



ANNUAL STOCKHOLDERS' REPORT  
FISCAL YEAR 2017-2018  
&  
NOTICE OF  
ANNUAL STOCKHOLDERS' MEETING  
FEBRUARY 21, 2019



## **\*\* 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](http://vhwc.org)

**Email:** [info@vhwc.org](mailto: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](mailto:info@vhwc.org) to make the change

### **AUTOMATIC/RECURRING PAYMENTS**

The Automatic/Recurring Payment Application can be accessed through the [vhwc.org](http://vhwc.org) website, and also at 3009 E. Virginia Avenue, West Covina. 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. 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.

### **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 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](http://vhwc.org) and in the office); **Credit Card Payments are available only through our website: [vhwc.org](http://vhwc.org)**
- **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.**

## CUSTOMER SHUT-OFF VALVE NOTICE

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

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

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

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

### California Penal Code Section 498

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

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

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

# ANNUAL STOCKHOLDERS' MEETING

**DAY:** Thursday

**DATE:** February 21, 2019

**TIME:** 7:00 p.m.

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

***Your vote is important!***

*Please remember to mail the proxy card before  
February 14, 2019.*

*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**

<b><u>MEMBER</u></b>	<b><u>OFFICE</u></b>	<b><u>TERM EXPIRES</u></b>	<b><u>YEARS OF SERVICE</u></b>
Ronald Wheeler	Chairman	February 21, 2019	10
Sylvia Beltran	Vice-Chairman	February 21, 2019	3
Curtis Feese	Treasurer	February 21, 2019	19
Wayne Partee	Secretary	February 21, 2019	22
Eugene Jacobs	Director	February 21, 2019	22
Robert Ghirelli	Director	February 21, 2019	6
Daniel Liese	Director	February 21, 2019	14

## **ADMINISTRATION**

David Michalko	General Manager	32
Gloria Galindo	Office Manager	16

## **OFFICE**

Elizabeth Lopez	Billing Clerk/Customer Service	3
Tiffany Dickinson	Customer Service Assistant	2

## **FIELD**

Tim Pacheco	Water System Supervisor	16
Ernest Romero	Water Tech II	9
Chad Latourelle	Water Tech I	7

# **VALENCIA HEIGHTS WATER COMPANY**

## **Annual Stockholders' Meeting**

Thursday, February 21, 2019

7:00 - 8:00 p.m.

**Mesa Elementary School**

**409 S. Barranca Street - West Covina, CA 91791**

## **A G E N D A**

1. Open Meeting
2. General Manager's Report
  - a. Projects
  - b. Water Supply
3. Report for a Quorum
4. Call to Order
5. Approval of Minutes of February 21, 2018
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, 2018
8. Election of the Board
  - a. Nomination of Directors
  - b. Motion to Close Nominations
  - c. Election of Directors
9. Discussions, Questions and Answers
10. Other Business
11. Motion to Adjourn

**VALENCIA HEIGHTS WATER COMPANY**  
**ANNUAL STOCKHOLDERS' MEETING MINUTES**  
**Mesa Elementary School - 409 South Barranca Avenue,**  
**West Covina, CA 91791**  
**Wednesday, February 21, 2018, 7:00 p.m.**

- Present:** R. Wheeler, Chairman; S. Beltran, Vice-Chairman;  
C. Feese, Treasurer; Wayne Partee, Secretary;  
E. Jacobs, Director; R. Ghirelli, Director; D. Liese, Director
- Staff:** D. Michalko, General Manager; G. Galindo, Office Manager;  
E. Lopez, Billing Clerk; T. Dickinson, Customer Support
- Stockholders:** Marianne Baldwin, Michael Lin, Ann Lee, Diana Ghirelli
- Others:** Aida Babayan, UBS; Andrew McIntyre

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

1. Open Meeting  
The Chairman opened the meeting at 7:05 p.m., welcomed and thanked everyone for attending.
2. General Manager's Report
  - a. Water Supply  
The General Manager reported on the drought, and how it is affecting the local water supply, and discussed the Stormwater Augmentation surcharge that will be assessed in the coming months.
  - b. Projects  
The General Manager provided a presentation on the Reservoir No. 2 project.
3. Report for a Quorum  
The Chairman asked if there was a quorum present. E. Lopez reported that a quorum was present as follows:

2451 Shares Outstanding  
1226 Shares Required for a Quorum  
1954 Shares Present and/or Voting
4. Call to Order  
After hearing that a quorum was present, the Chairman called the meeting to order.  
The Annual Shareholders' Meeting was called to order at 7:35 p.m.

**Annual Stockholders’ Meeting Minutes**

February 21, 2018

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5. Approval of Minutes of February 23, 2017  
The Chairman asked if there were any comments on the 2017 Annual Meeting Minutes. Since there were no comments, the Chairman asked for the approval of the minutes.

- Motion by S. Beltran and seconded by E. Jacobs to approve the minutes of February 23, 2017.

Motion passed.

For	975
Against	55
Abstain	924

6. Approval of the Financial Statements  
a. Report from the Investment Committee (Guest Aida Babayan,UBS)

The Chairman asked for a motion to approve of the Financial Statements for 2016-2017.

- Motion by W. Partee and seconded by R. Wheeler to approve the Financial Statements as presented.

Motion passed.

For	975
Against	55
Abstain	924

7. Ratification of Actions Taken by the Board for the Year-Ending October 31, 2017  
The Chairman asked for a motion to ratify the actions taken by the Board for year-ending October 31, 2017.

