



California Domestic Water Company

Annual Report

To Shareholders

2021-2022

Officers and Committees

Officers of the 2022 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
Stephanie Alvarado
Ernesto "Che" Venegas

Strategic Planning Committee

DIRECTORS

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

MANAGEMENT

Lynda Noriega
Stephanie Alvarado
Ernesto "Che" Venegas

Human Resources Committee

DIRECTORS

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

MANAGEMENT

Lynda Noriega
Stephanie Alvarado
Ernesto "Che" Venegas

401(k) Trustees

DIRECTORS

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

MANAGEMENT

Lynda Noriega
Stephanie Alvarado

Asset Management Committee

DIRECTORS

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

MANAGEMENT

Lynda Noriega
Stephanie Alvarado
Ernesto "Che" Venegas

Audit Committee

DIRECTORS

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

MANAGEMENT

Lynda Noriega
Stephanie Alvarado

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
Gail Egan, Egan CPAs

A Message from the Chairman and President

It has been a year of significant challenges for water agencies across California, with severe drought impacting water resources and triggering statewide conservation measures. Despite these trials, the leadership and staff at California Domestic Water Company (“Cal Domestic”) remain dedicated to our mission of delivering a high-quality, reliable water supply at a sustainable and reasonable price.

Over the past year, we are proud to say we made significant progress on the initiatives outlined and adopted in our 2020 Strategic Plan. Perhaps some of the most notable actions are the completion and adoption of a cost-of-service study and a 10-year capital improvement plan. The implementation of these long-term goals will be vital to the future reliability of our water system through upgrades and improvements, including groundwater well rehabilitations, storage facility upgrades, large-scale pipeline replacements, and the construction of a new water treatment facility. As we embark on a new fiscal year, the Cal Domestic team is positioned to implement strategic initiatives that will focus on broadening communications with our shareholders and expanding succession planning efforts by promoting team-building and development of our current staff resources.


Beyond our internal planning efforts, we continue to remain engaged with local and regional planning stakeholders to monitor hydrologic conditions in the Main San Gabriel Basin, prepare for ongoing drought effects, understand the impacts of limited replenishment supplies to the basin, and implement any necessary operational changes based on these circumstances.

The Baldwin Park Key Well, an indicator of groundwater levels throughout the basin, continues to operate below the normal operating range. Extended dry periods, including the recent drought conditions realized locally in the San Gabriel Valley and throughout the State, can affect groundwater levels and impact water supply availability. If rainfall continues to be below average and these dry weather patterns persist, the Main San Gabriel Basin groundwater level will continue to decline below the historic low elevation and will increase the risk of the basin not fully recovering from the persistent drought.

As we look ahead to the priorities and challenges associated with achieving our mission, we are confident the Cal Domestic team will continue to deliver results that meet our shareholders’ needs.

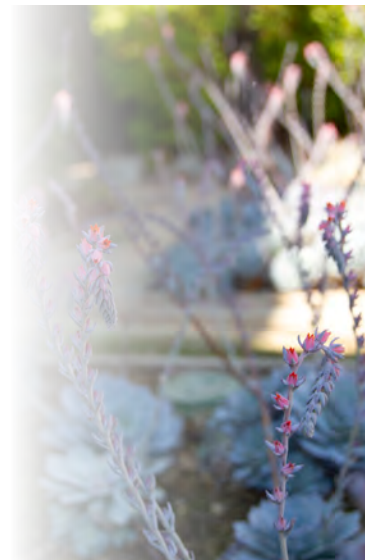
Sincerely,




Donald J. Hannah, Jr.
Chairman




Lynda Noriega
President



Our Promise



Mission

To ensure shareholders receive a high quality, reliable water supply at a sustainable and reasonable price.

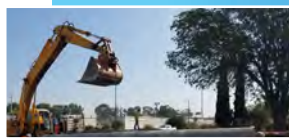


Vision

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.

Strategic Plan Implementation: A Year of Achievements

After an extensive and inclusive process, Cal Domestic adopted a Strategic Plan in October 2020 and corresponding implementation plan in May 2021. Serving as a path forward, the Strategic Plan identifies seven areas of focus and specific initiatives to execute within each of those areas.

