



Incorporated October 25, 1882
In The Village of Ontario

Annual Report

2021

Tom Thomas, *President*
Will Elliott, *Vice President*
Martha Goss, *Secretary/Chief Financial Officer*
Bob Cable, *Director*
Rudy Zuniga, *Director*
Bill Velto, *Director*
Kati Parker, *Director*

Historical Overview

The San Antonio Water Company's history spans multiple centuries and involves no less than three nations; Spain, Mexico and The United States. We are one of the oldest mutual water companies in the nation and extremely proud of our heritage. The genesis of our story predates the United States of America and the State of California.

In 1771, four years prior to the Declaration of Independence, the Mission San Gabriel was established by Spaniards of the Franciscan order. It was the fourth of twenty-one Spanish missions established in California along the El Camino Real. Given the remote locations of California missions, self-sufficiency was critical to survival. To that end the missionaries established rancheros surrounding Mission San Gabriel to provide food and supplies. Along with dozens of other rancheros, Cucamonga was established for cattle grazing in support of the Mission. The name Cucamonga derives from the native Tongva Indian word kukamonga, interpreted as "sandy place".

Mexico (including the lands of Alta California) gained its independence from Spain in 1821. The Mexican secularization act of 1833 removed most of the mission's property rights, transferring to the Mexican government those lands granted to the Franciscan missions by the Spanish crown.

In 1839 the 13,000-acre Rancho Cucamonga (and its water rights) was granted by the Mexican Governor of California to Tiburcio Tapia, a wealthy Los Angeles merchant (and smuggler). The Rancho extended from San Antonio Creek eastward to present day Hermosa Avenue and from Eighth Street northward to the foothills. As an unencumbered property right, this land grant established Rancho Cucamonga under private ownership. Tapia is also credited with planting the first grape vines in the area and establishing the first winery in California.

In 1841, Antonio Maria Lugo was granted the Rancho Santa Ana del Chino. His son-in-law, Isaac Williams, managed the ranch from its inception and inherited the grant. Isaac's wife, Lugo's daughter María de Jesús, had already passed away in 1842 during childbirth.

In 1845 Governor Pio Pico granted 2,200 acres of land in Temecula Valley from the San Luis Rey Mission to Pablo Apis, a Luiseño Indian. The Indian village of Temecula was included in this land grant.

After traveling to Temecula around 1844 in search of laborers, Williams developed a close relationship to Apis and his family. Apis's two daughters each bore a daughter to Williams in 1846. The Williams and Apis families remained closely connected for years while Williams ranched cattle in Temecula.

Marking the end of the Mexican-American war, the Treaty of Guadalupe Hidalgo, signed in 1848, ensured that previous land grants and associated water rights would be honored by the American government in its newly acquired California territory. California was admitted as the 31st State of the Union on September 9, 1850.

In 1854 Williams hired ex-Texas Ranger John Rains to oversee his cattle holdings in Temecula.

Isaac and María de Jesús' 17-year-old daughter, Maria Merced Williams, married Rains in 1856, days after William's death. With this newly married wealth Rains traded Maria Merced's half of Rancho Santa Ana del Chino to her sister (in reality the deal was brokered between the husbands) for \$25,000. He used the proceeds to purchase Rancho Cucamonga from Tapia in 1858. Rains inappropriately, and probably

illegally, kept Merced's name off the Rancho Cucamonga deed. Rains also purchased Warner Ranch in San Diego County from José Pico, a relative of Governor Pio Pico. Rains also continued to keep a working relationship with the Apis family and the Luisaño Indians in Temecula.

For a variety of reasons (the end of the gold rush, civil war, drought, and flood all included) Rains' holdings devolved into severe financial trouble. In 1862 Rains borrowed \$16,000, mortgaging Rancho Cucamonga. Five days after signing the mortgage Rains was murdered in Mud Springs (now San Dimas) while on his way to Los Angeles. Interestingly, he was traveling unarmed because his pistols went missing just prior to the trip. His body was found eleven days later. He had been lassoed, dragged from his wagon, right arm torn from the socket, shot twice in the back, once in the left breast and once in the right side.