- Motion by W. Partee and seconded by S. Beltran to ratify the Board’s actions for year-ending October 31, 2017.

Motion passed.

For	975
Against	55
Abstain	924

8. Election of Directors  
The Chairman opened nominations for the current Board.
- Motion by W. Partee and seconded by R. Wheeler to nominate the current slate of Directors

Motion passed.

For	975
Against	55
Abstain	924



**Annual Stockholders’ Meeting Minutes**

February 21, 2018

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- Motion by S. Beltran and seconded by W. Partee to close nominations.  
Motion passed

For	975
Against	55
Abstain	924

- Motion by W. Partee and seconded by R. Wheeler to close nominations and elect the slate as nominated.

Motion passed

For	975
Against	55
Abstain	924

9. Discussions, Questions and Answers

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

10. Other Business

There was no other business to come before the Board.

11. Motion to Adjourn

The Chairman asked for a motion to adjourn the Annual Shareholders’ Meeting at 7:5 p.m.

- Motion by W. Partee and seconded by R. Wheeler to adjourn the Annual Shareholders’ Meeting.

Motion passed.

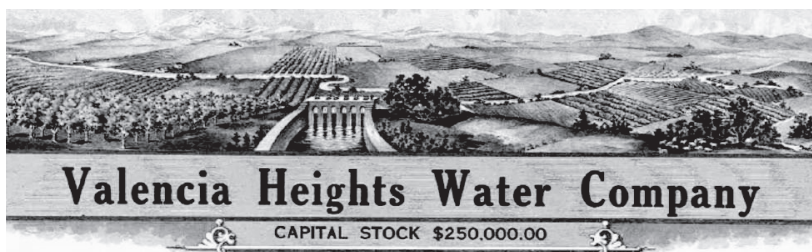
For	975
Against	55
Abstain	924

Respectfully Submitted,

\_\_\_\_\_  
Wayne Partee - Secretary

\_\_\_\_\_  
Date

# MANAGER'S REPORT

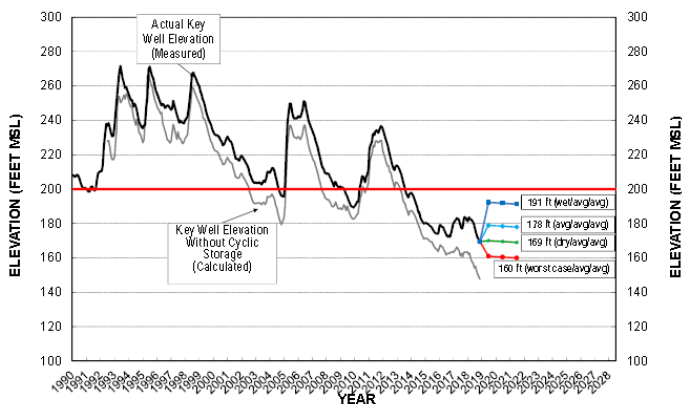


*INCORPORATED NOVEMBER 1912 UNDER THE LAWS OF THE STATE OF CALIFORNIA*

## Supply Projections

Long-term forecasts are projecting a winter somewhere between just under “normal” to just over “normal” rainfall. Currently, rainfall is slightly above normal here in the valley. The Main San Gabriel Basin (Basin), the Basin which provides Valencia Heights Water Company (Company) with local groundwater, remains down nearly 500,000 acre-feet (ac-ft). Locally, this past winter did very little to recharge the groundwater Basin. If the Basin were a surface water lake, and you could see the water level, it would spread from San Dimas to Pasadena, and would be down more than 60 feet. The reservoirs in the San Gabriel Canyon, which hold about 85,000 ac-ft of water, remain low, and have not been filled from either rainfall or snow melt since early on in the drought. The chart below shows the continued drop of the groundwater level in the basin during the last 20 years. The years with significant rainfall are reflected in the dramatic, but temporary, increase in Basin groundwater level. The chart also shows small increases in the Basin groundwater level during the last two (2) years which is the result of purchasing import water to supplement stormwater run-off.

**FORECASTED BALDWIN PARK KEY WELL ELEVATION  
(THROUGH JUNE 30, 2021)**



So how did we get to this point? During the past 20 years, 15 years have had below normal rainfall. Of those 15 years, 3 of the years were the driest years on record. Three years were just above normal, with one of those years being well above normal, actually the wettest on record. The problem with the really wet years is that the rain comes too fast to capture and store, and a large portion of the water ends up in the ocean. This lack of rainfall has reduced run-off and created a 500,000 ac-ft deficit in the groundwater Basin.

Last year, I reported that the Basin was at a record low and had reached a critical level for the Basin to meet the needs of the residents of the San Gabriel Valley. As a result, the Main San Gabriel Basin Watermaster (Watermaster), the court appointed entity created to manage the Basin, had developed a plan to purchase import water to help augment the lack of rainfall. This program has taken a few years to build enough revenues to begin purchasing large enough volumes of water to make an impact. The chart above shows the difference in the Basin water level as a result of the purchased import water. This is reflected in the difference between the two lines, an increase in the Basin water level of about 25 feet. Without the purchased water, the Basin would be in severely worse shape. Over time, this program will allow all producers greater groundwater availability, even during a drought. The assessment, when fully implemented, will help offset the lack of local stormwater. However, this reliability will cost water producers more than \$35,000,000 annually.

