2015-2016
Annual Report
To Shareholders

California Domestic Water Company
California Domestic Water Company/Cadway, Inc.

LIST OF OFFICERS AND COMMITTEES

OFFICERS OF THE 2016 BOARD

Richard D. Jones, Chairman
Jerry Kolb, Vice-Chairman
Michael O. Quinn, Secretary
Richard Rich, Chief Financial Officer
James M. Byerrum, President
Lynda Noriega, Vice President/General Manager
Esmeralda Evangelista, Assistant Secretary and Treasurer

Other Directors
John Price
Thomas Prenovost, Jr.

Administrative Committee
Richard Rich, Chairman
Richard D. Jones
Thomas Prenovost, Jr.
John Price

Personnel Committee
Michael O. Quinn, Chairman
Thomas Prenovost, Jr.

Water Rights Acquisition
Jerry Kolb, Chairman
Thomas Prenovost, Jr.
Richard Rich
John Price

Asset Management Committee
Jerry Kolb, Chairman
John Price
Richard Rich

Strategic Planning Committee
Michael O. Quinn, Chairman
Richard D. Jones
Thomas Prenovost, Jr.

401(k) Trustees
Richard Rich, Chairman
Richard D. Jones
Thomas Prenovost, Jr.
Michael O. Quinn

Audit Committee
John Price, Chairman
Richard D. Jones
Thomas Prenovost, Jr.
Michael O. Quinn

COMPANY EXECUTIVES

James M. Byerrum, President
Lynda Noriega, Vice President/General Manager
Ernesto Venegas, Water Superintendent
Esmeralda Evangelista, Finance and Administration Manager

COUNSEL AND AUDITOR

James D. Ciampa, General Counsel, Lagerlof Senecal Gosney & Kruse LLP
Kenneth Pun, Managing Partner and Paul Kaymark, Engagement Partner, The Pun Group

COVER PHOTO: Pipeline replacement project.
Continuing to Run a Tight Ship
A Message From the Chairman and President

California Domestic Water Company (CDWC or Company) has been working steadily for several decades at continual improvement, and has completed the largest part of this effort, which was a complete rebuild of the entire water system that began in 1996 and continued until recently. Our task now and in the coming years is to continue improving and optimizing all aspects of the business so we can continue providing high quality and ample supplies of water to our shareholders at the lowest reasonable cost.

Key to our long-term success will be to maintain our motivated, experienced, and highly trained staff team. This year, we acted to ensure long-term management continuity and excellence by hiring Lynda Noriega, an experienced and effective manager who will ultimately replace Jim Byerrum when he retires as Company President.

In recent years, as the system rebuild neared completion, we turned our focus to intensifying maintenance to further improve the reliability and cost-effectiveness of our water system. This year, extensive planned maintenance was completed on water wells, pumps and motors, and the Supervisory Control and Data Acquisition communication system was upgraded.

Despite decreased water sales and revenue due to the drought and the transfer of retail customers, finances were held steady and remain strong.

The Management team remains active in local, regional and statewide forums that protect and benefit the Company and its shareholders, such as California Association of Mutual Water Companies, Main San Gabriel Basin Watermaster, and others.

We are pleased to report another good year for our Company and shareholders, and look forward to continuing to serve our shareholders.

Sincerely,

Richard D. Jones
Chairman

James M. Byerrum
President
Continuous System Improvement Achieved Through

With fewer major upgrade projects needed in recent years, the focus has turned to intensified maintenance of pumps, motors, and other systems to make the water system easier to operate, more reliable, and to improve the efficiency of operations.

Upgrading Communication Systems

CDWC utilizes a Supervisory Control and Data Acquisition (SCADA) system to monitor and control its pumps, treatment processes, and valves. This is a radio and computer-controlled system that enables quick reactions to events in the field. Both the SCADA and radio transmission systems were upgraded this year.

One benefit of the upgrades is that the new equipment can be programmed much more rapidly and at a lower cost over the internet, whereas the previous system required onsite visits by programmers and more laborious procedures. What’s more, the new radio system allows the Company to communicate independently of the phone system, providing increased reliability and uptime.

Plant 3 Upgrades. Work was recently completed to replace the main hub and equipment at Plant 3.

I-Line Telemetry and Equipment Replacements. Although there have been no failures on this system, the SCADA system was updated because it was obsolete and no longer supported, and the radios were outdated.

Berry Street Reservoir and Plant 6 Upgrades. Additionally, the radios between the Berry Street Reservoir and Plant 6 were upgraded.

Bassett Wellfield Communication Equipment Replacements. Staff and contractors replaced radios for communications between wells and treatment plants. This system has been operational since 2001, and the equipment was no longer supported by the manufacturer. The new radio equipment was installed in the following locations: Well 3, Well 10, Well 14, Ion Exchange Plant, Trojan Unit 1, Trojan Unit 2, and the Volatile Organic Compound (VOC) Treatment Plant.