Making an internal investment with an eye toward the future is key to our ability to effectively serve our shareholders, meet our mission and vision, and uphold our values. Over the past fiscal year, we accomplished various actions that build a platform for long-term success, including fiscal, infrastructure and succession planning. Among the most notable actions are the completion and adoption of a cost-of-service study and a 10-year capital improvement plan, which will be discussed on Page 7, in the section titled “Continuing Our Financial Health and Operational Reliability.” The following other key strategic initiatives were completed in the 2021/2022 fiscal year:



PFAS Treatment Facility

Water Supply: PFAS

Key Accomplishments:

- Received approval for conditional use permit from the City of El Monte for construction of a single pass ion exchange treatment facility for the removal of PFAS.
- Planned and prepared application for grant funding available from the San Gabriel Basin Water Quality Authority (WQA) under the Federal Funding Program Administration. (Applications to be considered and funding awarded by WQA in December 2022.)



Strategic Communications Plan and Assets

Outreach & Communications: Strategic Communications Plan

Outreach & Communications: Main San Gabriel Basin Watermaster Operations Information

Water System & Operations: Wholesale Operations

Key Accomplishments:

- Retained CV Strategies to develop/implement Strategic Communications Plan and support current communications needs.
- Prepared an educational campaign inviting residential shareholders to learn about the long-term goals and objectives of Cal Domestic (launched July 2022).
- Developed key messages regarding Main San Gabriel Basin operations and current hydrologic conditions for wholesale shareholders.
- Completed 2020/2021 Annual Report to shareholders and 2021/2022 quarterly reports on financial, administrative, and operational activities.





Compensation Survey

Succession Planning: Comparative Analysis

Key Accomplishments:

- Adopted the 2021 Classification and Compensation Study as prepared by Creative Management Solutions.
- Revised job descriptions to bring all classifications current and incorporate changes in operations, procedures, and practices.
- Completed a market benchmark analysis to compare wages and salaries offered by Cal Domestic with both a core labor market survey and the Economic Research Institute Salary Assessor Survey.
- Adopted the 2022/2023 Wage and Salary Scale based on the results of the market benchmark analysis.

A complete description of accomplishments and timelines are available in the quarterly reports.



Areas of Focus



Finance



Water Supply



Water System & Operations



Succession Planning



Governance



Outreach & Communications



Regional Leadership & Strategic Partnerships

Details on each area of focus can be found in the 2020 Strategic Plan - Collaboration. Community. Commitment.

Why 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.

By investing in our team through organizational planning, employee recruitment and retention, professional development, cross-training and more, we can continue to deliver the high-quality service our shareholders depend on.

Long-Range Planning

Thoughtfully and strategically planning for the years to come is key to Cal Domestic's ability to continue providing the safe and dependable service we strive to deliver every day. Our 2020 Strategic Plan sets the stage for long-term planning, and we are proud of our progress in this area, including completion of a cost-of-service study, long-range financial plan, and capital improvement plan.

The documents, which were developed simultaneously, will allow us to meet our mission today and in the future by ensuring reasonable rates, reliable infrastructure, and sound financial practices. Cal Domestic is committed to continuously reviewing and updating these plans to make sure we continue to operate for the benefit of our shareholders.

Advancing Our Financial Health and Operational Reliability

Within the development of the adopted 2020 Strategic Plan, two of the defined strategic initiatives under Finance include developing a Long-Range Financial Plan and conducting a Cost-of-Service Study to understand potential impacts on water supply and water delivery rates for shareholders. Cal Domestic engaged Raftelis for these efforts. Following a comprehensive process that started in October 2020, Raftelis and the Cal Domestic management team developed a financial model for projecting water delivery rates based on a defined cost of service analysis. Details of the financial modeling efforts were then discussed and reviewed with shareholders, who offered comments and feedback for consideration by Cal Domestic. **Key accomplishments for this initiative:**



Finance: Cost-of-Service Study

Conducted a Cost-of-Service Study to determine rate structure and fee schedule options.



Finance: Long-Range Financial Plan

Developed a Long-Range Financial Plan to lower risk and maximize investment.



Water System & Operations: Capital Improvement Plan

Created a capital improvement plan to address future reliability needs.

COST-OF-SERVICE ANALYSIS

- Identified cost components and established revenue requirements for delivery of water to shareholders.
- Prepared modifications to the water rates and service charges schedule that shift revenue recovery from a 100% variable rate to a combination of fixed and variable rates.
- Developed biennial water rates and service charges.

LONG-RANGE FINANCIAL PLAN

- Created a plan for financing the planned 48-inch pipeline replacement project based on feedback and suggestions received from shareholders.
- Developed a 10-year financial plan addressing the cost-of-service analysis, common stock entitlement rates, biennial water rates and service charges, and capital improvement plan budget.