In July 2017, the Company began collecting the assessment on your water bill at a rate of \$0.08 per each unit of water used. However, most of the funds for the first year of the assessment came out of the Company's Purchased Water budget. As previously reported, this assessment will ramp-up or increase annually over 5 years to about \$0.36 per each unit of water used. In November of 2017, this assessment was set at \$0.15 per unit of water used. It is expected that this assessment will increase to approximately \$0.36 per unit of water used, during the next several years. For the average customer, that uses an average of 40 units of water a month, this cost will range from \$4 a month in 2017 to \$14.40 a month by 2022. The goal/benefit of the assessment is to manage the Basin in a way to ensure a reliable water supply in the future, without the need for mandatory conservation, as we have seen the last several years.

## **Water Rates**

In September 2018, as part of the budget process, the Board reviewed the current revenue projections and voted to leave water rates at the current level. Therefore, the Company water rates will remain unchanged for the next fiscal year, November 1, 2018 to October 31, 2019.

However, as discussed earlier we must continue collecting the Watermaster assessment. Beginning, November 2018, the Company will be required to increase this assessment from the current amount of \$0.15 per unit to \$0.22 per unit in order to collect the \$160,000 that we will be billed by Watermaster in 2019. In November 2019, the assessment will increase to approximately \$0.30 per unit.

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

## **Capital Improvement Plans**

Enclosed in the Annual Report is the 5-year Capital Improvement Plan. For more than two (2) years, the Company had been working on obtaining a low interest loan to rebuild the Reservoir No. 2 Pump Station, and replace the leaking waterline that feeds the facility. I am proud to report that construction is now complete and the pump station has been fully operational since June 2018. I would like to take this opportunity to thank the surrounding neighbors for their patience and understanding during construction. The funding for this project has been provided in full or in part through an agreement with the State Water Resources Control Board and California's Drinking Water State Revolving Fund (SRF) program and is capitalized through a variety of funding sources, including grants from the United States Environmental Protection Agency and State bond proceeds. The SRF loan, has allowed the Company to borrow approximately \$1.94 million at an interest rate of just 1.7% for 20 years. The annual payment on the loan is approximately \$115,000. The SRF loan allows the Company to maintain its' reserves for other projects or unforeseen emergencies, and spread the cost of the project over many years. Below are just a few pictures of the project, there will be many more at the Annual Meeting.

This is the original Reservoir No. 2 Pump House built in 1912



Replacement of the Pump House was completed in 2018



The old pump station had two horizontal pumps capable of about 1900 gallons per minute



The new pump station has 3 vertical turbine pumps with a total capacity of about 2200 gpm



The old electrical hardware was completely replaced to meet current electrical standards. As part of the electrical upgrade, a transfer switch was installed to allow the facility to be powered by a generator.



Additional projects currently in progress or have been completed this year are;

- The reinstallation of a waterline from Buenos Aires Drive through the 11 vacant acres, to Lorencita Avenue with a temporary connection. This line was eliminated many years ago due to numerous damaging failures. Replacement of this line was scheduled to take place along with the development of the vacant land, but to-date, there are no plans to develop this parcel and the water Company could no longer operate efficiently without this line in place. This will improve fire flow in the area and improve system operations.



- Completion of the new SCADA system. This new system, being supplied by a leader in water system integration, will allow for continued upgrades and replacement as necessary, unlike the previous technology that was in place. The SCADA system is the heart of the water system which controls all the pumps and reservoirs within the water system and notifies the operators when there is any type of problem. The SCADA system also provides site security, a critical component in this day and age. A portion of this project was funded by the SRF loan discussed above.
- The replacement of about 1000 feet of old 6-inch water line with new 8 inch and 10 inch waterline from Reservoir No. 5 (the Highlands Reservoir) down to Santiago Drive. This will increase reliability and fire flow in the Highlands area.

The Projects planned for this year are;

- Completion of the Reservoir No. 5 waterline.
- The replacement of 2500 feet of old 6 inch line with 8 inch waterline in North Cameron Avenue from Limecrest Drive north to Grand Avenue.
- Completion of the generator connections at the remaining sites. This will allow for the connection of the portable generator that the Company recently purchased. The generator is capable of powering any of our facilities.