Reservoir Tank Upgrade

District reservoirs have water level detectors that transmit real-time information through the SCADA system to maintain water levels and minimize pressure instabilities in the large 48-inch M-Line. The Company added a second water level transmitter inside the reservoir to provide backup to the existing pressure transducer technology. The new water-level detector also uses a different technology (ultrasonic) to provide redundancy.
Intensified Maintenance Program

Extensive Pump Maintenance

A high priority for this year was to undertake extensive pump and motor evaluation and maintenance to ensure long-term cost-effectiveness and reliability. For example:

**Plant 3 Pump Station Maintenance.** The 400 horsepower motors and 5,000 gallon-per-minute pumps have been running 24/7 for nine years. Each pump was removed and examined, and while no major issues were found, they were cleaned and inspected, the bearings replaced, and the motors rewound and balanced to ensure continued reliable performance. The pumps were also cleaned and inspected, and the bearings and seals replaced.

**Bassett Wellfield Well 3 Rehabilitation.** All Company wells are on a ten-year planned rehabilitation cycle. This year, work on Well 3 included: videotaped the well casing; wire brushed, dual swabbed and airlifted the debris from the casing; bailed the well; cleaned the line shafts; cleaned, inspected and rehabilitated or replaced bowls as required; rebuilt the motor; and balanced the equipment.

**Bassett Wellfield Rebuilt Motor for Well 14.** The motor windings had failed, so the motor for Well 14 was rebuilt. The actions included: repaired the bearing housing; cleaned and inspected all parts, replaced the bearings; and rewound and balanced the motor.

**Hart Pump Station.** Replaced an aging 6-inch turbine meter with an ultrasonic meter.

---

*David Brown working on Plant 3.*

**Treatment Plant Maintenance**

**VOC Treatment Plant.**

Replaced acid injection pump for Tower 1. This is one of four pumps that has been operational since 2006. They are maintained on an annual basis.

Changed out 21,000 lbs. of carbon on Tower 1 and Tower 3. This is an annual change required by the Company’s South Coast Air Quality Management District Operating Permits, involving the replacement of support beams for the carbon beds inside the tower, calibrating pH pumps and analyzers, and updating the control software.
With System Complete, Upgrades Focus on Cost Savings and Reliability

The Company has focused the past 20 years on rebuilding its entire water system. With that effort complete, the focus in recent years is on continuing to keep up with needed upgrades as facilities age, and on improving reliability and cost-effectiveness.

Repairs and Upgrades to Major Pipelines

**M-Line Leak Repaired.** The M-Line is a major, 48-inch concrete main that runs under the 60 Freeway. A leak was discovered in the pipeline and repaired this year. The leak was caused by a circumferential crack, which required the repair to be done from the inside of the pipe. This required a series of steps that started with shutting off water supplies to that line, dewatering the pipe, entering the pipe through a manhole, repairing the crack with mortar, disinfecting the repair, and refilling the pipe at about 1,000 gallons-per-minute.

**M-Line 48-inch Pipeline Replacement Project:** During inspection of the leak, CDWC discovered that this major pipeline was buried beneath the 60 Freeway without a protective casing, which contradicted written records. A leak in the pipeline could damage the freeway and result in substantial liability. This year, staff worked to secure construction permits from Union Pacific Railroad, Caltrans, Los Angeles County Department of Public Works, and City of Industry. The project will replace about 3,300 feet of 48-inch pipeline that was installed in the 1960s and is no longer reliable. This project was planned as part of the adopted CDWC Capital Improvement Program, and the estimated $2.6 million cost will be funded with cash reserves.

**D-Line Leak Repaired.** This 24-inch pipe along Santa Fe Street in Whittier had a history of leaks. It was permanently repaired by lining the inside of the pipe with 300 feet of PVC pipe. In March 2016, the repaired pipeline was transferred to Suburban Water Systems.

Construction of a New Driveway into the Headquarters

**Whittier Boulevard Driveway.** Staff organized the construction of a new driveway approach for the office. This project included altering the center median in Whittier Boulevard in order to allow for left turns onto Company property. The final cost of the project totaled $275,000.
Providing Benefits for Shareholders by Working with Others

CDWC is active in the region and across the state to ensure its shareholders’ water supply and financial interests are represented and protected. This engagement is necessary because CDWC’s water supply is from a large regional groundwater basin that is used and managed by dozens of local suppliers, state water importers, groundwater regulators and others. Also, as a mutual water company, CDWC is impacted by state and federal rules, taxes, and regulations.

Founder and Leader of CalMutuals

Company President Jim Byerrum took a lead role in forming the California Association of Mutual Water Companies (CalMutuals) in 2013. Jim continues to serve as President and Chairman of the Board. The Association formed an insurance pool that will sustain the operation financially, allowing it to advocate for mutual water companies cost-effectively.

Membership in CalMutuals Helped CDWC Obtain Significant Tax Savings. As a result of contacts made through CalMutuals, the Company applied for tax relief in both Orange and Los Angeles Counties, resulting in annual savings of $420,000 and net refunds of $1,164,000.

President Serves as Chairman of Main San Gabriel Basin Watermaster

CDWC’s President has served as Chairman of Watermaster for a number of years. During his tenure, he has helped Watermaster to proactively and vigorously work to ensure long-term water supply and water quality security in the face of the diminished reliability of imported water supplies, which helps protect CDWC’s and its shareholders’ valuable water rights.

