



*California Domestic Water Company*

# Annual Report

## To Shareholders

### 2020-2021

CalDomestic.com

## Officers and Committees

### *Officers of the 2021 Board Of Directors*

Donald J. Hannah, Jr., Chairman  
Michael O. Quinn, Vice Chairman  
Thomas J. Prenovost, Jr., Secretary  
Christopher D. Blake, Chief Financial Officer  
Lynda Noriega, President

### *Members of the Board Of Directors*

Richard D. Jones  
Richard J. Rich

### *Administrative Committee*

#### **DIRECTORS**

Thomas J. Prenovost, Jr., Chairman  
Donald J. Hannah, Jr.  
Richard J. Rich

#### **MANAGEMENT**

Lynda Noriega  
Ernesto "Che" Venegas

### *Human Resources Committee*

#### **DIRECTORS**

Michael O. Quinn, Chairman  
Christopher D. Blake  
Richard D. Jones

#### **MANAGEMENT**

Lynda Noriega  
Ernesto "Che" Venegas

### *Asset Management Committee*

#### **DIRECTORS**

Christopher D. Blake, Chairman  
Donald J. Hannah, Jr.  
Richard J. Rich

#### **MANAGEMENT**

Lynda Noriega  
Ernesto "Che" Venegas

### *Strategic Planning Committee*

#### **DIRECTORS**

Donald J. Hannah, Jr., Chairman  
Thomas J. Prenovost, Jr.  
Michael O. Quinn

#### **MANAGEMENT**

Lynda Noriega  
Ernesto "Che" Venegas

### *401(k) Trustees*

#### **DIRECTORS**

Richard J. Rich, Chairman  
Richard D. Jones  
Thomas J. Prenovost, Jr.  
Michael O. Quinn

#### **MANAGEMENT**

Lynda Noriega

### *Audit Committee*

#### **DIRECTORS**

Richard D. Jones, Chairman  
Christopher D. Blake  
Michael O. Quinn

#### **MANAGEMENT**

Lynda Noriega

## Cal Domestic Executives

Lynda Noriega, President  
Ernesto "Che" Venegas, Director of Water Operations  
Stephanie Alvarado, Accounting & Office Manager

## General Counsel and Auditor

James D. Ciampa, General Counsel, Lagerlof, LLP  
Ryan Zhang, Audit Partner, Frazer, LLP

# Planning and Partnerships Ensure Long-Term Sustainability

## A Message from the Chairman and President

At California Domestic Water Company (Cal Domestic), our history of delivering safe, reliable water to our Shareholders spans more than a century. Our dedication to providing dependable, excellent service has never wavered in that time, nor will it in the years to come.

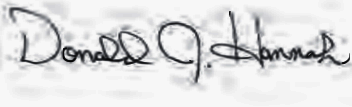
Over the past year, Cal Domestic undertook a major strategic planning effort to ensure sound leadership, fiscal responsibility, long-term water supply, and reliability of our treatment and delivery system. After an extensive process, including an update to our mission, vision and values, we are proud to introduce our Strategic Plan: "Collaboration. Community. Commitment." The document serves as a guide for Cal Domestic as we embark on next steps to remain leaders in regional water resource management and continue to meet demands of our Shareholders and their growing communities.

Planning for the future and preparing to meet ongoing supply challenges is an undertaking we cannot take lightly, especially as the state weathers another extreme drought and two decades of below-average rain and snow fall. Locally, the Main San Gabriel Basin, Cal Domestic's only source of water supply, averaged approximately 12 inches of rainfall since 2012 while long-term average local rainfall conditions are closer to 19 inches. Extended dry periods, such as these, create groundwater recharge challenges for the Main San Gabriel Basin, resulting in lower basin groundwater levels and impacting water supply availability. Because our communities depend on local groundwater from the Main San Gabriel Basin, we partner with the Main San Gabriel Basin Watermaster to actively manage and collaborate on basin operations to ensure a sustainable water supply for the benefit of our Shareholders.


Despite the challenges of drought and the unexpected need to pivot operations due to COVID-19, Cal Domestic continues to provide high-quality water and uninterrupted service in a cost-effective and efficient manner. With strategic planning and by leveraging partnerships and collaboration, we have been able to maintain stable water sales and successfully meet our Shareholders' needs.

We are honored to continue to serve you.