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

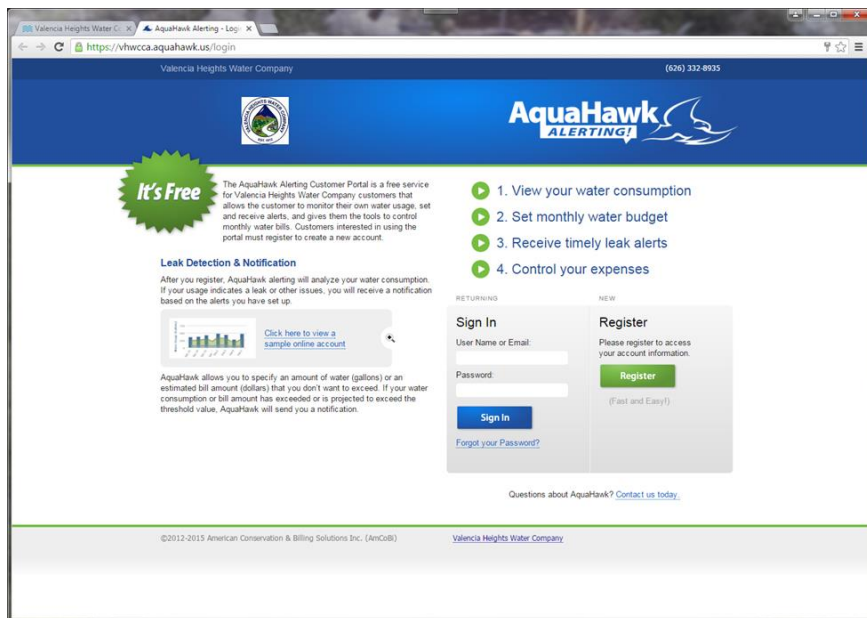
## **Emergency Preparedness**

During this past year, the Company has taken several actions to improve our ability to respond to an emergency and to communicate with the customer when an emergency occurs. For several months, included in your water bill, was a "yellow" information card. By returning the card with the requested information, the Company is able to contact you in a number of ways when there is a water system emergency, or something urgent at your property. More than 75% of our customers have returned the cards and we thank you for that great response. However, the other 25% still need to provide us with current cell phone numbers and email addresses. This will ensure, that when an emergency occurs, whether widespread or local, we will be able to contact you and keep you informed. **Having emergency contact information was very critical for the Company during the Woolsey Fire in Malibu. We were able to connect with our customers in Malibu in a timely manner, and provide them with critical information regarding the water supply and water quality in their area.**

In addition to emergency communication, the company will use this information to contact you for water outages, either planned or unplanned and general important information. **Please help us keep you informed!**

Lastly, the Company has joined forces with 17 other local water Companies to form an Emergency Preparedness Group. This group has hired a coordinator to conduct training, planning and preparedness. In just the last 8 months, great progress has been made to improve the Company’s overall preparedness.

## Website and Links



Below is a brief explanation of the AquaHawk System and the benefits it provides. You will find the link under **“View Water Usage”** or **“Take Control of Your Water Bill”**.

Each year, we would like to continue directing your attention to the Company’s website **vhwc.org**. We hope that the website will be a useful tool to communicate with our customers. One such tool is for water outages. If water service appears to be out at your property, please check the website to see if there is an outage affecting your area. Staff will make every attempt to post the most updated information regarding the location and duration of an outage on the website. This information is posted on the upper right-hand corner of the homepage of the website. It is our goal to have the information posted within 30 minutes of an outage, and we will update the website when new information is available. Once the outage is posted, this is a helpful tool to check on the repair progress and/or estimated completion time.



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

You are now able to view and pay your water bill online. Credit card payments can be made online through a link on the website ([vhwc.org](http://vhwc.org)). Credit cards **will not** be accepted at the office. Also, customers can now monitor their water usage online with the goal of reducing unexplained water loss, by using the **AQUAHAWK System**.

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

## **Water Pressure and Regulators**

A common call received at the office is about water pressure and pressure regulators. The area that the Company provides water service to varies greatly in elevation. Since the water lines must traverse up and down the hills, pressure can vary greatly from one block to the next. Water pressure within your home should be sufficient at about 50 pounds per square inch (psi), and pressure greater than **60 psi** can cause damage to appliances within the home. The pressure at your water meter can range from **40 psi to 160 psi**, but will not vary more than 5psi. For this reason, it is critical that you monitor and maintain the pressure regulator at your property.

Pressure regulators should last three (3) to five (5) years; however, there is no guarantee how long it will last. The pressure within the water system seldom varies and **cannot** be adjusted by the Water Company. The pressure at your property is determined by the location (elevation) of the reservoir from which you are served. If you notice any change in the pressure within your home, you should consider contacting a plumber to have your pressure regulator serviced. Building codes require that all homes have a pressure regulator, and it is the **homeowner's responsibility** to service, maintain or replace the pressure regulator as needed.

### **Mutual Water Company Association, CalMutuals**

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

Finally, as in the past, the following pages contain two years of audited financial statements. Please take a few moments to review them and bring your questions to the Annual Meeting. This years' Annual Stockholders' Meeting will be held in the Mesa Elementary School cafeteria, at 409 S. Barranca Street, on Thursday, February 21, 2019, at 7:00 p.m. We look forward to your attendance to discuss the business and success of the Company. There will also be a presentation of the completion of the Reservoir No. 2 project.

*Sincerely,  
Dave Michalko  
General Manager*

# VALENCIA HEIGHTS WATER COMPANY

## Capital Improvement Projects 2019-2023

### 2019

Capital Debt Payment(s)	\$ 175,000
Reservoir No.5 Transmission Line	\$ 225,000
N. Cameron Avenue Waterline	\$ 300,000
Emergency Preparedness Equipment/Electrical	\$ 50,000
Generator Purchase	\$ 120,000
Water Line Replacement - TBD	\$ 150,000
Mapping	\$ 25,000
Miscellaneous Site/Office Work	\$ 75,000
<b>Total</b>	<b><u>\$ 945,000</u></b>

### 2020

Capital Debt Payment(s)	\$ 115,000
Water Line - Virginia to Great Mountain	\$ 150,000
Reservoir No. 4B Inside Rehab	\$ 75,000
Limecrest to Dameral Water line	\$ 150,000
<b>Total</b>	<b><u>\$ 490,000</u></b>

### 2021

Capital Debt Payment(s)	\$ 115,000
Limecrest to Dameral Water line	\$ 150,000
Well No. 7 Rehab	\$ 100,000
Replace Pick-up Truck	\$ 42,000
Grand Ave. Crossing	\$ 200,000
<b>Total</b>	<b><u>\$ 607,000</u></b>