Water Lease to Suburban Water Systems

Suburban Water Systems requested and the Board of Directors authorized the lease of 3,000 acre-feet of Main San Gabriel Basin water rights for the 2015-16 water year. The leased water rights were taken from the 16,000 acre-feet of water rights that CDWC has ‘banked’ in reserve, and were leased at the then current rate of $627.30 per acre-foot. This transaction provides revenue to the Company, while assisting a neighbor.
Maintaining Financial Strength Through the Drought

As a result of the drought and the transfer of residential customers to the La Habra Utility Authority, water sales and revenue fell last year. Nonetheless, Company finances remain strong.

Operating Revenue Decreased 8%

Operating revenues decreased from $8.8 million to $8.1 million, a decrease of 8% due to decreased water sales from 20,600 acre-feet to 18,000 acre-feet of water.

Operating Expenses Decreased 5%

Operating expenses decreased along with the decrease in revenue and sales from $9.8 million to $9.3 million. The primary reasons for the decreased expenses included:

- Power Expenses Decreased from $1.3 million to $1.1 million, a decrease of 15% due to reductions in electrical rates caused by lower natural gas prices.
- System and Volume Costs Decreased from $2.3 million to $2 million, a decrease of 13% due to tax savings as a result of the property tax exemption.

Maintained Financial Stability Despite Decrease in Sales

Despite the decrease in Operating Revenues, the Company’s Assets and Shareholders’ Equity balances remained stable as shown below:

- A one percent decrease in Assets from $69.0 million to $68.2 million.
- A one percent decrease in Shareholders’ Equity from $65.1 million to $64.0 million.

Common Shares of Stock. CDWC has been purchasing common shares of stock over the years from retail customers as they are transferred to retail water agencies. CDWC has accumulated 223 shares with a value of approximately $3.2 million. This benefits retail customers when they sell their shares and improves the Company’s focus on its wholesale shareholders.

BPOU Cleanup Agreement Has Paid Company $40.1 Million to Date

$1.7 Million in Reimbursements Received in 2015-16. In 2002, CDWC along with four other water utilities entered into the Baldwin Park Operable Unit (BPOU) Project Agreement with eight private entities that were identified by United States Environmental Protection Agency as Responsible Parties (RPs) for contributing to groundwater contamination within the area. The resulting BPOU Project Agreement requires the RPs to reimburse the water utilities all capital costs to construct water treatment facilities and 100% of the annual operating and maintenance expense to operate those facilities. To date, CDWC has received $40.1 million in reimbursements – costs that would have been borne by shareholders had the Agreement not been in place.

Negotiations for Updated Agreement. The BPOU Project Agreement has a fifteen-year term and is scheduled to expire in May 2017. Negotiations were started early to ensure they are complete before the original agreement expires. The last major hurdle is to secure an insurance policy that protects the parties from unknown chemicals and potential business interruption. In 2002, the Company was able to secure such a policy, however, similar coverage is not available today. A solution to this challenge is important since as technology improves there is a possibility of discovering emerging chemicals that are not known today.
Looking Ahead to Ensure Management Team Continuity

In 2014, the Board of Directors directed staff to begin an ‘unofficial’ recruitment for a candidate with the ability to lead both the administration and field operations upon the retirement of the President. The recruitment was completed successfully.

Lynda Noriega Accepts Position as Successor to President Jim Byerrum

Following a long search, Lynda Noriega was hired as Vice President/General Manager of CDWC and eventual successor to the President, Jim Byerrum. Lynda has extensive experience in all areas of water management and is a long-time local manager familiar with the Main San Gabriel Basin and local water players. Below is a quick summary of her qualifications and experience.

- **15 Years’ Experience in the Water Industry.** Lynda began her career in field operations as the assistant to the Operations and Maintenance Manager, and worked her way up to Finance and Administration Manager before becoming a General Manager.

- **Experienced General Manager.** Lynda served as General Manager of Valley County Water District in Baldwin Park, which is one of the entities engaged in the groundwater remediation through the BPOU.

- **Finance Expertise.** Lynda holds a Bachelor of Science Degree in Business Administration and Accounting from California State University, Fullerton.

- **Certified Water Operator.** Lynda obtained State of California D2 and T2 Water Operator’s Certifications.

Lynda is known for her intelligence, professionalism, and broad skill set. She is well-known and respected in the San Gabriel Basin, and highly regarded as a rising leader within the water community, including among producers, Main San Gabriel Basin Watermaster, San Gabriel Basin Water Quality Authority, Upper San Gabriel Valley Municipal Water District, and within the BPOU. Examples of the descriptions one hears about Lynda, include: honest, intelligent, articulate, professional, poised, loyal, responsible, and reliable. We welcome her to the CDWC family.

---

**President’s Employment Contract Extension**

The Board of Directors approved the extension of the President’s Employment Contract through June 30, 2021.

---

The early hiring of Lynda provides time for a transition period with the current President of the Company still working. This will allow the establishment of firm relationships with employees, shareholders, consultants, vendors, and the Board of Directors.
How the Company Is Ensuring a Reliable Water Supply

During the ongoing drought, groundwater levels have fallen to record low levels – reminding us of the importance of long-term water supply management. Fortunately, CDWC needs no reminding, since the Company has been working steadily to ensure long-term supplies for well over a decade.

Active in the Lease Market. CDWC is one of the major lesors in the Main San Gabriel Basin. One of the earlier and largest water supply deals was the WAMANCO (acronym for Water Management Company) deal through the Pellissier Co-Tenancy, which was first entered into in 2002. This agreement has allowed CDWC to incrementally buy permanent water rights as they become available, and CDWC will eventually own an additional 6,490 acre-feet of coveted water rights because of it.