There were many suspects to the murder, including his wife, Maria Merced. John and Maria Merced did not see eye-to-eye regarding how he was handling her financial holdings. Soon after Rains body was found a group of vigilantes arrived at Billy Rubottom's Inn with intent to lynch the widowed Rains. Mr. Rubottom disarmed the men, thereby protecting Ms. Rains.

In 1864 Ramon Carillo, the Rains' ranch foreman (and suspected love interest of Maria Merced) was shot in the back while traveling next to her carriage. He died at the Rubottom Inn. It is said that his ghost continues to haunt what is now known as the Sycamore Inn.

After Carillo's death a pregnant Maria Merced and her four children moved in with her sister and brother-in-law, Francisca and Robert Carlisle. She stayed for two weeks before returning to Rancho Cucamonga, along with her children and three Apis half-sisters from Temecula. Two weeks later she married Jose Clemente Carrillo (no relation to Ramon), one of two Los Angeles constables investigating her husband's murder.

Three months later Robert Carlisle browbeat Maria Merced into granting him legal control of her property. Maria Merced recognized her mistake almost immediately and spent the next few years in a legal fight to have Carlisle's power revoked. During that time Carlisle proceeded to strip the property of value while avoiding payment of the \$16,000 mortgage. Eventually a judge removed Carlisle's control and appointed a new Executer, Andrew "Jack" King, a Los Angeles deputy sheriff.

Carlisle blamed King for losing control of Rancho Cucamonga. In 1865 Carlisle confronted King during a wedding celebration in Los Angeles. Carlisle was shot and killed during the ensuing fight.

Apparently, King was unable to stabilize Maria Merced's finances because in 1870 a judge ordered the foreclosure of Rancho California for outstanding debt. Isaias Hellman purchased the 13,000-acre Rancho Cucamonga for about \$50,000 and proceeded to return it to profitability.

In 1882 Canadians George and William Chaffey purchased 8,000-acres of the Cucamonga Rancho, including the water rights, for \$90,000 and established an irrigation colony which they named Ontario, in honor of their homeland. On October 25th of that same year they also established the San Antonio Water Company under the General Corporation Laws of the United States. Those rancho water rights established way back in the 1700's, passed down from owner to owner, were transferred to the Company to support the newly established irrigation colony.

The brothers sold irrigation colony land in 10-acre blocks, primarily intended for the booming citrus industry. Along with the land, the brothers sold shares in the Company, one share for each purchased

acre. Each shareholder was entitled to a portion of available local water, distributed equally by the company amongst all the shareholders. The Company was responsible for distributing water on a non-profit basis to the shareholders.

Since 1882 the San Antonio Water Company has consistently provided water service to its shareholders. Although the local citrus industry has largely disappeared, the Company maintains delivery to current shareholders utilizing the same successful ‘per share’ distribution plan established over 139 years ago.

The Company does not import any water. Instead, we are dependent on our local San Antonio Mountain watershed and groundwater basins. Utilizing local water sources dramatically keeps costs down but also increases the risk associated with long term drought. The State of California has been in a prolonged drought for many years. It is important to remember that every year of ‘below average’ rainfall will require at least one equal year of ‘above average’ rainfall to balance. Like all Southern Californians, we remain on a constant water conservation watch.

Currently, our shareholders include most residents of the unincorporated area of San Antonio Heights, the Cities of Upland and Ontario, the Monte Vista Water District, the US Forest Service, the San Bernardino County Flood Control District, local quarries and the proud heritage of remaining grove irrigators.

Annual shareholder water entitlements are established based on projected availability. For 2021, full water entitlement was established at 13,000 Acre Feet (AF). The table below shows how that 13,000 AF was divided among current shareholders, along with actual water delivered in 2021. Due to lack of rainfall and midyear loss of canyon creek flow the Company was unable to provide access to full entitlement for all shareholders.

Shareholders	Shares (owned and leased, rounded)	Annual Entitlement, Acre Feet per Year (AFY)	2021 Delivery (AFY)
City of Upland	4,515.75	9,186.88	7,524.93
Monte Vista Water District	330.5	670.96	718.17
City of Ontario	295.25	600.76	472.50
Domestic Customers	623.5	1,268.66	1,428.86
Rock Company	132.25	269.10	248.17
Golf Courses	218.25	444.08	374.10
Grove Irrigators	50.25	102.25	50.99
Inactive Shares	210.25	457.31	0
Total shares	6,389	13,000	10,830.31

CORE VALUES

San Antonio Water Company's core company values create a framework within which individuals within the Company are free to act in a way that enables them to contribute to the long term prosperity of the business.

