated/Amortized	230,129	638,945	(594,014)	275,060
Property, Plant and Equipment, Being Depreciated/Amortized				
Office Equipment and Maps	159,392	17,052	-	176,444
Machinery, Treatment and Pumping Equipment	2,667,281	24,285	-	2,691,566
Building and Structures	381,300	77,099	-	458,399
Vehicles, Tools, and Equipment	416,613	192,580	-	609,193
Storage Tanks and Reservoirs	1,335,594	46,420	-	1,382,014
Transmissions and Distributions	9,125,799	151,522	-	9,277,321
Wells	1,128,947	-	-	1,128,947
SCADA Computer Equipment	412,564	-	-	412,564
Total Property, Plant and Equipment Being Depreciated /Amortized	15,627,490	508,958	-	16,136,448
Less: Accumulated Depreciation/Amortization	(7,038,971)	(555,663)	-	(7,594,634)
Total Property, Plant and Equipment Being Depreciated/Amortized, Net	8,588,519	(46,705)	-	8,541,814
Property, Plant and Equipment, Net	<u>\$ 8,818,648</u>	<u>\$ 592,240</u>	<u>\$ (594,014)</u>	<u>\$ 8,816,874</u>

Depreciation and amortization expense for the year ended October 31, 2021 was \$555,663. Depreciation expense of \$465,140 was recorded as an operating expense and amortization expense of \$90,523 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, 2021 AND 2020**

NOTE 4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	Balances at November 1, 2019	Additions	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.

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, 2021 and 2020. At both October 31, 2021 and 2020, 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 value of its investment in CIC.

**VALENCIA HEIGHTS WATER COMPANY
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NOTE 5 INVESTMENT IN COVINA IRRIGATION COMPANY (CONTINUED)

In connection with the adoption of the standard, beginning in 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, 2021, no impairment was identified, and no observable inputs were measurable. Therefore, the value of the Organization's investment in CIC remained unchanged from fiscal year end October 31, 2020 and is reported at cost of \$918,890.

NOTE 6 WATER RIGHTS

The Organization owns 1,061 adjudicated water rights as of October 31, 2021 and 2020. 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 \$858 per acre-foot. As of October 31, 2021, 778 acre-feet of this water is reflected as prepaid water of \$329,243 in long term assets for future years, and \$0 in current assets to reflect the projected usage in 2022. As of October 31, 2020, 971 acre-feet of water is reflected as prepaid water of \$494,897 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 principal and interest payments of \$57,330 beginning January 2019, and matures in July 2038. The outstanding balance totaled \$1,686,667 as of October 31, 2021 .

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NOTE 8 NOTES PAYABLE (CONTINUED)

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

<u>Year Ending October, 31,</u>	<u>Principal</u>
2022	\$ 86,353
2023	87,826
2024	89,326
2025	90,851
2026	92,402
2027-2030	385,654
2031-2035	520,281
2036-2038	333,974
Total	<u>\$ 1,686,667</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, 2021, 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, 2021.

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 2020-2021 the Company collected \$6,200 in connection charges from a private property owner.