Active in Regional Water Management. The CDWC President has been active in regional water supply planning through his Chairmanship of Main San Gabriel Basin Watermaster. During his tenure, a wide variety of new water supply programs have been developed that improve long-term water supply reliability, including: purchasing imported water before it is needed and storing it in the ground for future need; pursuing recycled water opportunities; increasing the amount of stormwater recharged into the Basin; and promoting increased conservation by customers.

Our Supply Is in the Deepest Part of the Basin and the Basin Is Enormous. For example, since the drought began six years ago, the Main San Gabriel Basin has lost .48 million acre-feet of water and 7.42 million acre-feet remain. Numerous new and existing water supply programs are designed to refill the Basin after the drought.

Lowered Well Pumping Equipment. The Company has lowered well bowls and pump assemblies by 30 feet so they continue to perform effectively as water levels continue to decline during the drought. This is costly – up to $250,000 per well – but ensures continued water supply reliability for our shareholders.
Three Related Entities Support the Mission

The mission of CDWC is to provide its stockholders with a reliable water supply that meets all water quality regulations at a reasonable price. This mission is supported and enhanced by the three related organizations described below.

Cadway, Inc.

Cadway was originally formed in 1964 as a property holding and management company responsible for managing the housing and properties originally owned by CDWC. At that time, company housing was provided by CDWC to allow operators of the water system to reside next to the water system pump stations as a means of efficiently monitoring the system conditions and controls. This was necessary since the CDWC water system and facilities spanned from the City of Baldwin Park to the City of Brea. Over time, and as technology advanced, CDWC invested in water system communications improvements, which lessened the need for maintaining company housing and prompted Cadway to divest itself from its ownership of a majority of the company properties. Cadway remains a water rights holder in the Main San Gabriel Basin, which it leases to CDWC on an annual basis for the benefit of its shareholders. Cadway is a wholly owned subsidiary of CDWC, and both Companies share the same employees and members of the Board of Directors.

Pellissier Co-Tenancy

A Co-Tenancy was formed in 2002, providing each of the more than 40 participants, including the Pellissier Family members, with a percentage interest in 6,490 acre-feet of prescriptive pumping rights in the Main San Gabriel Basin. CDWC and Cadway are Co-Tenants with ownership interests in the Co-Tenancy. CDWC was originally brought in as a participant to purchase available interests, or prescriptive pumping rights, for sale by other Co-Tenants. Cadway currently owns a 13.19213% interest in the Co-Tenancy and CDWC owns a 10.32437% interest in the Co-Tenancy, for a total interest of 23.5165%. It is anticipated the CDWC will eventually own 100% of the 6,490 acre-feet of prescriptive water rights held in the Co-Tenancy, ultimately providing a needed enhancement to Company water supplies that will benefit shareholders.

WAMANCO

WAMANCO, standing for “Water Management Company,” is the company formed to manage the water rights owned by the Co-Tenancy. The managing members include three Pellissier Family members, one representative of CDWC (Mr. Jim Byerrum), and one representative of Covina Irrigating Company, another Co-Tenant. These members meet three times per year to review the budgets, financial statements, water rights transactions and Main San Gabriel Basin water conditions. CDWC provides administrative support for WAMANCO and maintains all of the files for the individual Co-Tenants. CDWC receives $5,400 annually to provide these services.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>INDEPENDENT AUDITORS’ REPORT</td>
<td>11</td>
</tr>
<tr>
<td>FINANCIAL STATEMENTS:</td>
<td></td>
</tr>
<tr>
<td>Consolidated Balance Sheet</td>
<td>13</td>
</tr>
<tr>
<td>Consolidated Statement of Operations</td>
<td>14</td>
</tr>
<tr>
<td>Consolidated Statement of Changes in Shareholders’ Equity</td>
<td>15</td>
</tr>
<tr>
<td>Consolidated Statement of Cash Flows</td>
<td>16</td>
</tr>
<tr>
<td>Notes to the Consolidated Financial Statements</td>
<td>17</td>
</tr>
</tbody>
</table>
INDEPENDENT AUDITORS’ REPORT

To the Board of Directors and Shareholders
of the California Domestic Water Company
Whittier, California

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the California Domestic Water Company (Company) and its subsidiary, which comprise the consolidated balance sheet as of June 30, 2016, and the related consolidated statements of operations, change in shareholders’ equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Consolidated Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
To the Board of Directors and Shareholders
of the California Domestic Water Company
Whittier, California
Page 2

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiary as of June 30, 2016, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The PricewaterhouseCoopers LLP
Santa Ana, California
January 11, 2017
CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEET  
June 30, 2016

ASSETS

Current assets:
- Cash and cash equivalents $ 7,019,525
- Accounts receivable – water sales 1,741,008
- Accounts receivable – other 1,882,347
- Due from other agencies 5,870
- Due from responsible parties 117,518
- Materials and supplies inventory 42,070
- Prepaid water lease (Note 2) 7,861,420
- Prepaid expenses and deposits 62,670

Total current assets 18,732,428

Non-current assets:
- Water rights investments (Note 3) 19,935,401
- Property and equipment, net (Note 4) 29,503,180

