California Domestic Water Company

Annual Report
To Shareholders

FY 2022/2023

Board Members, Committees & Management Team

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Michael O. Quinn,
Vice Chairman

Thomas J. Prenovost, Jr.,
Secretary

Christopher D. Blake,
Chief Financial Officer

Members of the Board of Directors

Richard D. Jones

Richard J. Rich

Management

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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

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Donald J. Hannah, Jr.
Richard J. Rich

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Stephanie Alvarado
Ernesto "Che" Venegas

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MANAGEMENT
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Stephanie Alvarado

A Message from

The Chairman and President

A year defined by significant progress and heavy rainfall, FY 2022/2023 brought quite a few unique challenges and rewards. This year California Domestic Water Company ("Company") embarked on implementing its second full year of the 2020 Strategic Plan, primarily focusing on succession planning, outreach and communications, water supply, and finance. In addition to successfully executing the initiatives of the strategic plan, the Company responded quickly to the wetter weather, leveraging increased water supplies and maximizing the more than 20 inches of rain that fell during this year's wet season.

The Main San Gabriel Basin ("Basin"), where the Company produces 100% of its water supply, is finally operating within normal ranges for measured groundwater elevations due to the abundant rainfall this past year. These improved elevations have led to increased well pumping capacities and efficiencies when drawing and meeting the demands of shareholders and other stakeholders. The improved production capacities of the source groundwater wells allowed the Company to advance the schedule of water deliveries to Rowland Water District through Cadway, Inc., leading to increased revenues, which support cash flow constraints realized from continued reductions in overall water sales and alleviate the impact of higher operations and maintenance expenses for shareholders due to inflation.

Along with the additional revenue, the Company received $2.6 million in grant funding from the San Gabriel Basin Water Quality Authority ("WQA") under the Bureau of Reclamation's Federal Funding Program Administration to build our per- and polyfluoroalkyl substances ("PFAS") ion exchange treatment facility. The new facility will treat up to 3,000 gallons per minute of source groundwater from Well 8 and fully restore the Company's total pumping and production capacity to supply the demands of our shareholders. Construction is now underway and will be completed in FY 2023/2024.

The Company also remains extremely active in the management of the Basin to ensure a sustainable water supply for our shareholders. Though water supply conditions have improved and the Basin has officially entered its drought recovery stage, the Basin groundwater elevation is still well below the highest elevation recorded, 295.3 feet in 1983. Understanding this, the Metropolitan Water District of Southern California started delivering imported water to their cyclic storage account in June 2023 to prepare for the next inevitable drought cycle. This imported water will increase the groundwater elevation in the short term and will ease significant groundwater elevation reductions when conditions are dry. As we learned from the extended drought conditions experienced over the past seven years, being prepared and delivering water to the Basin before it is needed is key to maintaining and protecting groundwater reliability.

Looking ahead to next year's opportunities, the Company will continue to enact its strategic initiatives and Basin water management practices, futhering our position and ability to fulfill our mission to deliver a high-quality, reliable water supply at a sustainable and reasonable price to our shareholders.

Donald J. Hannah, Jr.
Chairman

Lynda Noriega
President

The Strategic Plan: A Year in Review

Succession Planning

- Organizational Plan
- Cross-Training Programs
- Professional Development

Outreach & Communications

- Retail Shareholder Educational Campaign
- Main San Gabriel Basin Operations and Conditions

Water Supply

- PFAS Treatment Facility

Finance

- Rules & Regulations Governing Water Service

Fall 2022

August 2022 - Planned and prepared for team building and values workshop with staff.

August 2022 - Developed overall strategy for retail shareholders educational presentation and campaign.

September 2022 - Reviewed opportunities for cross-training exercises and scheduled team-building workshops.

Winter 2022

November 2022 - Hosted half-day organizational plan, internal values and team-building exercise with staff.

November 2022 - Streamlined the quarterly report template to highlight Main San Gabriel Basin operations and hydrologic conditions.

December 2022 - Developed and established goals for revising and updating the Company's Process Manuals.

December 2022 - Received initial $2.3 million grant for the PFAS ion exchange treatment facility.

December 2022 - Presented proposed amendments to the Rules and Regulations Governing Water Service to the Board of Directors.

Spring 2023

January 2023 - Hosted residential shareholders Lunch & Learn presentation.