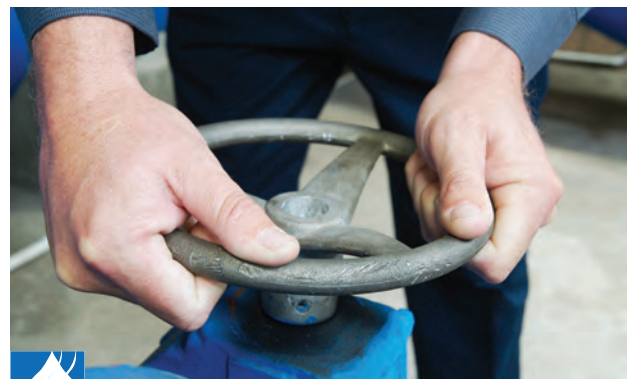
Sincerely,



**Donald J. Hannah, Jr.**  
Chairman



**Lynda Noriega**  
President



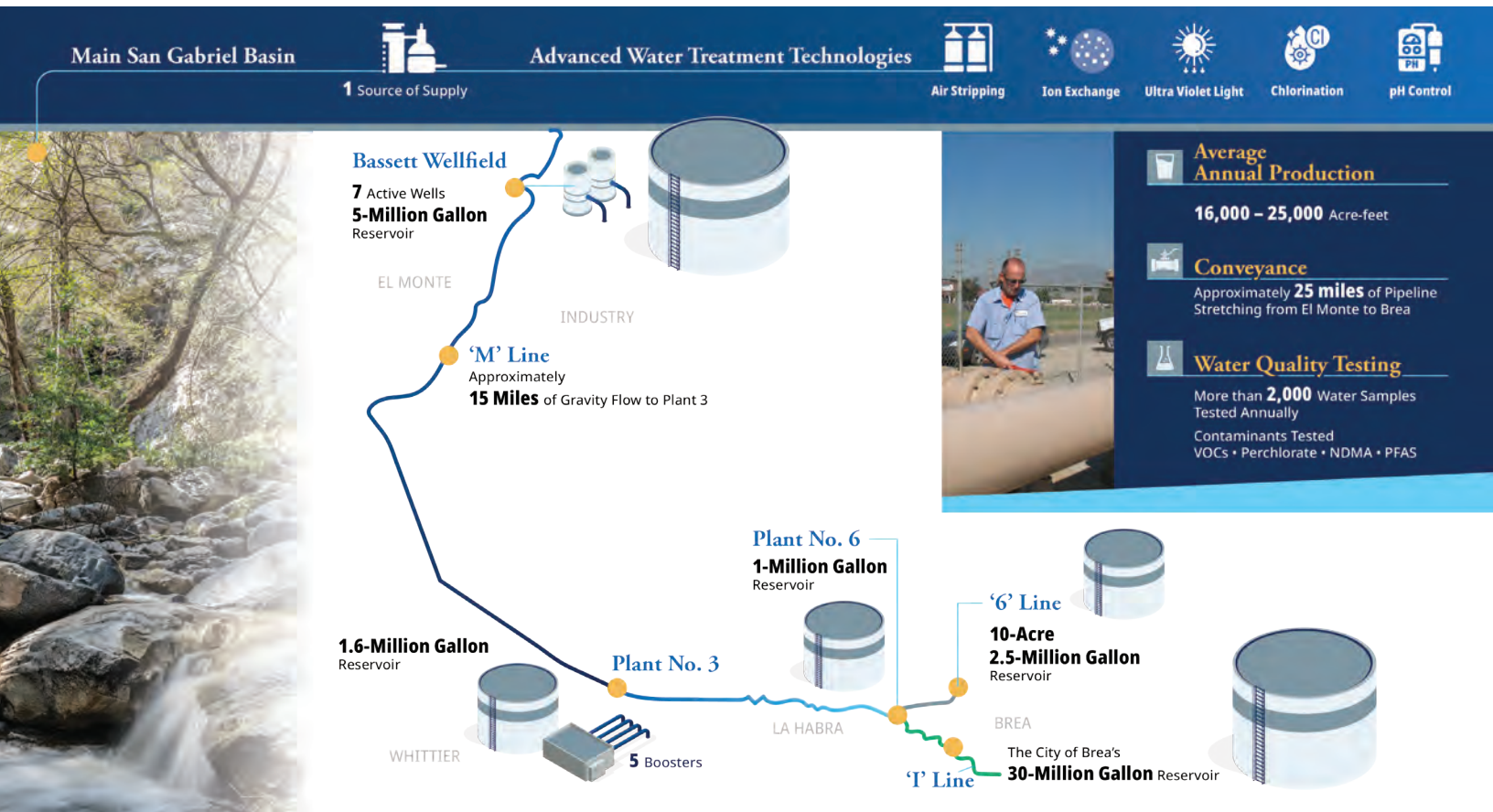
# California Domestic Water Company

Cal Domestic, based in Whittier, California, provides wholesale drinking water to Shareholders, including Suburban Water Systems, City of La Habra, and City of Brea. Collectively, these Shareholders serve about 226,000 residents and businesses located in the cities of Whittier, La Mirada, La Habra, and Brea.

Today, Cal Domestic operates and maintains a sophisticated water system with high efficiency pumping plants, advanced water treatment facilities, and more than 25 miles of large diameter conveyance pipelines to meet our Shareholders increasing water demands.



## Cal Domestic At-a-Glance



**2020–2021 Water Sales = 25,364 Acre-Foot  
(8,300,000,000 Gallons)**

# Governance

Cal Domestic is governed by a six-member Board of Directors, elected by its shareholders. The Board of Directors is actively engaged in long-term planning, fiscal responsibility, environmental protection, and operations, including ensuring water quality and a reliable delivery system.

As part of its role in longevity and operations, the Board of Directors played a vital part in the creation of Cal Domestic's Strategic Plan. The Strategic Planning Committee participated in workshops throughout the process to provide guidance, feedback and insight on the development of the plan. This important work included revamping Cal Domestic's Mission, Vision and Values. The updates renew our long-term vision for water service and serve as a guide as we implement strategic initiatives.

The new Mission, Vision and Values were used as a framework on which the Strategic Plan is based. The Board of Directors will be directly involved in decision-making to carry out the strategic initiatives identified in the plan. More information about the plan and the process can be found on page 6.



## Mission

To Ensure Shareholders receive a High-Quality, Reliable Water Supply at a Sustainable and Reasonable Price.



## Vision

To continually build and sustain the resources needed to provide Shareholders with a resilient water supply and diverse water rights portfolio, now and for the future.



## Values



**Reliable, Trusted Service** - We recognize as stewards of a precious resource, we are part of the lifeblood of the communities we serve. This role is a privilege and we know that through vigilance and commitment we will provide high quality, reasonably-priced, resilient water to our Shareholders day in and day out.



**Regional and Industry Leadership** - Our influence is broader than our service area. Our leaders, while on the Board of Directors, or our management team, are executive thought professionals who are dedicated to high performance and set an example across the region and the industry.



**Collaboration and Teamwork** - These attributes are central to our culture. We achieve results for our Shareholders, our workforce, our Board of Directors and our communities by working together, appreciating our diverse perspectives and remaining committed to innovative solutions.



**Accountability and Accessibility** - These are the cornerstones of our identity and approach to business. We are open and honest in our communication to each other and our Shareholders, we welcome candor, insight and information, and strive to address challenges constructively.

# Collaboration. Community. Commitment.



In October 2020, the Cal Domestic Board of Directors adopted a 2020 Strategic Plan: “Collaboration. Community. Commitment.” The plan identifies priorities and initiatives and creates a framework for decision making that will shape Cal Domestic’s actions over the next five years.