Total non-current assets 49,438,581

Total assets $ 68,171,009

LIABILITIES AND SHAREHOLDERS’ EQUITY

Current liabilities:
- Accounts payable $ 2,235,295
- Accrued expenses 901,312
- Unearned water lease revenue (Note 5) 451,955

Total current liabilities 3,588,562

Non-current liabilities:
- Deferred income taxes (Note 6) 617,401

Total non-current liabilities 617,401

Total liabilities 4,205,963

Shareholders’ equity:
- Common stock, $50 par value, 10,000 shares authorized – 8005 shares issued (of which 225.5 shares are held in treasury stock) 400,250
- Preferred stock, Class A, 10,000 shares authorized – 1,624.45 shares issued and outstanding (Note 7) 20,678,777
- Retained earnings 44,323,807
- Less: Treasury stock – 225.5 shares of common (1,437,788)

Total shareholders' equity 63,965,046

Total liabilities and shareholders' equity $ 68,171,009

See accompanying notes to the Consolidated Financial Statements.
Operating revenues:
- Water sales $7,266,611
- Water assessments 537,119
- Water pumping rights lease revenue 2,538,685
- Baldwin Park Operable Unit reimbursement (Note 8) 227,875
- Baldwin Park Operable Unit agreement (Note 8) 105,433
- Total operating revenues 10,675,723

Operating expenses:
- Source of supply – purchased water 348,906
- Water assessments and fees 886,333
- Water pumping rights lease expense 5,314,295
- Pumping and power 1,130,655
- Transmission, treatment and distribution 1,151,703
- General and administrative 1,439,468
- Depreciation expense 1,593,908
- Total operating expenses 11,865,268
- Operating (loss) (1,189,545)

Non-operating revenues (expenses):
- Rental property revenue 77,400
- Rental property expense (19,378)
- Interest earnings 2,075
- Other revenue 542,551
- Loss on transfer of D-line pipeline (Note 9) (231,401)
- Loss on disposal/sale of property and equipment (1,595)
- Total non-operating revenues, net 369,652
- Loss before provision for income taxes (819,893)
- Provision for income taxes (6,714)
- Net (loss) $ (826,607)
CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY
For the Year Ended June 30, 2016

<table>
<thead>
<tr>
<th></th>
<th>Common Stock</th>
<th>Preferred Stock</th>
<th>Retained Earnings</th>
<th>Treasury Stock</th>
<th>Shareholders' Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at July 1, 2015</td>
<td>$ 400,250</td>
<td>$ 20,678,777</td>
<td>$ 45,150,414</td>
<td>$ (1,115,476)</td>
<td>$ 65,113,965</td>
</tr>
<tr>
<td>Repurchase treasury stock</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(322,312)</td>
<td>(322,312)</td>
</tr>
<tr>
<td>Net (loss)</td>
<td>-</td>
<td>-</td>
<td>(826,607)</td>
<td>-</td>
<td>(826,607)</td>
</tr>
<tr>
<td>Balance at June 30, 2016</td>
<td>$ 400,250</td>
<td>$ 20,678,777</td>
<td>$ 44,323,807</td>
<td>$ (1,437,788)</td>
<td>$ 63,965,046</td>
</tr>
</tbody>
</table>

See accompanying notes to the Consolidated Financial Statements.
# California Domestic Water Company and Subsidiary

## Consolidated Statement of Cash Flows

For the Year Ended June 30, 2016

### Cash Flows from Operating Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net (loss)</td>
<td>$ (826,607)</td>
</tr>
<tr>
<td>Adjustments to reconcile net (loss) to net cash provided by operating activities</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,593,908</td>
</tr>
<tr>
<td>Loss on transfer of D-line pipeline</td>
<td>231,401</td>
</tr>
<tr>
<td>Loss on disposal/sale of property and equipment</td>
<td>1,595</td>
</tr>
<tr>
<td>Changes in assets – (Increase) decrease:</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable – water sales</td>
<td>702,835</td>
</tr>
<tr>
<td>Accounts receivable – other</td>
<td>(1,438,518)</td>
</tr>
<tr>
<td>Due from other agencies</td>
<td>265,722</td>
</tr>
<tr>
<td>Due from responsible parties</td>
<td>139,311</td>
</tr>
<tr>
<td>Prepaid water lease</td>
<td>(415,975)</td>
</tr>
<tr>
<td>Prepaid expenses and deposits</td>
<td>13,830</td>
</tr>
<tr>
<td>Changes in liabilities – increase (decrease):</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>1,534,300</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>(87,993)</td>
</tr>
<tr>
<td>Other deposits</td>
<td>(200)</td>
</tr>
<tr>
<td>Unearned water lease revenue</td>
<td>(1,123,045)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>$ 590,564</td>
</tr>
</tbody>
</table>

### Cash Flows from Investing Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition and construction of property and equipment</td>
<td>(660,115)</td>
</tr>
<tr>
<td>Purchase of water rights</td>
<td>(217,662)</td>
</tr>
<tr>
<td>Sale of water rights</td>
<td>29,597</td>
</tr>
<tr>
<td><strong>Net cash (used in) investing activities</strong></td>
<td>(848,180)</td>
</tr>
</tbody>
</table>

### Cash Flows from Financing Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repurchase treasury stock</td>
<td>(322,312)</td>
</tr>
<tr>
<td><strong>Net cash (used in) financing activities</strong></td>
<td>(322,312)</td>
</tr>
</tbody>
</table>