10-YEAR CAPITAL IMPROVEMENT PLAN

- Identified reoccurring capital improvements and investments, groundwater well rehabilitations, water storage facility upgrades, large-scale pipeline replacements, and construction of a new water treatment facility.
- Established \$16.9 million in budgeted capital improvement projects over the 10-year planning scope.
- Prioritized a 48-inch pipeline replacement project estimated to cost \$11.5 million.



Board Action

Upon reaching the milestones listed above, the Cal Domestic Strategic Planning Committee discussed and provided insight to address the comments and feedback received from the shareholders. At a meeting in May 2022, the Strategic Planning Committee recommended the following items for approval by the Board of Directors, and the Board of Directors subsequently approved the following items at their annual planning and budget meetings in June 2022:

- 2022 Long-Range Financial Plan, Cost-of-Service Analysis, and Water Rate Study
- Common Stock Entitlement for fiscal year 2022/2023
- Biennial Water Rates and Service Charges for Wholesale and Retail shareholders for fiscal years 2022/2023 and 2023/2024
- 10-year Capital Improvement Plan Budget for fiscal years 2022/2023 – 2031/2032

Additional details are available in the Quarterly Reports

Capital Improvement Projects Highlights



Well 5A Rehabilitation

Well 5A is one of Cal Domestic's six active groundwater wells producing water supply from the Main San Gabriel Basin. The well was drilled in January 1987 by Beylik Drilling, Inc. to a final depth of 920 feet. It was designed and developed to produce up to 5,000 gallons per minute.

Cal Domestic services and rehabilitates all of its groundwater wells and pumping equipment on a 10-year maintenance cycle to extend the life of the asset. Regular well rehabilitations are even more critical now during the prolonged drought, which has resulted in lower groundwater elevations in the basin and forced the production well to work harder to produce less water supply.

The service and rehabilitation for Well 5A included the removal, inspection, repair, and replacement of the pumping equipment, including the well pump, shaft, bearings, and bowl assemblies. The motor was also inspected and did not require any repairs, restorations, or replacements. Finally, a thorough cleaning and brushing of the well casing and perforations was completed along with the exercising and working of the well formation. Completing this rehabilitation work minimizes equipment failures and restores pumping capacities and efficiencies. The capital investment by Cal Domestic for this project in 2021/2022 totaled \$46,034.

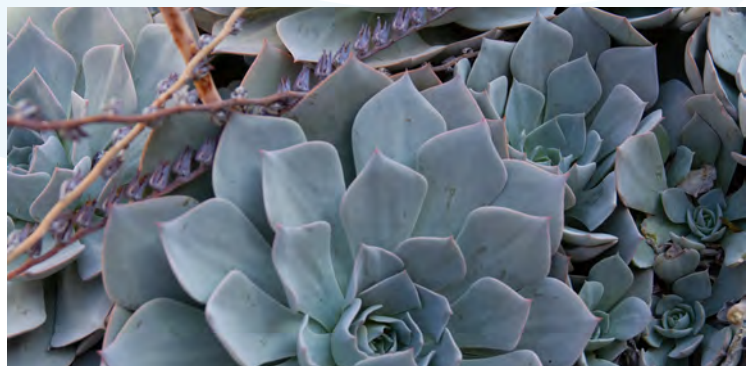
Plant 6 Reservoir Exterior Recoating

Cal Domestic annually contracts with a dive team to inspect, evaluate, and provide recommendations for repairs and rehabilitations related to interior and exterior deterioration and other maintenance needs for each of its reservoir storage facilities.

Based on the 2020 inspection report, the exterior epoxy coating for the 1-million-gallon Plant 6 Reservoir was starting to show wear and was in need of rehabilitation. However, no concerns or maintenance items were identified for the interior of the Plant 6 Reservoir.

The Plant 6 Reservoir was originally constructed in 1996. Since then, the storage reservoir has been exposed to the elements. Exposed epoxy coatings typically have a useful life of 20 to 25 years.

In 2022, the Plant 6 Reservoir exterior coating reached 26 years in service. The capital investment by Cal Domestic for this project in 2021/2022 totaled \$274,053.



Goals for 2022/2023

At Cal Domestic, we understand that the planning never really ends. We must always prepare for what's ahead, while also focusing on the needs of today. As we enter the next fiscal year, efforts on our strategic initiatives will continue, including the completion of critical tasks that will guide the organization into the future.