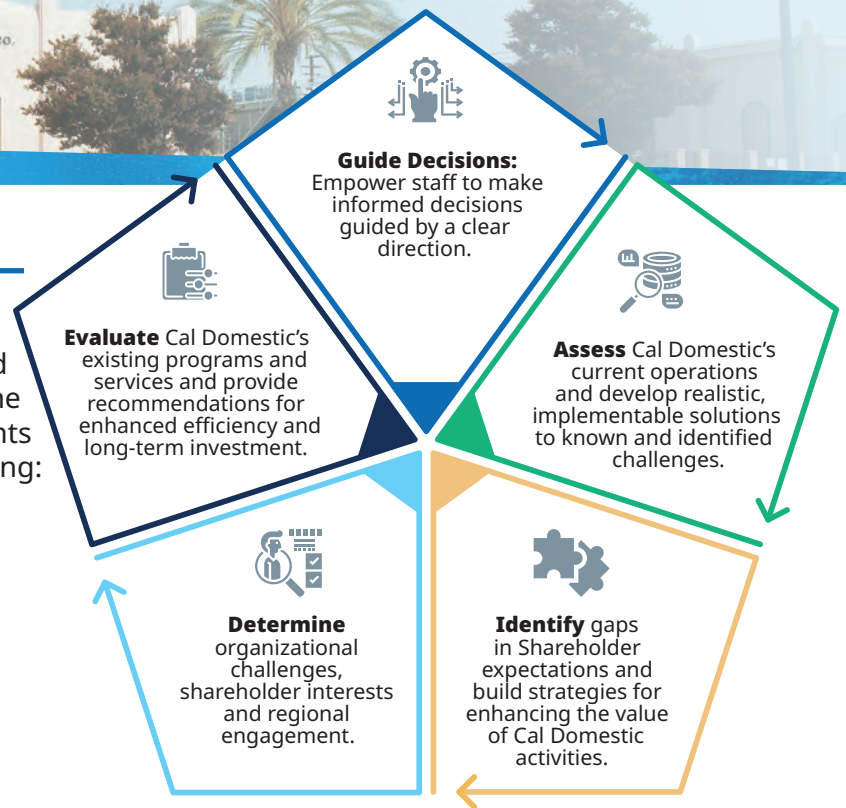
The Strategic Plan will guide us in continuing to manage costs, operations, and water rights in an efficient manner while maintaining a prominent position as a regional water provider. The document is intended to serve as a blueprint that will help Cal Domestic remain stewards of our resources, both natural and financial, while meeting and exceeding the water needs of our Shareholders now and in the future.

## Planning Goals:

## Methodology

The Strategic Plan was developed after a nine-month comprehensive process that engaged stakeholders, including Cal Domestic employees, the Board of Directors and Shareholders. It represents months of planning, meetings, and analysis, including:

- Staff Workshops
- Operational Analysis
- Culture Session
- Shareholder Focus Groups
- Committee Workshops
- Board Adoption



## Shareholder Feedback

Workshops and focus groups gave invested parties the opportunity to share recommendations and ideas that would renew Cal Domestic’s long-term vision for water service and delivery.

Shareholders provided feedback related to water operations, capital planning, outreach and regional leadership. Using these discussions, Cal Domestic created its Strategic Plan, setting a course for the next several years. Cal Domestic is committed to continuously maintaining dialogue with its Shareholders to obtain feedback and input.



# Areas of Focus & Strategic Initiatives

The Strategic Plan identifies the following as main areas of focus for Cal Domestic, based on the feedback received during the development process. These themes expand on the agency's vision and provide a foundation for plan implementation. Each area of focus identifies specific initiatives and actions to ensure Cal Domestic meets its goals of preparing for the future and achieving its long-term vision.



## Finance

Cal Domestic is committed to managing expenses with a focus on efficiency without compromising reliability or organizational effectiveness. A long-range financial plan will ensure additional value to Shareholders, provide clarity and inform decisions surrounding Cal Domestic's fiscal landscape well into the future.



## Water Supply

Water regulations are constantly shifting and Cal Domestic is poised to mitigate any quality or supply impacts. By proactively addressing emerging constituents and advancing water rights opportunities, Cal Domestic is furthering its purpose to deliver a reliable water supply at a sustainable price.



## Water System & Operations

Cal Domestic's water system is a complex network of pipes, pumps and reservoirs. To protect this system and advance its operations, Cal Domestic will be crafting a capital improvement plan to address future reliability needs and potentially add to capacity, if needed.



## Succession Planning

Preparing Cal Domestic's employees for the future is a priority. Cal Domestic is ready to meet this challenge by grooming and growing its current staff, strengthening staff and Board of Directors advancement and building a foundation of institutional knowledge that can be transferred to a future workforce, with a focus on diversity, equity and inclusion.



## Governance

Governed by a six-member Board of Directors, Cal Domestic will regularly review and update its Rules and Regulations Governing Water Service, Corporate By-Laws and Policy Manuals to reflect current industry best practices and organizational values.



## Outreach & Communications

Without community support, achieving Cal Domestic's strategic initiatives becomes increasingly difficult. Keeping efficiency in mind, Cal Domestic will focus on planning communications strategically and leveraging currently available materials to connect with our Shareholders.



## Regional Leadership & Strategic Partnerships

Cal Domestic's position within the industry and region is key to supporting its strategic initiatives and representing Shareholder interests. To realize its vision, Cal Domestic will continue to deepen relationships with regulatory agencies and other governing bodies, as well as foster connections with local, regional and industry organizations.

## A Path Forward

The Strategic Plan sets the tone for the future of Cal Domestic and how we will continue to meet the needs of our Shareholders for years to come. Using the Strategic Plan as a structure and guide, our Board of Directors and team will thoughtfully implement initiatives in a manner that builds and grows important collaboration, balances fiscal responsibility with stewardship and high-quality service, and best supports our Shareholders. We look forward to working with our partners to support today’s demand and promote ongoing regional sustainability.








## Strategic Plan Implementation



Under direction and guidance of the Strategic Planning Committee, Cal Domestic developed a plan to execute the initiatives identified in the Strategic Plan. Implementation of the Strategic Plan will require continuous evaluation of timing, budget, resource allocation and internal and external factors. The plan is intended to be a living document that can be adapted as needed considering these elements.

The Implementation Plan was developed using an analysis of each initiative, and then organized by factors such as cost implications, staffing, deadlines, benchmarks and other progress considerations. Using this process, Cal Domestic created a schedule that assigns timelines and milestones to each initiative.

The Implementation Plan was adopted by the Board of Directors in May 2021 and includes the following initiatives for 2021-2022. The Implementation Plan also includes performance metrics or indicators for each strategic initiative, allowing Cal Domestic to monitor and track results.