### 2022

Capital Debt Payment(s)	\$ 115,000
Reservoir No. 6B Inside Rehab	\$ 125,000
Golden Bough Line	\$ 250,000
<b>Total</b>	<b><u>\$ 490,000</u></b>

### 2023

Capital Debt Payment(s)	\$ 115,000
Reservoir No. 2 Transmission line Work	\$ 175,000
Holt Avenue Line Phase 1, east	\$ 150,000
Reservoir No. 6A	\$ 125,000
Miscellaneous System Work	\$ 10,000
<b>Total</b>	<b><u>\$ 460,000</u></b>

**Estimated Cost Over 5 Years \$ 2,992,000**

**Average Cost Per Year \$ 598,400**

### Additional/Future Projects

Lorencita Water Line	Additional Waterline Replacements
Work\upgrades at shop	Service Line Replacements (System-Wide)
Additional Reservoir Resurfacing	Virginia Avenue Mainline
Potential Treatment Facility/Softening/Perchlorate	Reservoir No. 1 & 2 Roofs
6" Line at the End of Buenos Aires	Santiago waterline
Final Section of Res. No. 5 Waterline	

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

**FINANCIAL STATEMENTS**

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

**OCTOBER 31, 2018 AND 2017**

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

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## **INDEPENDENT AUDITORS' REPORT**

To the 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, 2018 and 2017, 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. In addition, we conducted our audit as of and for the year ended October 31, 2018, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 auditors consider internal control relevant to the Organization'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 Organization's internal control. Accordingly, we express no such 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 Organization as of October 31, 2018 and 2017, 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.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2019, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

*White Nelson Skidell Evans LLP*

Irvine, California  
January 7, 2019

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Valencia Heights Water Company (a California mutual water company) (the Organization), which comprise the statement of financial position as of October 31, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 7, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



## **Internal Control over Financial Reporting (Continued)**

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described below, that we consider to be a significant deficiency.

### **Significant Deficiency**

During our audit of notes payable and other processes to journal entries, we noted that the Organization's current procedures surrounding the recording of journal entries, which are created by a third-party consultant, does not call for Company management to perform a thorough review and approval of the consultant's journal entries, prior to her posting to the general ledger. As a result, two audit adjustments were recorded: one to properly state certain note payable classifications, and a second audit adjustment to dispose of fully depreciated capital assets. Although the audit adjustments were not material to the overall financial position of the Organization, we recommend that the Organization implement controls whereby someone in management reviews all journal entries presented prior to them being recorded in the general ledger for accuracy. We further recommend that this review process be documented and that any documentation needed to properly review such adjustments be obtained and retained as evidence for audit purposes.

### **Management's Response**

The Company has two basic types of journal entries; routine, which generally occur monthly, and year-end adjustments. Year-end adjustments are generally made at the direction of the General Manager in preparation for our audit. During the audit process and review, management and the Treasurer discussed the need for a more complete adjustment and closing procedure. Staff will take the recommendation to develop a policy to present to the Board prior to the end of our current fiscal year.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards*.

## **The Organization's Response to Finding**

The Organization's response to the finding identified in our audit is described above. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*White Nelson Hill Evans LLP*

Irvine, California

January 7, 2019

(A California Mutual Water Company)

STATEMENTS OF FINANCIAL POSITION

October 31, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 853,440	\$ 1,010,572
Investments	2,461,571	2,346,121
Accounts receivable	275,647	301,399
Accounts receivable - other	566,788	-
Interest receivable	17,919	16,078
Inventory	65,430	66,464
Prepaid income taxes	-	1,942
Prepaid water, current portion	150,000	71,738
TOTAL CURRENT ASSETS	4,390,795	3,814,314
PROPERTY, PLANT AND EQUIPMENT, NET	7,926,700	6,291,849
OTHER ASSETS:		
Deposit	6,250	6,250
Investment in Covina Irrigating Company	918,890	918,890
Deferred compensation plan assets	139,341	127,661
Water rights	720,000	720,000
Prepaid water	153,355	296,612
Deferred income taxes receivable	1,693	-
TOTAL OTHER ASSETS	1,939,529	2,069,413
TOTAL ASSETS	\$ 14,257,024	\$ 12,175,576

(Continued)

(A California Mutual Water Company)

STATEMENTS OF FINANCIAL POSITION  
(CONTINUED)

October 31, 2018 and 2017

	2018	2017
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 122,925	\$ 229,809
Income taxes payable	1,539	-
Notes payable, current portion	120,594	40,673
TOTAL CURRENT LIABILITIES	245,058	270,482
LONG-TERM LIABILITIES:		
Deferred compensation vested liability	139,341	127,661
Compensated absences	60,762	50,259
Notes payable, net of current portion	1,858,965	39,692
TOTAL LONG-TERM LIABILITIES	2,059,068	217,612
TOTAL LIABILITIES	2,304,126	488,094
MEMBERS' EQUITY:		
Contributions in aid of construction, net of amortization	1,903,224	1,986,554
Common stock - 10,000 shares authorized; \$100 par value; 952 and 970 shares issued and outstanding as of October 31, 2018 and 2017, respectively	95,200	97,000
Class A common stock - 10,000 shares authorized; \$100 par value; 1,500 and 1,481 shares issued and outstanding as of October 31, 2018 and 2017, respectively	150,000	148,100
Additional paid-in capital	1,279,495	1,265,895
Retained earnings	8,524,979	8,189,933
TOTAL MEMBERS' EQUITY	11,952,898	11,687,482
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 14,257,024	\$ 12,175,576