As a Company, we value:

- High standards of business ethics and personal integrity - We believe that doing what is right, in accordance with the Company's core values, will enhance the perception of its shareholders and its counterparts.
- Personal growth through continuing education and certification, thereby reinforcing the confidence of our shareholders in our ability to provide excellent water quality.
- Respect for the dignity and importance of all members of staff and their contribution towards achievement of the Company's objectives. We are committed to creating a workplace where employees are encouraged to strive for their personal best.
- Cost effectiveness and efficiency. We encourage our employees to contribute their ideas for improving our business and operational processes.
- Safety. We are committed to ensuring a work environment that is clean, orderly and safe.
- Following through on our commitments as management and employees, we pledge accountability to our shareholders and employees for achieving our commitments, results, and quality.

Our continued vision is to achieve the following goals:

- Be the place where the best people choose to work - to encourage creative thinking and reward performance in appropriate, measurable ways.
- Embrace change, growth, and diversity.
- Seize every opportunity to serve our shareholders better through expanding services, staff culture, education, and technological development.
- Enable our employees to realize their full potential by encouraging self-development and professional growth.



Board of Directors 2021



President
Tom Thomas



Vice President
Will Elliott



Secretary/CFO
Martha Goss



Rudy Zuniga



Bob Cable



Kati Parker



Bill Velto

Advisory Committees 2021

(PROC)
Planning, Resources & Operations Committee
Will Elliott - Chairperson
Rudy Zuniga
Kati Parker

(AFC)
Administrative & Finance Committee
Martha Goss - Chairperson
Bob Cable
Bill Velto

Manager's Message

On behalf of the Board of Directors I am pleased to present the Company's 2021 Annual Report highlighting some of the Water Company's accomplishments and challenges in calendar year 2021.

Like everyone else, SAWCO continues adapting and adjusting to the ever-changing rules regarding COVID-19. Shareholders, Directors, and staff are all to be commended for their patience and resilience as we continue adapting to masks, social distancing, GoToMeetings, closed offices, remote working, et cetera. Despite these new challenges, I am happy to report that your water company achieved a remarkable amount of progress this past year.

Construction highlights for 2021 include completion of the following:

- Holly Drive Reservoir, Phase II (120,000-gallon steel tank)
- Replacement of residential meters with Advanced Metering Technology
- Reservoir 9 Pipeline Replacement
- Frankish Tunnel Outfall Improvements
- Euclid Crescent Pipeline Replacement
- Linda Drive / Lamplighter Pipeline Replacement
- Primrose Lane Pipeline Replacement
- Booster 17 Modernization
- Demolition of abandoned Booster Stations 5 and 15
- Installation of Distribution Box safety covers (Edison and Main Box)
- Installation of gas generators at three key facilities for future Edison shut-offs

All the above projects are intended to improve the Company's existing infrastructure and continue the high-quality water delivery that our shareholders have come to expect.

The company continues our patient efforts to develop a regional consensus regarding watershed protection in the San Antonio Canyon. Ultimately, we want to protect the Company's water rights, establish stronger relationships within the canyon and ensure clean water for all canyon stakeholders.

We continue building relationships with all our shareholders, neighboring agencies, government entities and stakeholders in the protection and enhancement of our beautiful and beloved area.

We remain engaged in the management of all three groundwater basins important to the Company: Chino, Six Basins and Cucamonga. In 2021 Assistant General Manager Teri Layton represented the Company as a Director on Six Basins Water Master Board. I continued serving at the Chino Basin Appropriative Pool. Teri and I are working with staff from Cucamonga Valley Water District and West End Consolidated Water Company to draft an update to the Cucamonga

Basin judgment, replacing outdated terminology and inserting the current understanding of basin hydrology.