January 9, 2023 - Opened the Shareholder review period for the Rules and Regulations Governing Water Service.

February 2023 - Developed alternative plan for reaching additional residential shareholders and ongoing engagement, to be implemented in July 2023.

February 2023 - Received additional $300,000 grant for the PFAS ion exchange treatment facility, resulting in a total grant of $2.6 million.

March 2023 - Met with employees to finalize visual display of wall art to memorialize the organizational plan, internal values and team-building exercise.

Summer 2023

May 2023 - Adopted updated Rules and Regulations Governing Water Service with proposed amendments.

June 2023 - Installed office artwork memorializing the internal values of the Company's workforce team.

Making Progress on Treating PFAS

In May 2020, the Company's Board of Directors authorized the construction of a 3,000 gallon per minute ion exchange treatment facility for Well 8 to remove and mitigate the detection of PFAS from source water. Over the next two years the Company worked with the City of El Monte to obtain a conditional use permit for the construction and coordinated with WQA to receive grant funding. FY 2022/2023 proved to be a milestone year for the project. The Company received $2.6 million in grant funding and started construction of the treatment facility. Based on the progress to date, the PFAS ion exchange treatment facility is anticipated for full operation in FY 2023/2024.

Milestones

- **September 2021** - Received conditional use permit from the City of El Monte.
- **December 2022** - Awarded initial $2.3 million in grant funding with an additional $300,000 extended in February 2023. The total grant award now amounts to $2.6 million, covering approximately 57% of the capital costs totaling $4.6 million.
- **January 2023** - Issued Notice to Proceed to RC Foster Corporation to moblize for construction.
- **February 2023** - RC Foster Corporation mobilized at Well 8 construction site.
- **June 2023** - Realized delays in construction due to pipe and materials procurement.

Protecting Assets for Our Shareholders Future

Well 6 Rehabilitation

The Company maintains six active groundwater wells, rehabilitating the wells on a 10-year maintenance cycle to extend the life of the asset.

This past year, the service and rehabilitation for Well 6 included the removal, inspection, repair, and replacement of the pumping equipment, including the bearings, shaft, well pump, and bowl assemblies. Though the motor was also inspected, it did not require any repairs. After completing a thorough inspection of the motor and new parts, the well casing and perforations were cleaned and brushed and the well formation was exercised. The capital investment by the Company for this project in 2022/2023 totaled $60,250.

Bassett Reservoir Exterior Recoating

The 5-million-gallon Bassett Reservoir was originally constructed in 1999. Since then, the storage reservoir has been exposed to various weather elements and climate conditions. Exposed epoxy coatings typically have a useful life of 20 to 25 years and the Bassett Reservoir has been in service for nearly 24 years.

The Company contracted with Simpson Sandblasting and Special Coating, Inc. ("Simpson") for the work and invested $317,800 in the project in 2022/2023.

While Simpson was working on the exterior coating, they identified some rust and corrosion on the beams of the roof to the reservoir, which could not be identified during the interior dive inspection. The Board of Directors then authorized staff to work with Civiltec Engineering in FY 2023/2024 to develop a feasibility study for repairing the corrosion with minimal impacts to regular operations.

Simplifying Service for Retail Shareholders

Over the last 25 years, the Company has been taking steps to become a 100% wholesale water provider. Since the Company's retail shareholders account for a small percentage of total water deliveries, the Company aims to streamline operations and resources to better serve our shareholders and their customers.

About 170 residential properties are Company shareholders. The Company no longer maintains any retail water facilities, which means these shareholders are serviced through the City of La Habra and Suburban Water Systems. Those systems charge the Company for services to those shareholders, and the Company then bills shareholders at the Company's established rates.

As part of its strategic initiatives for FY 2022/2023, the Company started an information and education campaign to engage with retail shareholders, explain the long-term goals and objectives of the Company and promote service transfers. In January 2023, the Company's management team hosted an in-person Lunch & Learn event for residential shareholders. Since the event did not result in the attendance and engagement expected, management developed an alternative plan for reaching retail shareholders. The plan to be implemented throughout FY 2023/2024 includes:

Developing and creating a variety of educational and informational materials for retail shareholders that will:

1. Summarize the goals and objectives of the Company;
2. Explain the benefits of transferring water service to the appropriate water provider; and
3. Outline the simple process of selling their share of common stock.