Commitment to the future



Create an internal organizational plan to strengthen staff development and build a foundation of institutional knowledge that can be transferred to a future workforce.





Develop cross-training programs and team building activities to increase employee knowledge and understanding of other department functions.




Implement professional development training options for senior management and key staff.

Broadening Our Communications

 Launch the residential shareholder campaign, including sending letters offering group and one-on-one meetings.

 Draft, co-brand, and distribute informational items offered by the Main San Gabriel Basin Watermaster for shareholders to use in their messaging to their customers.

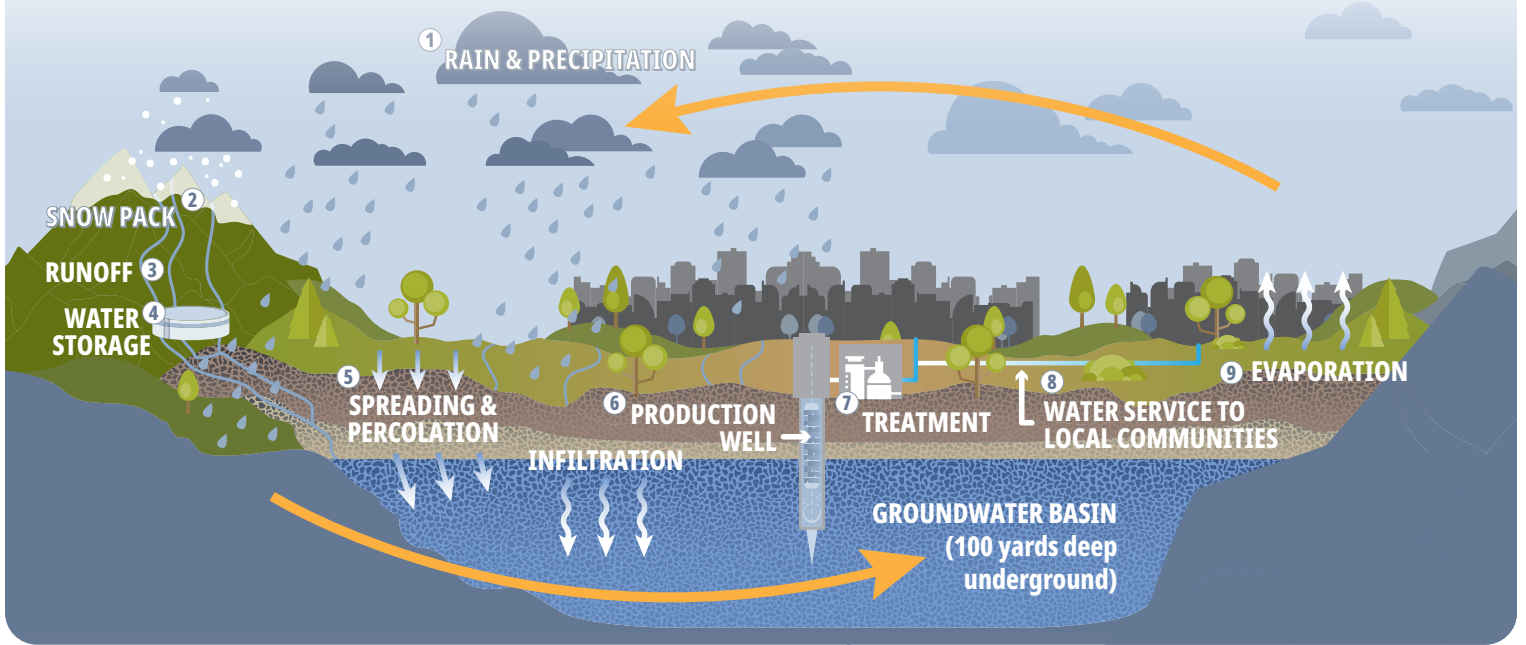
 Update website with current information regarding 2020 Strategic Plan initiatives and Main San Gabriel Basin operations and hydrologic conditions.



Strategic Plan Milestones

- Coordinate mobilization for PFAS facility construction once it has been determined whether funding will be awarded from the San Gabriel Basin Water Quality Authority (WQA). Construction is expected to span 60 to 90 days.
- Update of the Rules and Regulations Governing Water Service to align with the adopted modifications to the water rate structure and charges.
- Revise and approve updated versions of the Board's succession criteria, Corporate By-Laws and Corporate Policy Manuals.