### Cash and cash equivalents:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
<td>7,599,453</td>
</tr>
<tr>
<td>End of year</td>
<td>$ 7,019,525</td>
</tr>
</tbody>
</table>

### Supplemental Disclosures:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash paid for income taxes</td>
<td>$ 6,714</td>
</tr>
</tbody>
</table>
CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

Organization and Operations of the Reporting Entity

The California Domestic Water Company (Company) was incorporated under the laws of the State of California in 1902. The Company is a private mutual water company which provides water to wholesale and retail customers in the eastern area of the City of Whittier and the Cities of La Habra and Brea. Sales to three wholesale customers account for approximately 95% of the Company’s water revenues for the year. The Company’s wholly owned subsidiary, Cadway, Inc., owns and leases certain water rights to California Domestic Water Company.

Basis of Presentation

The Company’s consolidated financial statements and accompanying notes are prepared in accordance with U.S. GAAP. Preparing consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Actual results could differ from those estimates.

Basis of Accounting

The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recorded when a liability is incurred.

Basis of Consolidation

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

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of 90 days or less and are carried at cost, which approximates fair value. The Company maintains cash balances at multiple financial institutions. Financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. As of June 30, 2016, the reconciled book balance of the Company’s cash held at its primary bank was $5,531,751. The unadjusted bank balance of that account as of June 30, 2016 (pending the clearing of outstanding checks) was $5,831,916. Of the $5,831,916 balance held at the Company’s primary bank, the Company’s bank placed $5,186,358 of that balance in extended FDIC insured deposits. Also, the Company held $1,437,774 in other bank savings accounts at various financial institutions.

Concentration of Credit Risk

Financial instruments potentially subjecting the Company to concentration of credit risk consist primarily of bank demand deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance threshold. Demand deposits are placed with local financial institutes, and management has not experienced any losses related to these demand deposits in the past.

Accounts Receivable and Allowance for Doubtful Accounts

The Company extends credit to customers in the normal course of operation. Accounts receivable are recorded on the accrual basis at full billing rates. Management considers accounts fully collectible; therefore the Company has not established an allowance for doubtful accounts.

17
Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Due from Other Agencies and Due from Responsible Parties

The Company classifies certain other receivables from shareholders and/or from agreements with other parties as a due from other agencies and/or a due from responsible parties on the accompanying consolidated balance sheet.

Materials and Supplies Inventory

Materials and supplies inventory consist of expendable supplies and are valued at the lower of cost or market using first-in first-out basis.

Prepaid Expenses and Deposits

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items or deposits on the accompanying consolidated balance sheet.

Water Rights Investments

Water rights investments are capitalized at cost. In the opinion of the Company’s management, such rights have not sustained any decline in value.

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. The Company’s policy has set the capitalization threshold for reporting property and equipment at $1,000. Depreciation is calculated under the straight-line method over the estimated useful lives of the assets ranging 3 to 40 years. 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. Long-lived assets of the Company are reviewed annually as to whether their carrying value has become impaired. Management considers assets to be potentially impaired if the carrying value exceeds the future projected undiscounted cash flows from related operations. Management also re-evaluates the periods of depreciation to determine whether subsequent events and/or circumstances warrant revised estimates of useful lives. As of June 30, 2016, management expects these assets to be fully recoverable.

Construction-in-progress

Construction-in-progress represents the costs incurred for capital improvements projects. Once the projects have been completed and are put into service they are transferred into property and equipment categories and depreciated accordingly.

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 stock owned.

Water Pumping Rights Lease Expense

The Company engages in the leasing of water rights. The cost of water leased to others is determined on a first-in first-out basis.
Income Taxes

As a mutual water company, the Company is exempt from federal income taxes under Internal Revenue Code Section 501(c)(12) and the corresponding provisions of the California Revenue and Taxation Code. The provision for income taxes consists of California state franchise taxes, which the Company must pay on revenues received from sources other than the Company shareholders', primarily investment and net rental income. However, Cadway, Inc. is treated as a category C-Corporation for federal and state income taxes.

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.

The Company utilizes a two-step approach to recognizing and measuring uncertain tax positions in accordance with FASB ASC 740-10. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that, the position will be sustained on audit, including resolution of related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount, which is more than 50% likely of being realized upon ultimate settlement. Adoption of such guidance did not have a material effect to the consolidated financial statements. At June 30, 2016, there were no uncertain tax positions.

Fair Value Measurement

Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments and, with none being held for trading purposes, approximate the carry values of such amounts. Accounting principles generally accepted in the United States of America define fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurements. Assets and liabilities recorded at fair value in the Statements of Financial Position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

**Level 1** – Quoted market prices in active markets for identical assets or liabilities.

**Level 2** – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full terms of the assets or liabilities.

**Level 3** – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.
Note 2 – Prepaid Water Lease

The Company acquires, utilizes and/or sells water pumping rights leases annually to supplement its customer’s annual water usage requirements.