Area of Focus	Strategic Initiative	Timeline and Process
 <b>FINANCE</b>	Cost of Service Study	Cal Domestic’s leadership team, including management and the Board of Directors, will focus on these initiatives during the current fiscal year, spanning from July 2021 to June 2022.  At the end of the year, and each following year, we will review progress, milestones reached and items for improvement to ensure successful implementation of each initiative.
	Long-Range Financial Plan	
	Reserve Policy	
 <b>WATER SUPPLY</b>	Capital Improvement Plan	
	PFAS: New Treatment Facility	
 <b>WATER SYSTEM &amp; OPERATIONS</b>	Capital Improvement Plan	
	Wholesale Operations: Educational Campaign	
 <b>SUCCESSION PLANNING</b>	Organizational Plan & Professional Development: Revise Job Descriptions	
	Comparative Analysis: Classification and Compensation Study	
 <b>GOVERNANCE</b>	Board Qualification Guidelines and Succession Criteria	
	Rules and Regulations Governing Water Service - Update By-laws and Policy Manuals	
 <b>OUTREACH &amp; COMMUNICATIONS</b>	Strategic Communications Plan	
	Conservation Campaign Materials Library	
	Basin Activities Event Calendar	
 <b>REGIONAL LEADERSHIP &amp; STRATEGIC PARTNERSHIPS</b>	President Profile & Legislative Relationships	

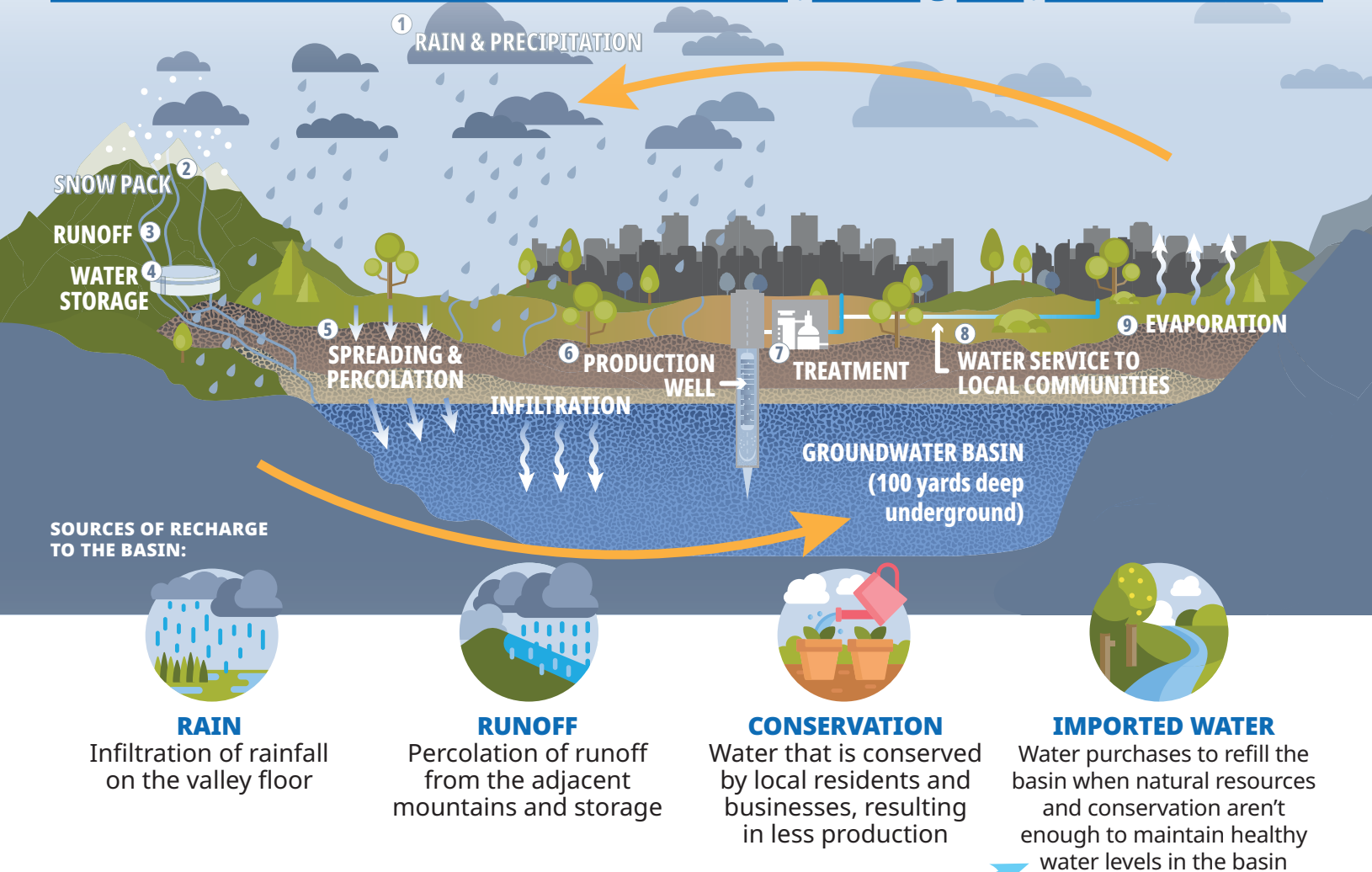
**NOTE:** This is a preview of 2021-2022 initiatives and does not reflect the entire plan or ongoing strategic initiatives and milestones.



# Source: Main San Gabriel Basin

More than 1.5 million people living in our region rely on water from the Main San Gabriel Basin to keep water available at the taps of residences and businesses. With the basin already at below-average levels at the start of the 2021 drought, playing a role in local preservation and protection of this precious resource is more important than ever. Cal Domestic is actively involved in the management and operations, including recharge, of the Main San Gabriel Basin. Our President serves as Chair of the Main San Gabriel Basin Watermaster Board of Directors, allowing us to engage in long-term basin sustainability efforts and important decision-making.

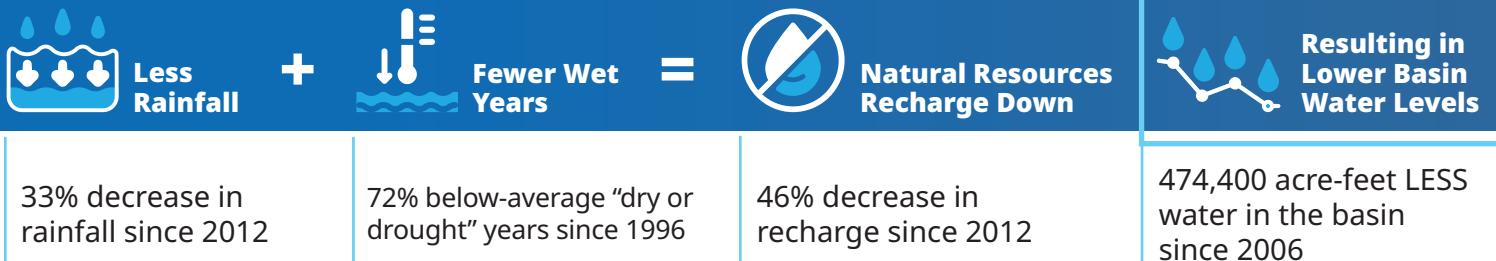
## Main San Gabriel Basin Hydrologic Cycle



**Resource Development Assessment (RDA):** 2020-2021 RDA = \$175 per acre-foot

In response to long-term dry conditions and in preparation for drought, the Main San Gabriel Basin Watermaster developed an RDA to fund the purchase of imported water. Imported water is used to refill the basin and make up for lower water levels because of dry weather and reduced rainfall.