Main San Gabriel Basin Water Cycle



1. Rain and precipitation

Rain, snow, sleet or hail falls as surface water or soaks into the earth and becomes groundwater.

2. Snowpack

Snow in the San Gabriel Mountains eventually melts and feeds the Upper San Gabriel River watershed.

3. Runoff

Water from melted snow or rain flows into storage facilities, the San Gabriel River and the Rio Hondo River.

4. Water storage

Runoff is stored in reservoirs for future spreading and groundwater replenishment.

5. Spreading and percolation

Water storage and runoff from the adjacent mountains is captured in shallow ponds to percolate into the ground and replenish the Main San Gabriel Basin.

6. Production well

Cal Domestic operates six active groundwater wells that supply water from the Main San Gabriel Basin.

7. Treatment

The water is conveyed through a series of treatment facilities to ensure it meets or exceeds all water quality regulations and standards.

8. Water service to local communities

The water is delivered to shareholders through 30 miles of pipeline.

9. Evaporation

Water turns to vapor and enters the atmosphere.

Upper San Gabriel River Watershed



Upper San Gabriel Valley Watershed
June 22, 2021



Upper San Gabriel Valley Watershed
June 12, 2022

Basin normal operating range: 200-250 feet



DRY WEATHER BASIN IMPACTS



Less Rainfall



Fewer Wet Years



Natural Resources Recharge Down



Resulting in Lower Basin Water Levels

9 of the previous 11 years received below average rainfall
Average since 2012 = 12.4"
Long-term average = 18.5"

76% below-average "dry or drought" years since 1996

Runoff Historical Average 1974-2011 = 111,000 acre-feet
2012-2022 = 55,000 acre-feet

483,000 acre-feet LESS water in the basin since 2012
Equivalent to approximately 60 feet of elevation in the basin

Celebrating the Cal Domestic Team

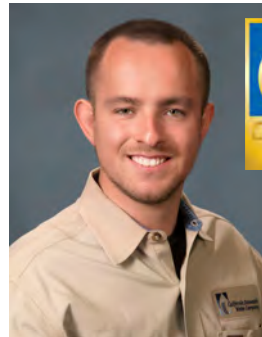
At Cal Domestic, our team is here to serve you! We are pleased to applaud the following staff and Board of Directors accomplishments, as well as announce two new employees who joined the team over the past year.



Honors and Recognition



Donald J. Hannah, Jr.
Chairman of the
Board of Directors
5 years of service



Daniel West
Water Utility Worker II
5 years of service

Welcome to the Team!



Victoria Castañeda
Staff Accountant



Marlene Rubalcaba
Administrative Assistant

CALIFORNIA DOMESTIC WATER COMPANY
AND SUBSIDIARY

JUNE 30, 2022 AND 2021

CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

CALIFORNIA DOMESTIC WATER COMPANY
AND SUBSIDIARY

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated balance sheets	3
Consolidated statements of operation	5
Consolidated statements of shareholders' equity	6
Consolidated statements of cash flows	7
Notes to financial statements	8

EGAN & EGAN
CERTIFIED PUBLIC ACCOUNTANTS
(877) EGAN 4 US EGANCPA.COM
Audit@egancpa.com

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of California Domestic Water Company and Subsidiary ("the Company") which comprise the consolidated balance sheet as of June 30, 2022, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the 2022 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The consolidated financial statements of the Company as of June 30, 2021 and for the year then ended were audited by other auditors whose report dated August 30, 2021 expressed an unmodified opinion on those statements prior to the restatement discussed in Note 13 of the financial statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not

detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Egan & Egan

September 2, 2022
Glendale, CA

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2022 AND 2021

	<u>ASSETS</u>	
	<u>2022</u>	<u>2021</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,238,377	2,970,673
Accounts receivable	8,572,424	9,272,338
Due from responsible parties	628,006	213,639
Material and supplies	17,774	17,774
Prepaid water leases	12,600,855	10,661,026
Prepaid expenses and deposits	<u>94,457</u>	<u>81,545</u>
Total current assets	<u>24,151,893</u>	<u>23,216,995</u>
PROPERTY AND EQUIPMENT		
Land	339,347	339,347
Land improvements	956,479	956,479
Improvements in progress	2,005,245	1,610,893
Pumping plant, reservoirs, distributing systems and other	59,628,478	59,394,222
Machinery and equipment	<u>81,487</u>	<u>60,000</u>
Total property and equipment	63,011,036	62,360,941
Accumulated depreciation	<u>(33,590,113)</u>	<u>(32,154,759)</u>
Net property and equipment	<u>29,420,923</u>	<u>30,206,182</u>
NON-CURRENT ASSETS		
Owned water rights	9,210,321	9,210,321
Water rights investments	<u>13,488,210</u>	<u>13,488,210</u>
Total non-current assets	<u>22,698,531</u>	<u>22,698,531</u>
Total assets	<u>\$ 76,271,347</u>	<u>76,121,708</u>

The accompanying notes are an integral part of these consolidated financial statements.