A summary of the Company’s changes in the prepaid water lease account was as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Balance at July 1, 2015</th>
<th>Additions</th>
<th>Expenses</th>
<th>Balance at June 30, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 7,445,445</td>
<td>$ 5,730,270</td>
<td>$ (5,314,295)</td>
<td>$ 7,861,420</td>
</tr>
</tbody>
</table>

Note 3 – Water Rights Investments

A summary of the Company’s changes in the water rights investments account were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Balance at July 1, 2015</th>
<th>Additions</th>
<th>Sales</th>
<th>Balance at June 30, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cadway, Inc.:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Co-tenancy water rights</td>
<td>$ 3,649,608</td>
<td>$</td>
<td>(29,597)</td>
<td>$ 3,620,011</td>
</tr>
<tr>
<td>Other water rights</td>
<td>1,550,599</td>
<td>-</td>
<td>-</td>
<td>1,550,599</td>
</tr>
<tr>
<td>Sub-total</td>
<td>5,200,207</td>
<td>-</td>
<td>(29,597)</td>
<td>5,170,610</td>
</tr>
<tr>
<td>California Domestic Water Company:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Co-tenancy water rights</td>
<td>8,212,992</td>
<td>217,662</td>
<td>-</td>
<td>8,430,654</td>
</tr>
<tr>
<td>Other water rights</td>
<td>6,334,137</td>
<td>-</td>
<td>-</td>
<td>6,334,137</td>
</tr>
<tr>
<td>Sub-total</td>
<td>14,547,129</td>
<td>217,662</td>
<td>-</td>
<td>14,764,791</td>
</tr>
<tr>
<td>Total</td>
<td>$ 19,747,336</td>
<td>$ 217,662</td>
<td>(29,597)</td>
<td>$ 19,935,401</td>
</tr>
</tbody>
</table>

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

The Company serves as the acting manager of the water rights owned within the Co-Tenancy and as the agent for the co-tenants within the agreement, with respect to the leasing of such water rights. Also, the Company and its subsidiary Cadway, Inc. are able to purchase water rights from and/or sell water rights to the co-tenants within the Co-Tenancy. As of June 30, 2016, the Company owned 10.32% and Cadway, Inc. owned 13.19% of the water rights of the Co-Tenancy.

Other water rights have been purchased as investments by the Company and Cadway, Inc. to supplement its customer's annual water usage requirements.
CALIFORNIA DOMESTIC WATER COMPANY AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2016

Note 4 – Property and Equipment

Summary of the details of the property and equipment account for the year ended June 30, 2016 was as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Balance at June 30, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-depreciable assets:</strong></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$339,348</td>
</tr>
<tr>
<td>Construction-in-progress</td>
<td>718,858</td>
</tr>
<tr>
<td><strong>Total non-depreciable assets</strong></td>
<td>1,058,206</td>
</tr>
<tr>
<td><strong>Depreciable assets:</strong></td>
<td></td>
</tr>
<tr>
<td>Distribution system</td>
<td>29,353,285</td>
</tr>
<tr>
<td>Plant</td>
<td>8,202,108</td>
</tr>
<tr>
<td>Reservoirs</td>
<td>6,355,442</td>
</tr>
<tr>
<td>Treatment and purification</td>
<td>3,756,427</td>
</tr>
<tr>
<td>Buildings and structures</td>
<td>3,115,672</td>
</tr>
<tr>
<td>Wells</td>
<td>1,641,198</td>
</tr>
<tr>
<td>Land improvements</td>
<td>813,156</td>
</tr>
<tr>
<td>Other</td>
<td>676,997</td>
</tr>
<tr>
<td><strong>Total depreciable assets</strong></td>
<td>53,914,285</td>
</tr>
<tr>
<td><strong>Accumulated depreciation</strong></td>
<td></td>
</tr>
<tr>
<td>Distribution system</td>
<td>(10,682,515)</td>
</tr>
<tr>
<td>Plant</td>
<td>(6,240,661)</td>
</tr>
<tr>
<td>Reservoirs</td>
<td>(2,074,405)</td>
</tr>
<tr>
<td>Treatment and purification</td>
<td>(3,495,547)</td>
</tr>
<tr>
<td>Buildings and structures</td>
<td>(1,305,062)</td>
</tr>
<tr>
<td>Wells</td>
<td>(628,163)</td>
</tr>
<tr>
<td>Land improvements</td>
<td>(584,628)</td>
</tr>
<tr>
<td>Other</td>
<td>(458,330)</td>
</tr>
<tr>
<td><strong>Total accumulated depreciation</strong></td>
<td>(25,469,311)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$29,503,180</td>
</tr>
</tbody>
</table>

Depreciation expense for the year ended June 30, 2016 was $1,593,908.

Note 5 – Unearned Water Lease Revenue

As of June 30, 2016, the Company had $451,955 in unearned water pumping rights lease revenue from the lease of water pumping rights that were not utilized.