(A California Mutual Water Company)

STATEMENTS OF OPERATIONS

For the years ended October 31, 2018 and 2017

	2018	2017
OPERATING REVENUES:		
Water sales and services	\$ 2,985,447	\$ 2,852,454
OPERATING EXPENSES:		
Utility plant operation expenses:		
Purchased water	818,716	837,228
Purchased power	208,836	192,719
Operations	82,824	72,632
Water testing	6,462	8,853
Vehicles	31,967	33,717
Repairs and maintenance	54,854	121,473
Total utility plant operation expenses	1,203,659	1,266,622
Depreciation	318,154	278,042
General and administrative expenses:		
Salaries and benefits	692,651	641,139
Directors' fees	28,480	26,250
Professional services and permitting	71,539	78,906
Office expenses and utilities	60,270	62,709
Insurance	41,291	56,162
Taxes and licenses	53,534	48,821
Assessments	141,682	88,485
Total general and administrative expenses	1,089,447	1,002,472
TOTAL OPERATING EXPENSES	2,611,260	2,547,136
INCOME FROM OPERATIONS	374,187	305,318
OTHER REVENUES (EXPENSES):		
Investment income:		
Interest and dividend income	98,701	67,409
Net realized and unrealized gains (losses)	(157,093)	76,301
Total investment income (loss)	(58,392)	143,710
Other income	26,237	23,481
Provision for state income taxes	(5,146)	(4,358)
Interest expense	(1,840)	(4,634)
TOTAL OTHER REVENUES (EXPENSES)	(39,141)	158,199
NET INCOME	\$ 335,046	\$ 463,517

VALENCIA HEIGHTS WATER COMPANY  
(A California Mutual Water Company)

STATEMENTS OF CHANGES IN MEMBERS' EQUITY

For the years ended October 31, 2018 and 2017

	Number of Shares *	Common Stock	Contributions in Aid of Construction	Additional Paid-In Capital	Retained Earnings	Total
Balance -						
October 31, 2016,	2,447	\$ 244,700	\$ 1,545,578	\$ 1,217,095	\$ 7,726,416	\$ 10,733,789
Net income	-	-	-	-	463,517	463,517
Contributions	-	-	527,438	-	-	527,438
Stock issued	4	400	-	48,800	-	49,200
Amortization	-	-	(86,462)	-	-	(86,462)
Balance -						
October 31, 2017,	2,451	245,100	1,986,554	1,265,895	8,189,933	11,687,482
Net income	-	-	-	-	335,046	335,046
Contributions	-	-	8,300	-	-	8,300
Stock issued	1	100	-	13,600	-	13,700
Amortization	-	-	(91,630)	-	-	(91,630)
Balance -						
October 31, 2018,	<u>2,452</u>	<u>\$ 245,200</u>	<u>\$ 1,903,224</u>	<u>\$ 1,279,495</u>	<u>\$ 8,524,979</u>	<u>\$ 11,952,898</u>

\* During the years ended October 31, 2018 and 2017, respectively, 18 and 34 shares of Common Stock were retired and re-issued as Class A Common Stock.

See accompanying notes to financial statements.

## STATEMENTS OF CASH FLOWS

For the years ended October 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 335,046	\$ 463,517
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	318,154	278,042
Deferred income taxes	(1,693)	-
Amortization of premiums/(discounts) on investments	20,765	16,087
Net realized and unrealized (gain)/loss on investments	157,093	(76,301)
(Increase) decrease in operating assets:		
Accounts receivable	25,752	(51,663)
Other receivable	(566,788)	-
Interest receivable	(1,841)	(194)
Inventory	1,034	1,561
Prepaid income taxes	1,942	(1,942)
Prepaid water	64,995	55,443
Increase (decrease) in operating liabilities:		
Accounts payable	(106,884)	103,879
Income taxes payable	1,539	(40,153)
Compensated absences	10,503	5,021
NET CASH PROVIDED BY OPERATING ACTIVITIES	259,617	753,297
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,036,337)	(841,424)
Proceeds from sale or maturity of investments	366,023	247,432
Purchases of investments	(659,331)	(314,457)
NET CASH USED BY INVESTING ACTIVITIES	(2,329,645)	(908,449)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on note payable	(40,672)	(37,881)
Proceeds from note payable	1,939,868	-
Issuance of stock	13,700	49,200
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,912,896	11,319
NET CHANGE IN CASH AND CASH EQUIVALENTS	(157,132)	(143,833)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,010,572	1,154,405
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 853,440</u>	<u>\$ 1,010,572</u>
SUPPLEMENTAL DISCLOSURES:		
Noncash investing and financing activities:		
Contributions in aid of construction	<u>\$ 8,300</u>	<u>\$ 527,438</u>
Cash paid for interest	<u>\$ 1,842</u>	<u>\$ 3,026</u>
Cash paid for income taxes	<u>\$ 4,011</u>	<u>\$ 46,212</u>

See accompanying notes to financial statements.

***I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

**A. Method of Accounting**

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.

**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 consist of demand deposits and outstanding checks in the amount of \$853,440 and \$1,010,572 at October 31, 2018 and 2017, respectively.