## DRY WEATHER BASIN IMPACTS



## A Collaborative Team

At Cal Domestic, we rely on our dedicated, professional staff to meet our Mission and Vision by ensuring a sustainable water supply and protecting our resources for generations to come. Cal Domestic's employees keep daily operations running smoothly and efficiently, maintaining our pipes, wells and other system components to reliably serve our Shareholders. Our leadership team keeps an eye on the future, while making sure day-to-day business is cost-effective, collaborative and meets the region's demands. Our Board of Directors provides visionary governance, encourages industry leadership, and supports long-term planning. Together, our team ensures Cal Domestic continues to meet its Shareholders' needs, now and for years to come.



## Honors and Recognition

### Board of Directors



**Donald J. Hannah, Jr.**  
Appointed as Chairman  
*3 years of service*



**Christopher D. Blake**  
Appointed as Chief Financial Officer  
*5 years of service*



**Richard J. Rich**  
*10 years of service*

### Staff



**Joseph Kipp**  
Senior Water Utility Worker  
*35 years of service*



**Stephanie Alvarado**  
Senior Accountant  
*3 years of service*



**Lynda Noriega**  
President  
*5 years of service*

**CALIFORNIA DOMESTIC WATER COMPANY AND  
SUBSIDIARY CONSOLIDATED FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITORS' REPORT  
For the Years Ended June 30, 2021 and 2020**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders  
of California Domestic Water Company and Subsidiary

We have audited the accompanying consolidated financial statements of California Domestic Water Company (a California corporation) and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of June 30, 2021 and 2020, and the related consolidated statements of operations, shareholders' 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of California Domestic Company and Subsidiary as of June 30, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Brea, California

August 30, 2021

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS  
JUNE 30, 2021 AND 2020

ASSETS

	<u>2021</u>	<u>2020</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,970,673	\$ 3,324,704
Accounts receivable	9,272,338	6,871,540
Due from responsible parties	213,639	261,089
Materials and supplies inventory	17,774	46,318
Prepaid water leases	10,661,026	9,540,584
Prepaid expenses and deposits	<u>81,545</u>	<u>97,199</u>
Total current assets	<u>23,216,995</u>	<u>20,141,434</u>
<b>PROPERTY AND EQUIPMENT:</b>		
Land	339,347	339,347
Land improvements	956,479	858,674
Construction-in-progress	1,610,893	2,597,434
Pumping plant, reservoirs, distributing systems, and other	59,394,222	57,672,988
Machinery & equipment	<u>60,000</u>	<u>133,222</u>
Total property and equipment	62,360,941	61,601,665
Less: accumulated depreciation	<u>(32,154,759)</u>	<u>(30,855,253)</u>
Net property and equipment	<u>30,206,182</u>	<u>30,746,412</u>
<b>NON-CURRENT ASSETS:</b>		
Owned water rights	9,210,321	8,994,321
Water rights investments	<u>13,488,210</u>	<u>13,488,210</u>
Total non-current assets	<u>22,698,531</u>	<u>22,482,531</u>
Total assets	<u>\$ 76,121,708</u>	<u>\$ 73,370,377</u>

The accompanying notes are an integral part of these consolidated financial statements.  
See accompanying independent auditors' report.

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS  
JUNE 30, 2021 AND 2020

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>2021</u>	<u>2020</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 4,409,917	\$ 3,053,410
Accrued expenses	<u>4,788,533</u>	<u>3,641,080</u>
Total current liabilities	<u>9,198,450</u>	<u>6,694,490</u>
NON-CURRENT LIABILITIES:		
Deferred taxes payable	<u>433,913</u>	<u>433,913</u>
Total liabilities	<u>9,632,363</u>	<u>7,128,403</u>
SHAREHOLDERS' EQUITY:		
Common stock, \$50 par value, 10,000 shares authorized, and 7,994.00 and 8,003.25 shares issued and outstanding, respectively	399,700	400,163
Preferred stock - Class A, 10,000 shares authorized, 1,624.45 shares issued and outstanding	20,678,777	20,678,777
Retained earnings	<u>45,410,868</u>	<u>45,163,034</u>
Total shareholders' equity	<u>66,489,345</u>	<u>66,241,974</u>
Total liabilities and shareholders' equity	<u>\$ 76,121,708</u>	<u>\$ 73,370,377</u>

The accompanying notes are an integral part of these consolidated financial statements.  
See accompanying independent auditors' report.

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES:		
Water Sales	\$ 19,043,585	\$ 14,966,802
Contributions from Baldwin Park Operable Unit	416,157	387,160
Assessments	<u>551,944</u>	<u>538,953</u>
Total operating revenues	<u>20,011,686</u>	<u>15,892,915</u>
OPERATING EXPENSES:		
Purchased water	630,282	600,413
Power cost	1,697,312	1,371,298
System and volume cost	5,736,699	4,491,408
Water lease expense	9,490,877	7,589,066
General and administrative	1,227,890	1,414,240
Directors' expense	97,000	95,600
Depreciation	<u>1,662,278</u>	<u>1,593,573</u>
Total operating expenses	<u>20,542,338</u>	<u>17,155,598</u>
LOSS FROM OPERATIONS	<u>(530,652)</u>	<u>(1,262,683)</u>
NON-OPERATING REVENUES:		
Interest income	833	2,074
Rental income, net	52,719	54,749
Miscellaneous income, net	29,257	19,489
Investment income from water rights investments	893,224	869,718
(Loss) gain on disposition of property and equipment, net	(19,208)	13,350
Gain on sale of water rights	<u>-</u>	<u>37,865</u>
Total non-operating revenue, net	<u>956,825</u>	<u>997,245</u>
NET INCOME (LOSS) BEFORE INCOME TAX EXPENSE	426,173	(265,438)
PROVISION FOR INCOME TAXES	<u>37,743</u>	<u>19,649</u>
NET INCOME (LOSS)	<u>\$ 388,430</u>	<u>\$ (285,087)</u>

The accompanying notes are an integral part of these consolidated financial statements.  
See accompanying independent auditors' report.