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2022 AND 2021

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>2022</u>	<u>2021</u>
CURRENT LIABILITIES		
Accounts payable	\$ 4,318,672	4,409,917
Accrued expenses	<u>4,783,531</u>	<u>4,788,533</u>
Total current liabilities	<u>9,102,203</u>	<u>9,198,450</u>
NON-CURRENT LIABILITIES		
Deferred taxes payable	<u>433,913</u>	<u>433,913</u>
Total liabilities	<u>9,536,116</u>	<u>9,632,363</u>
SHAREHOLDERS' EQUITY		
Common stock, \$50 par value, 10,000 shares authorized, 7,984.75 and 7,994 shares issued and outstanding, respectively	399,237	399,700
Preferred stock, Class A, 10,000 shares authorized, 1,624.45 issued and outstanding	20,678,777	20,678,777
Retained earnings	<u>45,657,217</u>	<u>45,410,868</u>
Total shareholders' equity	<u>66,735,231</u>	<u>66,489,345</u>
Total liabilities and shareholders' equity	<u>\$ 76,271,347</u>	<u>76,121,708</u>

The accompanying notes are an integral part of these consolidated financial statements.

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES		
Water sales	\$ 18,609,377	19,043,585
Contributions from Baldwin Park Operable Unit	457,022	416,157
Assessments	<u>551,161</u>	<u>551,944</u>
Total operating revenues	<u>19,617,560</u>	<u>20,011,686</u>
OPERATING EXPENSES		
Purchased water	351,969	630,282
Power	1,856,228	1,697,312
System and volume	6,069,689	5,736,699
Water lease	8,089,972	9,069,551
General and administrative	1,213,543	1,227,890
Directors' fees	92,400	97,000
Depreciation	<u>1,611,661</u>	<u>1,662,278</u>
Total operating expenses	<u>19,285,462</u>	<u>20,121,012</u>
INCOME (LOSS) FROM OPERATIONS	<u>332,098</u>	<u>(109,326)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	671	833
Rental income, net	49,981	52,719
Miscellaneous income, net	25,671	29,257
Investment income from water rights	483,663	471,898
Gain (loss) on disposition of property and equipment	<u>31,500</u>	<u>(19,208)</u>
Total non-operating revenues (expenses)	<u>591,486</u>	<u>535,499</u>
INCOME BEFORE INCOME TAXES	923,584	426,173
PROVISION FOR INCOME TAXES	<u>24,579</u>	<u>37,743</u>
NET INCOME	<u>\$ 899,005</u>	<u>388,430</u>

The accompanying notes are an integral part of these consolidated financial statements.

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	Common Stock		Preferred Stock		Retained Earnings	Total
	Number of Shares	Amount	Number of Shares	Amount		
Balance, June 30, 2020	8,003.25	\$ 400,163	1,624.45	\$ 20,678,777	\$ 45,163,034	\$ 66,241,974
Redemption of stock	(9.25)	(463)			(140,596)	(141,059)
Net income					388,430	388,430
Balance, June 30, 2021, prior to restatement	7,994.00	\$ 399,700	1,624.45	\$ 20,678,777	\$ 45,410,868	\$ 66,489,345
Restatement, Note 13					(512,056)	(512,056)
Balance, June 30, 2021, as restated	7,994.00	399,700	1,624.45	20,678,777	44,898,812	65,977,289
Redemption of stock	(9.25)	(463)			(140,600)	(141,063)
Net income					899,005	899,005
Balance, June 30, 2022	7,984.75	\$ 399,237	1,624.45	\$ 20,678,777	\$ 45,657,217	\$ 66,735,231

The accompanying notes are an integral part of these consolidated financial statements.