Strategizing the release and distribution of different informational and educational materials designed to make an impact when delivered and keep information relevant for the retail shareholders.

A Forward-Focused Mainline Solution

Long-Range Financial Plan

The 2022 Long-Range Financial Plan details the Company's plans to realize its water system capital improvement plan over the next 10 years. The 10-year capital improvement plan prioritizes replacing nearly 6,800 linear feet of the 48" M-Line for an estimated $12 million. To generate capital while minimizing annual water delivery rate increases, the Long-Range Financial Plan, which addressed feedback received from shareholders during the review process, includes the sale of 725 common stock shares on a pro-rata basis to shareholders – 375 pro-rata shares in FY 2022/2023 and 350 pro-rata shares in FY 2025/2026 – generating approximately $11,000,000 in required capital. Once the capital is generated, construction on the project would start in FY 2026/2027 and span through FY 2027/2028.

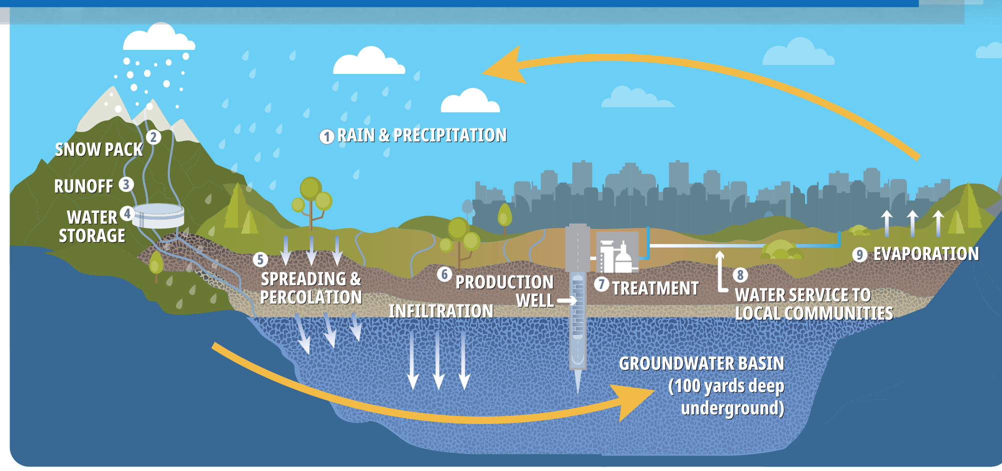
2022/2023 Sale and Issuance of Common Stock Shares

On September 16, 2022, the Board of Directors authorized the issuance of 375 shares of common stock, and based on the interest received from shareholders, on November 18, 2022, the Board of Directors authorized issuing 375 shares of common stock according to the pro-rata share distribution based on ownership. By January 2023, management finalized and executed the Common Stock Purchase Agreements with Suburban Water Systems for 138 shares, the City of La Habra for 125 shares, and the City of Brea for 112 shares, resulting in $5,718,750 in capital proceeds for the M-Line Replacement Project.

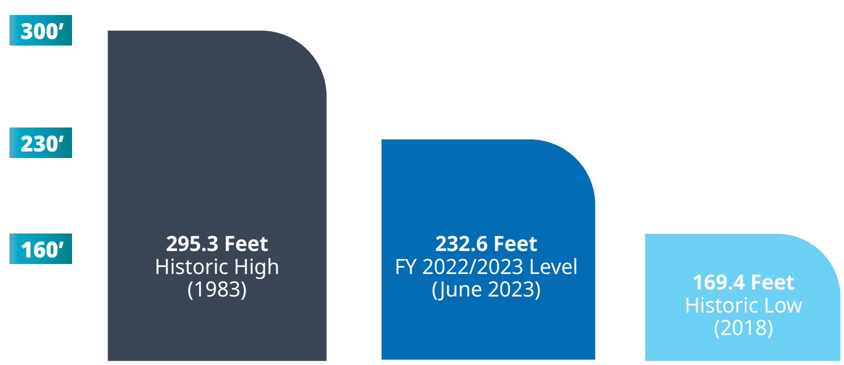
Main San Gabriel Basin Updates

In the first half of FY 2022/2023, local precipitation only totaled 5.56 inches, roughly average for that time of year. Following that standard amount of rainfall, atmospheric rivers brought over 20 inches of rain to the Basin in January, February, and March 2023. This is more rain in a three-month period than is typically realized in an entire year. That additional rainfall and stormwater runoff advanced local groundwater replenishment efforts, resulting in a significant increase in groundwater elevation and promoting drought recovery in the Basin.