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	Common Stock		Preferred Stock		Retained Earnings	Total
	Number of Shares	Amount	Number of Shares	Amount		
Balance, June 30, 2019	7,715.75	\$ 385,788	1,624.45	\$ 20,678,777	\$ 41,078,121	\$ 62,142,686
Reacquire stock	(12.50)	(625)	-	-	(190,000)	(190,625)
Sale of stock	300.00	15,000	-	-	4,560,000	4,575,000
Net loss	-	-	-	-	(285,087)	(285,087)
Balance, June 30, 2020	8,003.25	\$ 400,163	1,624.45	\$ 20,678,777	\$ 45,163,034	\$ 66,241,974
Reacquire stock	(9.25)	(463)	-	-	(140,596)	(141,059)
Net income	-	-	-	-	388,430	388,430
Balance, June 30, 2021	<u>7,994.00</u>	<u>\$ 399,700</u>	<u>1,624.45</u>	<u>\$ 20,678,777</u>	<u>\$ 45,410,868</u>	<u>\$ 66,489,345</u>

The accompanying notes are an integral part of these consolidated financial statements.  
See accompanying independent auditors' report.



CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 388,430	\$ (285,087)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation	1,662,278	1,593,573
Loss (gain) on disposition of property and equipment	1,398	(15,675)
Gain on sale of water rights investments	-	(37,865)
Changes in operating assets and liabilities:		
Accounts receivable	(2,400,798)	(3,087,512)
Due from responsible parties	47,450	156,133
Materials and supplies inventory	28,544	-
Prepaid water leases	(1,120,442)	(3,910,166)
Prepaid expenses and deposits	15,654	3,255
Prepaid income taxes	-	3,127
Accounts payable	1,356,507	(474,481)
Accrued expenses	1,147,454	820,014
Unearned water lease revenue	-	(42,390)
	<u>1,126,475</u>	<u>(5,277,074)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Additions to property and equipment	(94,922)	(110,775)
Additions to construction-in-progress	(1,035,846)	(916,967)
Proceeds on sale of property and equipment	7,321	18,000
Purchase of owned water rights	(216,000)	(806,150)
Purchase of water rights investments	-	(49,062)
Proceeds on sale of water rights investments	-	49,704
	<u>(1,339,447)</u>	<u>(1,815,250)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Repurchase of common stock	(141,059)	(190,625)
Proceeds from issuance of common stock	-	4,575,000
	<u>(141,059)</u>	<u>4,384,375</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(354,031)</b>	<b>(2,707,949)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b><u>3,324,704</u></b>	<b><u>6,032,653</u></b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b><u><u>2,970,673</u></u></b>	<b><u><u>3,324,704</u></u></b>
<b>NON-CASH TRANSACTIONS:</b>		
Transferred from construction in progress to property and equipment	\$ <u><u>2,022,388</u></u>	\$ <u><u>563,574</u></u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid for taxes	\$ <u><u>14,967</u></u>	\$ <u><u>12,628</u></u>

The accompanying notes are an integral part of these consolidated financial statements.  
See accompanying independent auditors' report.

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

**Note 1 - Summary of significant accounting policies**

Nature of operations

California Domestic Water Company is a private mutual water company which provides water primarily to wholesale customers in east Whittier, La Habra and Brea. Its wholly owned subsidiary, Cadway, Inc. (collectively the "Company"), owns and leases certain water rights to California Domestic Water Company. Sales to three wholesale customers, who are the shareholders of the Company, accounted for approximately 95% of the Company's water revenues for both of the years ended June 30, 2021 and 2020.

Basis of consolidation

The consolidated financial statements of the Company include the accounts of California Domestic Water Company and Cadway, Inc. All material inter-company accounts and transactions have been eliminated in consolidation.

Revenue recognition

Revenue is recognized in accordance with Accounting Standards Codification (ASC) *Revenue from Contracts with Customer (Topic 606)*. Revenue from water sales is recognized monthly based on meter readings performed at the end of each month. Assessments are billed to all customers three times a year based on the number of shares of stock owned. There is no separate distinct performance obligation identified by management.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that the estimates used in preparing its financial statements are reasonable and prudent. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the statement of cash flows, the Company considers all investment instruments purchased with an original maturity of three months or less, which are readily convertible to known amounts of cash, to be cash equivalents.

The Company currently maintains cash in bank accounts that may, at times, exceed federally insured limits. The Company makes an effort to avoid significant concentrations of bank deposits and has not experienced any losses in such accounts. The Company believes it is not exposed to any significant risks on cash in bank accounts.

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

**Note 1 - Summary of significant accounting policies (continued)**

Accounts receivable

Accounts receivable are recorded as billed. Company management has determined that accounts receivable were fully collectible; therefore no allowance for doubtful accounts was recorded at June 30, 2021 and 2020.

Prepaid water leases and lease expense

Prepaid water leases typically last for one production year and are recorded at cost. Water lease expense is determined on a first-in, first-out basis, and is based on the total amount of water produced by the Company and delivered to the system.

Property and equipment

Property and equipment are recorded at cost and includes property contributed by others which is recorded at fair value at the time of contribution. Major renewals are charged directly to the property and equipment accounts, while replacements, maintenance and repairs which do not improve or extend the useful lives of the assets are expensed currently. For financial statement purposes, depreciation is computed using the straight-line method, and accelerated methods for income tax purposes over the estimated useful lives of the related assets, which range from 3 to 40 years, or over the term of the related lease for leasehold improvements, if shorter. Depreciation expense totaled \$1,662,278 and \$1,593,573 for the years ended June 30, 2021 and 2020, respectively.

Long-lived assets

Long-lived assets of the Company are reviewed annually as to whether their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations. Management also re-evaluates the periods of depreciation to determine whether subsequent events and circumstances warrant revised estimates of useful lives. As of June 30, 2021, management expects these assets to be fully recoverable.

Construction-in-progress

Construction-in-progress represents the costs incurred for capital improvements projects. Once the projects have been completed and are put into service they are transferred into pumping plant and distribution system and depreciated accordingly.