**C. Investments**

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

The Organization's investment in the common stock of the Covina Irrigating Company, in which the Organization 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 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 11).

**E. Accounts Receivable**

The Organization assesses the need for an allowance for doubtful accounts based upon historical losses and a review of past due accounts at year-end. The Organization 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.



**VALENCIA HEIGHTS WATER COMPANY**  
**(A California Mutual Water Company)**  
**Notes to Basic Financial Statements**  
**October 31, 2018 and 2017**

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***1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***

**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 60 years using the straight-line method.

Contributed property, plant and equipment are recorded at the cost of 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.

**H. Contributions in Aid of Construction**

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

**I. Income Tax Status**

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 nonbusiness related income. For the year ended October 31, 2018, the components of the provision for state income taxes were a current income tax expense amount of \$(6,839) and a deferred income tax refund amount of \$1,693. The deferred income tax refund amount related to a \$19,147 capital loss carryover created in the current year. There was no valuation allowance during the current year. For the year ended October 31, 2017, the provision for state income taxes was solely the current income tax expense amount of \$(4,358) for the year ended October 31, 2017.

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, 2018 and 2017, the Organization had no uncertain tax positions requiring accrual.

**J. Concentrations of Credit Risk**

The Organization maintains its cash deposit accounts at several financial institutions. At October 31, 2018 and 2017, accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At October 31, 2018 and 2017, the Organization's cash deposits exceeded the limits covered by the FDIC by \$19,169 and \$313,063, respectively.

**K. Estimates**

The preparation of financial statements in accordance 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.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L. Recent Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU establishes a comprehensive revenue recognition standard for virtually all industries in GAAP, including those that previously followed industry-specific guidance, such as the real estate, construction, and software industries. The ASU core principal is to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. During 2014-2016, the FASB issued various amendments to this topic and the amendments clarified certain positions and extended the implementation date until annual periods beginning after December 15, 2018. Early adoption is permitted, but no earlier than periods beginning after December 15, 2016. The adoption is effective for the Organization beginning November 1, 2019. The Organization is currently evaluating the impact of the provisions of ASU 2014-09 on the presentation of its financial statements.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities, Financial Instruments - Overall (Subtopic 825-10)*, which enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The update addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, including not-for-profit entities and employee benefit plans, the amendment is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in this update earlier as of fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption is effective for the Organization beginning November 1, 2019. The adoption is not expected to have a material impact on the presentation of its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous standards. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of asset not to recognize lease assets and lease liabilities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, and early application is permitted. The adoption is effective for the Organization beginning November 1, 2020. The Organization is currently evaluating the impact of the provisions of ASU 2016-02 on the presentation of its consolidated financial statements.

**VALENCIA HEIGHTS WATER COMPANY**  
**(A California Mutual Water Company)**  
**Notes to Basic Financial Statements**  
**October 31, 2018 and 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L. Recent Accounting Pronouncements (Continued)**

In August 2016, the FASB issued ASU 2016-04, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which improves the current net asset classification requirements and the information presented in financial statements and notes about an entity's liquidity, financial performance, and cash flows. The update removes the requirement to present three classes of net assets with two classes, net assets with donor restrictions and net assets without donor restrictions. The update also removes the requirement to present or disclose the indirect method (reconciliation) if using the direct method for the statement of cash flows, as well as added several additional enhanced disclosures to the notes. The amendments in this update are effective for fiscal years beginning after December 15, 2017, and interim periods beginning after December 15, 2018, with application to interim financial statements permitted but not required in the initial year of application. The adoption is effective for the Organization beginning November 1, 2018. The Organization is currently evaluating the impact of the provisions of ASU 2016-04 on the presentation of its financial statements.

**2. ORGANIZATION AND NATURE OF SERVICES**

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.

**3. PROPERTY, PLANT AND EQUIPMENT**

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

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

**VALENCIA HEIGHTS WATER COMPANY**  
**(A California Mutual Water Company)**  
**Notes to Basic Financial Statements**  
**October 31, 2018 and 2017**

**3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

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

Changes in property, plant and equipment for the year ended October 31, 2017 were as follows:

	Balances at November 1, 2016	Additions	Deletions	Balances at October 31, 2017
Property, plant and equipment, not being depreciated/amortized:				
Land and land rights	\$ 171,150	\$ -	\$ -	\$ 171,150
Construction in progress	245,454	726,656	(476,886)	495,224
Total capital assets: not being depreciated/amortized	416,604	726,656	(476,886)	666,374
Property, plant and equipment, being depreciated/amortized:				
Office equipment and maps	85,715	-	-	85,715
Machinery, treatment and pumping equipment	1,146,463	44,498	-	1,190,961
Building and structures	250,789	-	-	250,789
Vehicles, tools and equipment	340,080	19,179	-	359,259
Storage tanks and reservoirs	1,154,759	180,835	-	1,335,594
Transmission and distribution	5,963,645	874,582	-	6,838,227
Wells	1,128,947	-	-	1,128,947
SCADA computer equipment	161,800	-	-	161,800
Total property, plant and equipment being depreciated/amortized	10,232,198	1,119,094	-	11,351,292
Less accumulated depreciation/amortization	(5,361,313)	(364,504)	-	(5,725,817)
Total property, plant and equipment being depreciated/amortized, net	4,870,885	754,590	-	5,625,475
Property, plant and equipment, net	<u>\$ 5,287,489</u>	<u>\$ 1,481,246</u>	<u>\$ (476,886)</u>	<u>\$ 6,291,849</u>

Depreciation and amortization expense for the year ended October 31, 2017 was \$364,504. Depreciation expense of \$278,042 was recorded as an operating expense and amortization expense of \$86,462 was recorded as a reduction of contributions in aid of construction in members' equity.