The Baldwin Park Key Well measured 232.6 feet on June 23, 2023. This measurement, which is recorded and tracked by Watermaster on a weekly basis, is used as a general indication of groundwater elevations throughout the Basin.



Historic Groundwater Elevations



Basin normal operating range: 200-250 feet

Atmospheric River Basin Impacts

More Rainfall + **100% Allocation** + **Groundwater Replenishment Increased** = **Basin Drought Recovery**

155% More Rainfall than Long-term Average

More rainfall in 3 months than an entire normal year.
Long-term average = 18.5"
Recorded rainfall = 28.06"

100% Imported Water Allocation from the State Water Project System

MWD has agreed to predeliver up to 125,000 acre-feet for cyclic storage and drought preparedness in the Basin.

More than 300,000 Acre-feet of Replenished Groundwater

More than 3 times the typical amount of acre-feet spread.
1974-2011 = 111,000 acre-feet
Runoff Historical Average

Resulting in Basin Drought Recovery

Increase of 53.6' in measured groundwater elevation, bringing the Basin within its Normal Operating Range.
Measurement in January 2023 = 179.0'
Measurement in June 2023 = 232.6'

Celebrating the Team

Honors & Recognition

At Cal Domestic, our team is here to serve you! We are pleased to applaud the following staff and Board of Directors accomplishments.

Richard D. Jones
Board of Directors
30 years of service

Staff

Stephanie Alvarado
Accounting and Office Manager
5 years of service

Ernesto "Che" Venegas
Director of Water Operations
25 years of service

Operations Report

Annual Totals: FY 22/23

Water Production and Distribution in acre-feet			Water Treatment in acre-feet		
Bassett Well Field Lift 1W	Plant 3 Lift 1E	Plant 6 Lift 2E	Air Stripping VOCs	Ion Exchange Perchlorate	Ultra Violet Light NDMA
20,973.92	15,030.98	2,258.10	13,570.18	6,165.08	6,165.08

In Comparison | Annual Totals: FY 21/22

Bassett Well Field Lift 1W	Plant 3 Lift 1E	Plant 6 Lift 2E	Air Stripping VOCs	Ion Exchange Perchlorate	Ultra Violet Light NDMA
23,531.00	15,557.51	2,090.58	15,096.57	6,173.45	6,173.45