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

**Note 1 - Summary of significant accounting policies (continued)**

As of June 30, 2021, these costs consist of the following projects:

	<u>Costs to date</u>	<u>Total budget</u>
Treatment	\$1,452,070	\$3,236,000
Distribution Pipeline	33,017	28,000
Other miscellaneous projects	125,806	148,000
Total	<u>\$1,610,893</u>	<u>\$3,412,000</u>

As of June 30, 2020, these costs consist of the following projects:

	<u>Costs to date</u>	<u>Total budget</u>
Drill and equip new well	\$1,941,948	\$1,660,000
Treatment	24,346	25,000
Other miscellaneous projects	631,140	3,315,000
Total	<u>\$2,597,434</u>	<u>\$5,000,000</u>

Owned water rights

Owned water rights are capitalized at cost and not subject to amortization. In the opinion of Company management, the value of such rights have not sustained any impairment.

Water rights investments

Water rights investments mainly represent the Company's interest in the Co-Tenancy of Laurence R. Pellissier Irrevocable QTIP Trust, et al (the "Co-Tenancy"). The Company receives annual payments of the Co-Tenancy's income based on its proportionate ownership. As of June 30, 2021 and 2020, the Company owned 24.74% of the water rights of the Co-Tenancy. The investments are accounted for using cost method, and investment income received from water rights investments is included in non-operating (revenues) expenses in the consolidated statements of operations. See Note 3.

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

**Note 1 - Summary of significant accounting policies (continued)**

Income taxes

The Company utilizes the asset and liability approach to financial accounting and reporting for income taxes as required by current accounting standards. The difference between the financial statement and tax bases of assets and liabilities is determined annually. Deferred income tax assets and liabilities, if any, are computed for those differences that have future tax consequences using the currently enacted tax laws and rates that apply to the periods in which they are expected to affect taxable income. Valuation allowances are established, if necessary, to reduce deferred tax asset accounts to the amounts that will more likely than not be realized. Income tax expense is the current tax payable or refundable for the period, and the net change in the deferred tax asset and liability accounts. Deferred income taxes liability is due to the recognition of a gain for financial statement purposes that was deferred for income tax reporting purposes, on a transaction occurring in a prior year.

California Domestic Water Company is exempt from Federal income tax as a not-for-profit organization under Section Code 501(c)(12). For the State of California, a corporate tax liability results from the excess of revenues over expenses unrelated to the Company's primary business purpose. Cadway is treated as a C Corporation for federal and state tax purposes. As of June 30, 2021, Cadway had net operating loss carry-forwards of approximately \$153,000 and \$0 for federal and state income tax purposes, respectively. For the year ended June 30, 2021, approximately \$186,000 and \$10,000 was utilized to offset current year taxable income.

The accounting standard for accounting for uncertainty in income taxes clarifies the accounting and disclosure for uncertain tax positions. It prescribes a recognition threshold measurement in the financial statements of a tax position taken or expected to be taken in a tax return of the entity. In examining its tax positions under this standard, the Company assumes its positions will be examined by the appropriate taxing authority, and the taxing authority will have full knowledge of all relevant information. The technical merits of the Company's tax positions are derived from sources of authorities in the tax law (legislation and statutes, legislative intent, regulations, rulings, and case law) and their applicability to the facts and circumstances of the tax positions. Past administrative practices and precedents of the taxing authority in its dealings with the Company and similar enterprises that are widely understood have also been taken into account. Each tax position has been evaluated without consideration of the possibility of offset or aggregation with other positions.

Based on this evaluation, no unrecognized tax benefits have been recorded. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the period incurred. No penalties or interest related to income taxes have been incurred during the years ended June 30, 2021 and 2020.

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

**Note 1 - Summary of significant accounting policies (continued)**

Subsequent events

The Company evaluated all events and transactions that occurred after June 30, 2021 up through the date these financial statements were available to be issued on August 30, 2021.

**Note 2 - Prepaid water leases**

The Company acquires and utilizes water pumping right leases annually to supplement its annual water usage requirements. Leased water that is unused can be carried over to subsequent year. As of June 30, 2021, the prepaid water leases balance consisted of unused water leases and cyclic storage water carried forward to future years.

As of June 30, 2021, a summary of the Company's changes in the prepaid water lease account was as follows:

Balance at July 1, 2020	Additions	Expenses	Balance at June 30, 2021
<u>\$ 9,540,584</u>	<u>\$ 10,611,319</u>	<u>\$ (9,490,877)</u>	<u>\$ 10,661,026</u>

As of June 30, 2020, a summary of the Company's changes in the prepaid water lease account was as follows:

Balance at July 1, 2019	Additions	Expenses	Balance at June 30, 2020
<u>\$ 5,630,418</u>	<u>\$ 11,499,232</u>	<u>\$ (7,589,066)</u>	<u>\$ 9,540,584</u>

**Note 3 - Water rights investments**

The Company is a member of CAL-WAMANCO, LLC, which was formed pursuant to the Co-Tenancy of Laurence R. Pellissier Irrevocable QTIP Trust, et al.

The Company also serves as the acting manager of the water rights owned within the Co-Tenancy and as the agent for the co-tenants within the agreement, with respect to the leasing of such water rights. Also, the Company is able to purchase water rights from and/or sell water rights to the co-tenants within the Co-Tenancy. As of June 30, 2021 and 2020, the Company owned 24.74% of the water rights of the Co-Tenancy, and received and recognized investment income of \$893,224 and \$869,718 for the years ended June 30, 2021 and 2020, respectively.

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

**Note 4 - Employee benefit and deferred compensation plans**

The Company has established a 401(k) Plan, which covers all employees who have completed 90 days of service. Eligible employees may elect to contribute up to \$19,500 plus \$6,500 catch-up for participants over the age of 50. The Company may contribute to the Plan on behalf of the employees at its discretion. The Company's contributions for the years ended June 30, 2021 and 2020 amounted to \$89,878 and \$120,899, respectively.

During 2011, the Company entered into the CDWC/Cadway, Inc. Nonqualified Deferred Compensation Plan under Section 409A of the Internal Revenue Code for all members of management as designated by the Company. The plan permits participants to make elective deferrals with no limitation which are 100% vested at all times. A participant's nonelective contribution account vests 100% after three years of continuous service. The Company has contributed \$25,000 for both the years ended June 30, 2021, and 2020.