**4. INVESTMENT IN COVINA IRRIGATING COMPANY**

The Organization owns 453.25 shares of capital stock of Covina Irrigating Company (CIC) as of October 31, 2018 and 2017. At both October 31, 2018 and 2017, each share entitled the owner to delivery of approximately 1.00 acre-feet of water, for both years. This investment is recorded at cost since the Organization owns less than 20% of the capital stock and does not have the ability to exercise significant influence over CIC's operating and financial policies.

**VALENCIA HEIGHTS WATER COMPANY**  
**(A California Mutual Water Company)**  
**Notes to Basic Financial Statements**  
**October 31, 2018 and 2017**

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**5. WATER RIGHTS**

The Organization owns 1,061 adjudicated water rights as of October 31, 2018 and 2017. 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.

**6. PREPAID WATER**

The Organization makes purchases of cyclic storage water to offset the increasing cost of replacement water which is currently at \$729 per acre-foot. As of October 31, 2018, 942 acre-feet of this water is reflected as prepaid water of \$153,355 in long-term assets for future years, and \$150,000 in current assets to reflect the projected usage in 2019. As of October 31, 2017, 1,070 acre-feet of this water is reflected as prepaid water of \$296,612 in long-term assets for future years. Prepaid water is recorded at cost on the last-in, first-out method.

**7. NOTES PAYABLE**

On September 15, 2016, the Organization entered into an equipment finance agreement with a bank. The original amount of the note is for \$64,974. The note is collateralized by specific equipment. The note calls for monthly principal and interest payments of \$1,935, bears an effective interest rate of 4.85%, and matures in August 2019. The outstanding balance at October 31, 2018 totaled \$18,928.

During October 2016, the Organization financed the purchase of a vehicle with a separate lender. The original amount of the note is \$56,886. The promissory note is collateralized by specific equipment. The note bears interest at 1.13%, calls for monthly principal and interest payments of \$1,608, and matures in November 2019. The outstanding balance at October 31, 2018 totaled \$20,763.

In January 2018, the Organization entered into an agreement with the State Water Resources Control Board for a loan to facilitate the construction of the Organization's 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 percent, calls for semi-annual principal and interest payments of \$57,451 beginning January 2019, and matures in July 2038. The outstanding balance totaled \$1,939,868 as of October 31, 2018.

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

2019	\$ 120,595
2020	83,654
2021	85,082
2022	86,535
2023	88,012
Thereafter	<u>1,515,681</u>
Total	<u>\$ 1,979,559</u>

**VALENCIA HEIGHTS WATER COMPANY**  
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**8. 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 nonappurtenant 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 canceled if forfeited through foreclosure of the property or prolonged failure to pay for water services provided.

**9. RETIREMENT PLANS**

The Organization sponsors a defined contribution 401(k) pension plan for the benefit of its employees. Pretax 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. Organization contributions to the Plan for the years ended October 31, 2018 and 2017 were \$34,058 and \$30,391, 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, 2018 and 2017, the vested deferred compensation plan assets totaled \$139,341 and \$127,661, respectively. These amounts were reported both as an asset and liability in the accompanying financial statements, as the Organization administers the 457 Plan.

**10. 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, 2018 and 2017, the Organization's accumulated compensated absence liability totaled \$60,762 and \$50,259, respectively.

**11. FAIR VALUE MEASUREMENTS**

At October 31, 2018, the Organization's investments are reported at fair value in the accompanying balance sheets as follows:

	Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments:			
Corporate bonds	\$ 1,160,950	\$ -	\$ 1,160,950
Municipal bonds	382,292	-	382,292
Mutual funds	918,329	918,329	-
	2,461,571	918,329	1,543,242
Deferred compensation plan assets:			
Mutual funds	139,341	139,341	-

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**11. FAIR VALUE MEASUREMENTS (CONTINUED)**

At October 31, 2017, the Organization's investments are reported at fair value in the accompanying balance sheets as follows:

	Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments:			
Corporate bonds	\$ 1,120,579	\$ -	\$ 1,120,579
Municipal bonds	402,145	-	402,145
Mutual funds	823,397	823,397	-
	2,346,121	823,397	1,522,724
Deferred compensation plan assets:			
Mutual funds	127,661	127,661	-
	<u>\$ 2,473,782</u>	<u>\$ 951,058</u>	<u>\$ 1,522,724</u>

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 Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization 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.

***12. RELATED-PARTY TRANSACTIONS***

During the years ended October 31, 2018 and 2017, a company owned by a member of the Board of Directors, brokered an insurance policy for the Organization. Premiums paid to the insurance company for the years ended October 31, 2018 and 2017 totaled \$42,594 and \$36,162, respectively. During the years ended October 31, 2018 and 2017, total compensation for the Board Member's services rendered for the year totaled \$5,550 and \$5,235 respectively.

***13. LOAN MANAGEMENT ACCOUNT***

At October 31, 2018, 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, 2018.

***14. SUBSEQUENT EVENTS***

The Organization has evaluated subsequent events through January 7, 2019, the date on which the financial statements were available to be issued.



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