Annual Production

16,000 – 25,000 Acre-feet

Over 6 Billion Gallons
Produced Annually

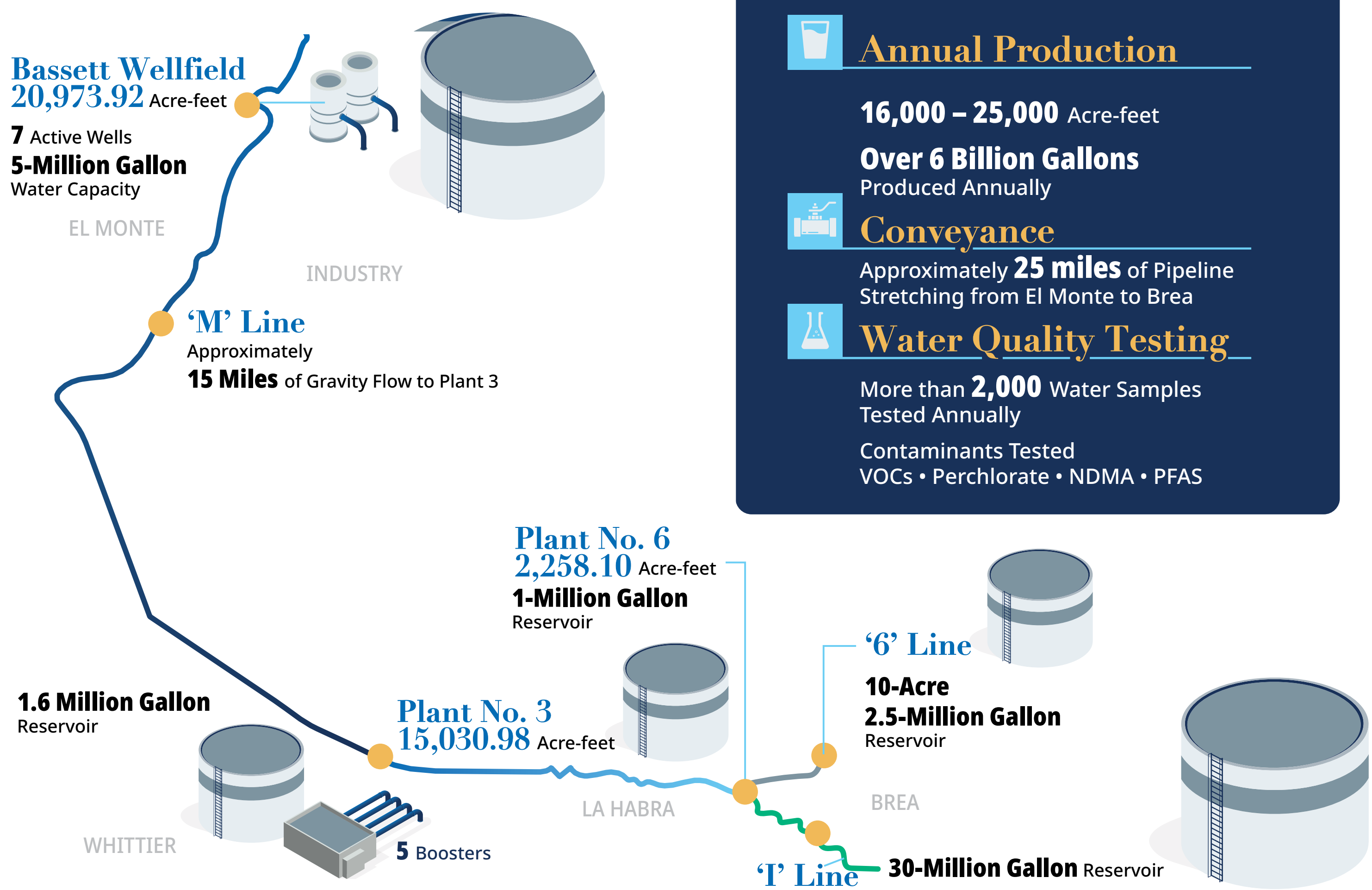
Conveyance

Approximately **25 miles** of Pipeline
Stretching from El Monte to Brea

Water Quality Testing

More than **2,000** Water Samples
Tested Annually

Contaminants Tested
VOCs • Perchlorate • NDMA • PFAS



Advanced Water Treatment Technologies

Air Stripping
13,570.18 acre-feet
Treated

Ion Exchange
6,165.08 acre-feet
Treated

Ultra Violet Light
6,165.08 acre-feet
Treated

Chlorination

pH Control


EAST WHITTIER
1890
LAND & WATER CO.
SIMON J. MURPHY
California Domestic Water Co.

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

JUNE 30, 2023 AND 2022

CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	13
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated balance sheets	15
Consolidated statements of operation	17
Consolidated statements of shareholders' equity	18
Consolidated statements of cash flows	19
Notes to financial statements	20

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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 sheets as of June 30, 2023 and 2022, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2023 and 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.

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 12, 2023
Glendale, CA

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2023 AND 2022

ASSETS

		2023	2022
CURRENT ASSETS:			
Cash and cash equivalents	$	11,732,685	2,238,377
Accounts receivable		5,476,709	8,572,424
Due from responsible parties		467,528	628,006
Material and supplies		17,774	17,774
Prepaid water leases		14,291,425	12,600,855
Prepaid expenses and deposits		152,071	94,457
Total current assets		32,138,192	24,151,893
PROPERTY AND EQUIPMENT			
Land		339,347	339,347
Land improvements		1,013,359	956,479
Improvements in progress		3,373,309	2,005,245
Pumping plant, reservoirs, distributing systems and other		60,093,399	59,628,478
Machinery and equipment		81,487	81,487
Total property and equipment		64,900,901	63,011,036
Accumulated depreciation		(35,084,517)	(33,590,113)
Net property and equipment		29,816,384	29,420,923
NON-CURRENT ASSETS			
Owned water rights		9,210,321	9,210,321
Water rights investments		13,488,210	13,488,210
Total non-current assets		22,698,531	22,698,531
Total assets	$	84,653,107	76,271,347