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Net income	\$ 899,005	388,430
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,611,661	1,662,278
Gain (loss) on disposition of property and equipment	(31,500)	1,398
Changes in operating assets and liabilities:		
Accounts receivable	187,858	(2,400,798)
Due from responsible parties	(414,367)	47,450
Material and supplies	-	28,544
Prepaid water leases	(1,939,829)	(1,120,442)
Prepaid expenses and deposits	(12,912)	15,654
Accounts payable	(91,245)	1,356,507
Accrued expenses	<u>(5,002)</u>	<u>1,147,454</u>
Net cash provided by operating activities	<u>203,669</u>	<u>1,126,475</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Additions to property and equipment	(794,902)	(1,130,768)
Proceeds on sale of property and equipment	-	7,321
Purchase of owned water rights	<u>-</u>	<u>(216,000)</u>
Net cash used by financing activities	<u>(794,902)</u>	<u>(1,339,447)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Redemption of common stock	<u>(141,063)</u>	<u>(141,059)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(732,296)	(354,031)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,970,673</u>	<u>3,324,704</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,238,377</u>	<u>2,970,673</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for income taxes	\$ <u>20,262</u>	<u>14,967</u>
----------------------------	------------------	---------------

The accompanying notes are an integral part of these consolidated financial statements.

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 1 – Overview and significant accounting policies

Overview

California Domestic Water Company, a California nonprofit mutual benefit corporation (“CDWC”), 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., a California corporation (“Cadway”), owns and leases certain water rights to CDWC. Collectively CDWC and Cadway are referred to as the Company. CDWC sells wholesale water to three of its shareholders. These sales accounted for approximately 96% and 95% of the Company’s water revenues for the years ended June 30, 2022 and 2021, respectively.

Basis of consolidation

The consolidated financial statements of the Company include the accounts of CDWC and Cadway. All material intercompany accounts and transactions have been eliminated in consolidation.

Revenue recognition

Revenue is recognized in accordance with Accounting Standards Codification (ASC) 606 Revenue from Contracts with Customer. 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 common stock owned. Assessments are recognized upon billing. There are no separate distinct performance obligations identified by management. Accordingly, the practical expedient for recording revenue from assessments is used.

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, 2022 AND 2021

NOTE 1 – Overview and 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, 2022 and 2021.

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.

Improvements in progress

Improvements in progress are included within property and equipment. Amounts are recorded at cost. Upon completion of the project, the asset is transferred into the applicable category within property and equipment.

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, 2022, management expects these assets to be fully recoverable.

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 an 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, 2022 and 2021, 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, investment income from water rights in the consolidated statements of operations.

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 1 – Overview and 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.

CDWC is exempt from Federal income tax as a nonprofit mutual benefit organization under Internal Revenue Code Section 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.

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 considered. 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, 2022 and 2021.

Subsequent events

The Company evaluated all events and transactions that occurred after June 30, 2022 up through the date these financial statements were available to be issued on September 2, 2022. No material subsequent events required disclosures.

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, 2022, the prepaid water leases balance consisted of unused water leases and cyclic storage water carried forward to future years.

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 2 – Prepaid water leases, continued

A summary of the Company's changes in the prepaid water lease account is as follows:

FOR THE YEAR ENDED JUNE 30, 2022			
<u>Balance at July 1, 2021</u>	<u>Additions</u>	<u>Expensed</u>	<u>Balance at June 30, 2022</u>
\$ <u>10,661,026</u>	\$ <u>10,029,801</u>	\$ <u>(8,089,972)</u>	\$ <u>12,600,855</u>
FOR THE YEAR ENDED JUNE 30, 2021			
<u>Balance at July 1, 2020</u>	<u>Additions</u>	<u>Expensed</u>	<u>Balance at June 30, 2021</u>
\$ <u>9,540,584</u>	\$ <u>10,611,319</u>	\$ <u>(9,490,877)</u>	\$ <u>10,661,026</u>

NOTE 3 - Property and equipment

Improvements in progress consist of:

	AS OF JUNE 30, 2022		AS OF JUNE 30, 2021	
	<u>Costs to Date</u>	<u>Total Budget</u>	<u>Costs to Date</u>	<u>Total Budget</u>
Treatment	\$ 1,832,150	\$ 3,352,000	\$ 1,452,070	\$ 3,236,000
Distribution	33,017	33,500	33,017	28,000
Other projects	<u>140,078</u>	<u>448,000</u>	<u>125,806</u>	<u>148,000</u>
	<u>\$ 2,005,245</u>	<u>\$ 3,833,500</u>	<u>\$ 1,610,893</u>	<u>\$ 3,412,000</u>