Note 6 – Deferred Income Taxes

The $617,401 deferred income taxes liability was 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 utilizing a 1031 exchange for water rights. The $617,401 deferred liability amount will be utilized upon the sale of the specified water rights in a future period.
Note 7 – Preferred Stock

The preferred stock reflected in the accompanying consolidated financial statements represents stock issued to existing shareholders to which certain rights and privileges are attached. These rights and privileges include a commitment to use the proceeds for the acquisition of water rights to procure water for the exclusive benefit of the holder of the preferred stock shares. The preferred stock shares issued and outstanding as of June 30, 2016 were as follows:

<table>
<thead>
<tr>
<th>Preferred Shareholders'</th>
<th>Shares</th>
<th>Balance at June 30, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of La Habra</td>
<td>912.85</td>
<td>$11,931,781</td>
</tr>
<tr>
<td>City of Brea</td>
<td>687.85</td>
<td>$8,444,494</td>
</tr>
<tr>
<td>Suburban Water Systems</td>
<td>23.75</td>
<td>$302,592</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,624.45</td>
<td><strong>$20,678,777</strong></td>
</tr>
</tbody>
</table>

Note 8 – Baldwin Park Operable Unit Agreement

On May 5, 2002, the Company entered into an agreement with various parties related to groundwater contamination in the Baldwin Park Operable Unit of the San Gabriel Valley. The agreement (referred to as the BPOU Agreement) provided that the Company, as well as five other water entities, would receive funds over 15 years from the various parties that were responsible for the aforementioned groundwater contamination to fund the related pollution remediation costs, including the design, construction, operations, maintenance and management of water supply treatment projects, and certain past costs previously incurred on such projects. The Company expects to receive a minimum of $1 million per year over the remaining years of the agreement.

The settlement agreement provides that pollution remediation expenses associated with the 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 Responsible Parties) on the balance sheet in order to differentiate those amounts from the expenses of the Company. Reimbursements of such amounts advanced by the Company are recorded as a reduction of that receivable upon receipt.

As of June 30, 2016, approximately $40.1 million has been received by the Company related to this agreement, cumulatively, which were used to pay the pollution remediation costs for which the polluting agents were responsible. Amounts approximating $1.7 million were received during the year. The Company was reimbursed $227,875 for personnel costs incurred during the year for the BPOU project and received $105,433 for managing the BPOU project.

Note 9 – Loss on Transfer of D-line Pipeline

In 2016, the Company contributed its D-line pipeline to Suburban Water Systems. As of the date of the transfer the Company’s remaining undepreciated amount of that pipeline was $231,401, which resulted as loss on the accompanying consolidated statement of operations.

Note 10 – Lines of Credit

The Company has two revolving lines of credit with Pacific Mercantile Bank in the amounts of $500,000 and $2,500,000; with variable interest rates based on The Wall Street Journal Prime Rate plus 0.5%. The lines of credit expire on March 10, 2017. There were no outstanding balances as of June 30, 2016. The lines of credit are secured by generally all assets of the Company and an assignment of 3,750 acre feet of water rights.
Note 11 – Employee Benefit and Deferred Compensation Plans

The Company has established a 401(k) Plan, which covers all employees who have completed 90 days of service. Eligible employees may elect to contribute up to $18,000 plus $6,000 catch-up for participants over the age of 50. The Company may contribute to the Plan on behalf of the employees at its discretion. Company contributions for the year ended June 30, 2016 amounted to $103,178.

In 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 non-elective contribution account vests 100% after three years of continuous service. Company contributions for the year ended June 30, 2016 amounted to $25,000.

The plans are considered defined contribution plans and do not create a long-term liability. Accordingly, these plans assets, liabilities and net assets are not included in the accompanying consolidated financial statements.

Note 12 – Operating Lease

The Company entered into an easement agreement with the City of Whittier under which the Company had constructed a pipeline for the transportation of water. During the year ended June 30, 2016, lease expense was $50,000. Future obligations over the terms of the agreement as of June 30, 2016 are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$50,000</td>
</tr>
<tr>
<td>2018</td>
<td>50,000</td>
</tr>
<tr>
<td>2019</td>
<td>50,000</td>
</tr>
<tr>
<td>2020</td>
<td>50,000</td>
</tr>
<tr>
<td>2021</td>
<td>50,000</td>
</tr>
<tr>
<td>Thereafter</td>
<td>4,900,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5,150,000</strong></td>
</tr>
</tbody>
</table>

Note 13 – Related Parties

The Company performs the accounting for CAL-WAMANCO, LLC. Fees paid to the Company related to this service for the year ended June 30, 2016 was $5,400.
Note 14 – Contingencies

General Liability and Workers’ Compensation

The Company is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; job-related illnesses or injuries to employees; and natural disasters for which the Company carries commercial insurance. The Company also purchases commercial insurance to cover the risk of loss for property and business liability. In 2016, there were no known claims or incidents that may result in the assertion of material claims arising from potential losses.

Litigation

In the ordinary course of operations, the Company is subject to claims and litigation from outside parties. After consultation with legal counsel, the Company believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

California Fair Political Practices Commission Investigation

The California Fair Political Practices Commission has embarked on an investigation of a former board member of the Company to determine if violations of the California Political Reform Act were committed. Management believes that the ultimate outcome of such investigation, if any, will have no material effect on the Company’s financial position.

Note 15 – Subsequent Events

Subsequent events are events or transactions that occur after consolidated balance sheet date but before the consolidated financial statements are available to be issued. The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the consolidated balance sheet date, including estimates inherent in the process of preparing the consolidated financial statements. The Company’s consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the consolidated balance sheet date but arose after the consolidated balance sheet date and before the consolidated financial statements are available to be issued.

The Company has evaluated subsequent events through January 11, 2017, which is the date the consolidated financial statements are available to be issued.
California Domestic Water Company
15505 Whittier Boulevard • P.O. Box 1338 • Whittier, CA 90609
Telephone (562) 947-3811 • Fax (562) 947-8843