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

CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2023 AND 2022

LIABILITIES AND SHAREHOLDERS' EQUITY

		2023	2022
CURRENT LIABILITIES			
Accounts payable	$	6,289,522	4,318,672
Accrued expenses		4,298,892	4,783,531
Total current liabilities		10,588,414	9,102,203
NON-CURRENT LIABILITIES			
Deferred income		1,444,240	-
Deferred taxes payable		433,913	433,913
Total liabilities		12,466,567	9,536,116
SHAREHOLDERS' EQUITY			
Common stock, $50 par value, 10,000 shares authorized, 8,351.25 and 7,994.75 shares issued and outstanding, respectively		417,562	399,237
Preferred stock, Class A, 10,000 shares authorized, 1,624.45 issued and outstanding		20,678,777	20,678,777
Retained earnings		51,090,201	45,657,217
Total shareholders' equity		72,186,540	66,735,231
Total liabilities and shareholders' equity	$	84,653,107	76,271,347

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, 2023 AND 2022

	2023	2022
OPERATING REVENUES		
Water sales	$ 14,474,035	18,609,377
Contributions from Baldwin Park Operable Unit	360,194	457,022
Assessments	810,468	551,161
Total operating revenues	15,644,697	19,617,560
OPERATING EXPENSES		
Purchased water	300,640	351,969
Power	1,918,714	1,856,228
System and volume	5,558,106	6,069,689
Water lease	5,542,520	8,089,972
General and administrative	1,296,458	1,213,543
Directors' fees	95,200	92,400
Depreciation	1,618,278	1,611,661
Total operating expenses	16,329,916	19,285,462
(LOSS) INCOME FROM OPERATIONS	(685,219)	332,098
NON-OPERATING REVENUES (EXPENSES)		
Interest income	18,643	671
Rental income, net	48,275	49,981
Miscellaneous income, net	11,689	25,671
Investment income from water rights	498,042	483,663
Gain on disposition of property and equipment	-	31,500
Total non-operating revenues (expenses)	576,649	591,486
(LOSS) INCOME BEFORE INCOME TAXES	(108,570)	923,584
PROVISION FOR INCOME TAXES	29,296	24,579
NET (LOSS) INCOME	$ (137,866)	899,005

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, 2023 AND 2022

	Common Stock		Preferred Stock			
	Number of Shares	Amount	Number of Shares	Amount	Retained Earnings	Total
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 14					(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
Redemptions 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
Redemptions of stock	(8.50)	(425)			(129,150)	$ (129,575)
Issuances of stock	375.00	18,750			5,700,000	5,718,750
Net loss					(137,866)	(137,866)
Balance, June 30, 2023	8,351.25	417,562	1,624.45	20,678,777	51,090,201	$ 72,186,540

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, 2023 AND 2022

	2023	2022
CASH FLOW FROM OPERATING ACTIVITIES		
Net (loss) income	$ (137,866)	899,005
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	1,618,278	1,611,661
Gain on disposition of property and equipment	-	(31,500)
Changes in operating assets and liabilities:		
Accounts receivable	3,095,715	187,858
Due from responsible parties	160,478	(414,367)
Prepaid water leases	(1,690,570)	(1,939,829)
Prepaid expenses and deposits	(57,614)	(12,912)
Accounts payable	1,970,850	(91,245)
Accrued expenses	(484,639)	(5,002)
Deferred income	1,444,240	-
Net cash provided by operating activities	5,918,872	203,669
NET CASH FLOW FROM INVESTING ACTIVITIES		
Additions to property and equipment	(2,013,739)	(794,902)
CASH FLOW FROM FINANCING ACTIVITIES		
Sales of common stock	5,718,750	-
Redemptions of common stock	(129,575)	(141,063)
Net cash provided (used) by financing activities	5,589,175	(141,063)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,494,308	(732,296)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,238,377	2,970,673
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 11,732,685	2,238,377

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	2023	2022
Cash paid for income taxes	$ 37,500	20,262

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

NOTE 1 – Overview and significant accounting policies

Overview
California Domestic Water Company, a California 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 93% and 96% of the Company's water revenues for the years ended June 30, 2023 and 2022, 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 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.