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 4 - Line of credit

Effective March 15, 2022 the Company obtained a \$4,500,000 line of credit to replace existing lines of credit. The line matures March 31, 2024. Borrowings bear interest at the bank's prime rate plus 0.5% with a floor rate of 3.75% (At June 30, 2022 the prime rate was 4.75%). There were no outstanding balances as of June 30, 2022 and 2021. This line of credit is subject to certain financial and nonfinancial covenants. Management believes the Company was in compliance with all covenants as of June 30, 2022 and 2021. 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 5 - Employee benefit and deferred compensation plans

The Company maintains a 401(k) Plan, which covers all employees who have completed 90 days of service. Eligible employees may elect to contribute up the amounts as established by the Internal Revenue Code for defined contribution plans. 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, 2022 and 2021 were \$94,953 and \$89,878, 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's expense was \$26,625 and \$25,000 for the years ended June 30, 2022 and 2021, respectively

NOTE 6 – Provision for income tax

Income tax primarily consists of tax on unrelated business income of CDWC. At June 30, 2022 and 2021, income taxes are as follows:

	<u>FOR THE YEARS ENDED JUNE 30,</u>	
	<u>2022</u>	<u>2021</u>
State	\$ 12,168	24,304
Federal	<u>12,411</u>	<u>13,439</u>
	<u>\$ 24,579</u>	<u>37,743</u>

Deferred tax liabilities have been provided for taxable temporary differences related to an unrealized gain from a 1031 exchange involving water rights. The deferred tax liability was \$433,913 for both years ended June 30, 2022 and 2021. The Federal and State tax returns are open for audit by the tax authorities for three and four years, respectively, after the filing date of the returns.

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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.

Annual payments range from \$50,000 to \$65,000 over the lease term with an expiration date of October 2105. During each year ended June 30, 2022 and 2021, lease expense related to the easement agreement was \$50,000.

At June 30, 2022, future lease payments are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2023	\$ 50,000
2024	50,000
2025	50,000
2026	50,000
2027	50,000
THEREAFTER	<u>4,650,000</u>
	<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. During each year in the years ended June 30, 2022 and 2021, rental income was \$69,240.

The Company rented space to an employee at one of its sites. During the years ended June 30, 2022 and 2021, rent income was \$4,500 and \$6,000, respectively. The tenancy ended during the year ended June 30, 2022.

NOTE 8 - Directors' expense

Effective September 1, 2017, CDWC directors received a stipend of \$200 for each meeting attended for up to seven meetings a month. On June 10, 2022, the Board of Directors revised the Corporate Policy Manual to increase the eligible meetings from seven to eight meetings a month in relation to Directors compensation for service to CDWC. Cadway, Inc. directors were compensated at a fixed stipend of \$600 a month. The adopted compensation structure offers members of the Board of Directors potential earnings of \$26,400 a year. Directors do not receive fringe benefits or retirement contributions. The directors' expense was \$92,400 and \$97,000 for the years ended June 30, 2022 and 2021, respectively.

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 9 - Preferred stock

The Company has authorized 10,000 shares of Class A Preferred Stock. At June 30, 2022 and 2021, 1,624.45 shares were issued and outstanding.

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, 2022 and 2021, 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 - Baldwin Park Operable Unit Agreement

Effective May 9, 2017, CDWC renewed an agreement with various parties related to groundwater contamination in the Baldwin Park Operable Unit of the San Gabriel Valley for a ten-year period. The agreement (referred to as BPOU) provides that the Company and five other water entities, would receive funds over an original period of 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 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 by the Company. Reimbursements of such amounts advanced by the Company are recorded as a reduction to the receivable upon receipt.

As of June 30, 2022 and 2021, approximately \$51,339,000 and \$49,450,000 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 \$1,889,000 and \$1,890,000 was received during the years ended June 30, 2022 and 2021, respectively, of which approximately \$457,000 and \$416,000 was recognized as revenue in the accompanying consolidated statements of operations with the remaining as reimbursement of costs.

NOTE 11 - Related parties

The Company performs accounting services for CAL-WAMANCO, LLC. Fees paid to the Company for each of the years June 30, 2022 and 2021, were \$5,400.

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 12 - Commitments and contingent liabilities

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

NOTE 13 - Restatement of Stockholders' Equity

Stockholders' equity as of December 31, 2021 was restated for a water sales billing issue relating to multiple prior periods for water billed to one of the Company's stockholders. The stockholder notified the Company of water billed but not received due to equipment measurement malfunctions at the metered connection.



California Domestic Water Company

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

CalDomestic.com