**Note 5 - Lines of credit**

The Company has two revolving lines of credit with Pacific Mercantile Bank in the amounts of \$500,000 and \$2,500,000; with variable interest rates based on the Wall Street Journal Prime Rate plus 0.5% (WSJ Prime Rate at June 30, 2021 was 3.25%). The lines of credit expire on March 10, 2022. These lines of credit are subject to certain financial and nonfinancial covenants. Management believes the Company was in compliance with all covenants as of June 30, 2021 and 2020. There were no outstanding balances as of June 30, 2021 and 2020. The lines of credit are secured by substantially all assets of the Company and an assignment of 3,750 acre feet of water rights.

**Note 6 - Income tax**

Income tax (benefit) expense consists of the following for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
State income tax expense	\$ 24,304	4,695
Federal income tax expense (benefit)	13,439	14,954
	<u>\$ 37,743</u>	<u>19,649</u>

Deferred tax liabilities have been provided for taxable temporary differences related to unrealized gains on a 1031 exchange involving water rights. The deferred tax liability was \$433,913 for both years ended June 30, 2021 and 2020.

**Note 7 - Leases**

During October 2005, the Company entered into an easement agreement with the City of Whittier under which the Company has constructed a pipe for the transportation of water.

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

**Note 7 – Leases (continued)**

Annual payments range from \$50,000 to \$65,000 over the lease term with an expiration date of October 2105. During the years ended June 30, 2021 and 2020, lease expense related to the easement agreement amounted to \$50,000.

Future obligations over the term of the agreement as of June 30, 2021 are as follows:

<u>Year ending June 30</u>	<u>Amount</u>
2022	\$ 50,000
2023	50,000
2024	50,000
2025	50,000
2026	50,000
Thereafter	<u>4,650,000</u>
Total	<u>\$ 4,900,000</u>

On July 1, 2015, the Company entered into an agreement with one of the shareholders for purposes of temporarily leasing grounds and rights to use of the driveway as part of a future land use swap. The agreement will continue until June 30, 2045, or until the swap is finalized. Rental income received per the lease agreement totaled \$69,240 for both years ended June 30, 2021 and 2020.

The Company also has a verbal lease agreement with an employee for space at one of the operation sites, with income received in the amount of \$6,000 for both years ended June 30, 2021 and 2020.

**Note 8 – Directors' expense**

Effective September 1, 2017, California Domestic Water Company directors were compensated a stipend of \$200 per meeting for up to 7 meetings per month and Cadway, Inc. directors were compensated a fixed stipend of \$600 per month. The adopted compensation structure offers members of the Board of Directors potential earnings of \$24,000 per year. There were no fringe benefits, retirement contributions or other compensation paid to the directors. The directors' expense was \$97,000 and \$95,600 for the years ended June 30, 2021 and 2020, respectively.

**Note 9 - Preferred stock**

The preferred stock reflected in the accompanying financial statements represents stock issued to existing shareholders in prior years to which certain rights and privileges are attached.



CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

**Note 9 - Preferred stock (continued)**

The preferred stock provides the shareholder with an exclusive use of water from the Company based on ownership. Entitlements with preferred stock ownership are represented in the proportion of the exclusive use of one acre-foot of water rights per share of preferred stock owned. However, in the event the Company's right to exercise any water rights associated with the shares of preferred stock is limited pursuant to the provisions of any court judgment governing the applicable groundwater basin, then the shareholder's entitlement to use of those water rights shall be proportionately adjusted. For years ended June 30, 2021 and 2020, the Watermaster Board of Directors determined an Operating Safe Yield of 150,000 acre feet. As a result, the entitlement proportion applicable under the judgment of the Main San Gabriel Basin is 0.758977 acre-feet per share of Class A Preferred Stock owned which is computed by dividing the Operating Safe Yield by 198,000 acre feet.

**Note 10 - Commitments and contingent liabilities**

Litigation

The Company is subject to various legal matters in the ordinary course of business. After taking into consideration the legal counsel's evaluation of these matters, the Company's management has determined that the resolution of these matters will not have a material adverse effect on the Company's consolidated financial statements.

**Note 11 - Baldwin Park Operable Unit Agreement**

On May 5, 2002, California Domestic Water Company entered into an agreement with various parties related to groundwater contamination in the Baldwin Park Operable Unit of the San Gabriel Valley. The agreement (referred to as BPOU) provided that California Domestic Water Company, as well as five other water entities, would receive funds over 15 years to fund reasonable and necessary costs of design, construction, operations, maintenance and management of water supply treatment projects, as well as certain past costs previously incurred on such projects. The Company expects to receive a minimum of \$1 million per year over the remaining years of the agreement. The agreement was renewed for an additional 10 years on May 9, 2017.

The settlement agreement provides that pollution remediation expenses associated with BPOU are the responsibility of the polluting agents ("responsible parties") identified in the agreement. As a result, amounts paid by the Company on behalf of the responsible parties are reported as a receivable due from the responsible parties in order to differentiate those amounts from the expenses recorded of the Company. Reimbursements of such amounts advanced by the Company are recorded as a reduction to that receivable upon receipt.

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

**Note 11 - Baldwin Park Operable Unit Agreement (continued)**

As of June 30, 2021 and 2020, approximately \$49,450,000 and \$47,560,000 has been received by the Company related to this agreement, respectively and cumulatively, which were used to pay the pollution remediation costs for which the polluting agents were responsible. Approximately \$1,890,000 and \$1,750,000 was received during the years ended June 30, 2021 and 2020, respectively, of which approximately \$416,000 and \$387,000 was recognized as revenue in the accompanying consolidated statements of operations with the remaining as reimbursement of costs.

**Note 12 – Related parties**

The Company performs accounting services for CAL-WAMANCO, LLC. Fees paid to the Company related to this for both years ended June 30, 2021 and 2020 amounted to \$5,400.

**Note 13 – Uncertainty**

In 2021, domestic and international economies face uncertainty related to the impact of the COVID-19 disease and have been adversely affected through disruptions or restrictions on employees' ability to work, lack of product availability, interruptions in shipping and manufacturing processes, idle or vacant facilities, and in turn decrease in revenue and/or increase in expense. The Company is considered an essential business, and management is currently evaluating the impact the pandemic will have on future operations, and is currently unable to estimate a resulting loss or range of loss, if any.





*California Domestic Water Company*

15505 Whittier Boulevard • P.O. Box 1338 • Whittier, CA 90609  
Telephone (562) 947-3811 • Fax (562) 947-8843

[CalDomestic.com](http://CalDomestic.com)