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, 2023 and 2022.

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, 2023, 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, 2023 and 2022, 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.

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 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, 2023 and 2022.

Subsequent events
The Company evaluated all events and transactions that occurred after June 30, 2023 up through the date these financial statements were available to be issued on September 12, 2023. No material subsequent events required disclosures.

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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, 2023 and 2022, the prepaid water leases balance consisted of unused water leases and cyclic storage water carried forward to future years

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

FOR THE YEAR ENDED JUNE 30, 2023			
Balance at July 1, 2022	Additions	Expensed	Balance at June 30, 2023
$ 12,600,855	$ 8,831,989	$ (7,141,419)	$ 14,291,425

FOR THE YEAR ENDED JUNE 30, 2022			
Balance at July 1, 2021	Additions	Expensed	Balance at June 30, 2022
$ 10,661,026	$ 10,029,801	$ (8,089,972)	$ 12,600,855

NOTE 3 - Property and equipment

Improvements in progress consist of:

	AS OF JUNE 30, 2023		AS OF JUNE 30, 2022	
	Costs to Date	Total Budget	Costs to Date	Total Budget
Treatment	$ 2,863,958	$ 4,330,000	$ 1,832,150	$ 3,352,000
Distribution	33,017	33,500	33,017	33,500
Other projects	476,334	489,500	140,078	448,000
	$ 3,373,309	$ 4,853,000	$ 2,005,245	$ 3,833,500

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, 2023 the prime rate was 8.25%). There were no outstanding balances as of June 30, 2023 and 2022. 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, 2023 and 2022. 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 to 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, 2023 and 2022 were $123,221 and $94,953, respectively.

The Company sponsors 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 $29,021 and $26,625 for the years ended June 30, 2023 and 2022, respectively

NOTE 6 – Provision for income tax

Income tax primarily consists of tax on unrelated business income of CDWC. At June 30, 2023 and 2022, income taxes are as follows:

	FOR THE YEARS ENDED JUNE 30,	
	2023	2022
State	$ 20,848	12,168
Federal	8,448	12,411
	$ 29,296	24,579

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, 2023 and 2022. 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.

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, 2023 and 2022, lease expense related to the easement agreement was $50,000.

At June 30, 2023, future lease payments are as follows:

Years Ending June 30,	Amount
2024	$ 50,000
2025	50,000
2026	50,000
2027	50,000
2028	50,000
THEREAFTER	4,600,000
	$ 4,850,000

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, 2023 and 2022, rental income was $69,240.

NOTE 8 - Directors' expense

On June 10, 2022, the Board of Directors revised the Corporate Policy Manual to increase the eligible meetings for payment of the Board of Directors stipend 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 $95,200 and $92,400 for the years ended June 30, 2023 and 2022, respectively.

NOTE 9 - Common stock

During the year ended June 30, 2023, certain existing shareholders purchased 375 additional shares of the Company's common stock for $15,250 each share. The total received from the existing shareholders was $5,718,750.

NOTE 10 - Preferred stock

The Company has authorized 10,000 shares of Class A Preferred Stock. At June 30, 2023 and 2022, 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, 2023 and 2022, 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 11 - 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, 2023 and 2022, approximately $53,519,000 and $51,339,000 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 $2,180,000 and $1,889,000 was received during the years ended June 30, 2023 and 2022, respectively, of which approximately $360,000 and $457,000 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 for each of the years June 30, 2023 and 2022 were $5,400.

NOTE 13 - Commitments and contingent liabilities

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.

Commitments
The Company has received grant funding for a well treatment facility from the San Gabriel Basin Water Quality Authority (“WQA”) under a water quality program using Federal funds. The approved award amount totals $2,600,000. Grant funds are received upon proof of incurred expenses and progress payments made to vendors in accordance with the terms of the grant and approval by WQA. At June 30, 2023, improvements in progress include $2,839,612 for project. The Company records receipt of grant funds as deferred revenue to be recognized throughout the useful life of the treatment facility.

NOTE 14 - Restatement of Stockholders' Equity

Stockholders' equity as of June 30, 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

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