As I currently look out my window wondering when the rain will fall, I am reminiscing about the winter rains from early 2019. Remember those? Just like 2020 and 2021, the start of 2022 bluntly reminds us that California is an arid environment. Our annual rainfall average is approximately 17 inches. In 2021 we received slightly above average rainfall thanks to a late series of storms in December. Multiple years of below average rainfall require multiple years of above average rainfall to achieve balance in the force. One year of good storm-fall is not enough. The Company has maintained full yearly entitlement of 13,000 AF for 2022 and increased our water alert to 'Moderate Shortage' stage. While we remain committed to delivering full entitlements, we will be conducting a midyear review, comparing established entitlement to water availability. If 2022 Spring rainfall does not materialize a correction may be necessary. Conservation is a way of life for those of us blessed to live in this beautiful region.

Rainfall Totals for 2021 (inches)												
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
3.31	0.03	1.52	0.88	0.45	0.01	0.19	0.00	0.00	1.21	0.00	11.25	18.85

For the Board and staff of San Antonio Water Company, it remains an honor to continue building on the legacy established by William and George Chaffey 139 years ago - improving regional water security by increasing our ability to utilize local sources.

Sincerely,

Brian C. Lee

General Manager, San Antonio Water Company

February 15, 2022

SAN ANTONIO WATER COMPANY
FINANCIAL STATEMENTS
DECEMBER 31, 2021

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**San Antonio Water Company
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**San Antonio Water Company
Organization Data
December 31, 2021**

DATE AND STATE OF INCORPORATION:

Organized October 25, 1882 under the laws of the State of California

DATE OF ANNUAL MEETING:

Date and time designated by Board of Directors

DURATION OF CHARTER

Perpetual

OFFICERS:

Tom Thomas..... President

Will Elliott..... Vice President

José R. Sánchez.....Secretary/Chief Financial Officer

DIRECTORS:

Tom Thomas

Bill Velto

Bob Cable

Will Elliott

Rudy Zuniga

Martha Goss

José R. Sánchez

GENERAL MANAGER:..... Brian Lee

ASSISTANT GENERAL MANAGER:.....Teri Layton

JAMES M. GARBO, CPA
RANDAL L. DOUGLASS, CPA
CRAIG B. MILLER, CPA



BOWEN, McBETH, INC.
CERTIFIED PUBLIC ACCOUNTANTS

10722 ARROW ROUTE, SUITE 110
RANCHO CUCAMONGA, CALIFORNIA 91730
TELEPHONE (909) 944 6465 FAX OR MSG (909) 980 4788

INDEPENDENT AUDITORS' REPORT

Board of Directors San Antonio Water Company Upland, California

We have audited the accompanying financial statements of San Antonio Water Company (a non-profit corporation) which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations and retained earnings, and cash flows for the year ended December 31, 2021, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including, the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Antonio Water Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the year ended December 31, 2021 in accordance with accounting principles generally accepted in the United States of America.

Bowen, McBeth, Inc.

Bowen, McBeth, Inc.

March 2, 2022

San Antonio Water Company
Balance Sheets
December 31, 2021 and 2020

ASSETS

	<u>2021</u>	<u>2020</u>
CURRENT ASSETS		
Cash and cash equivalents		
Cash undesignated	\$ 2,410,073	\$ 4,192,741
Cash designated	3,707,315	3,613,540
Certificates of deposits		20,000
Receivables		
Due from domestic customers	153,270	194,204
Due from municipal customers	425,432	244,151
Due from miscellaneous customers	10,504	20,709
Other receivables	688,544	225,324
Prepaid income taxes	2,858	144
Note receivable, current portion	344,000	344,000
Prepaid expenses	9,238	9,238
Inventory - supplies, materials	162,452	91,205
TOTAL CURRENT ASSETS	<u>7,913,686</u>	<u>8,955,256</u>
INVESTMENTS		
Deferred compensation asset	<u>54,019</u>	<u>34,215</u>
TOTAL INVESTMENTS	<u>54,019</u>	<u>34,215</u>
PROPERTY, PLANT, AND EQUIPMENT		
Land, water rights, wells, buildings and equipment	37,347,197	34,087,907
Less: accumulated depreciation	<u>(14,366,295)</u>	<u>(13,473,024)</u>
TOTAL PROPERTY, PLANT, AND EQUIPMENT	<u>22,980,902</u>	<u>20,614,883</u>
OTHER ASSETS		
Pomona Valley Protective Association	1	1
Note receivable, net of current portion	344,000	688,000
Documents and studies	1,151,966	917,489
Less: accumulated amortization	<u>(730,023)</u>	<u>(681,380)</u>
TOTAL OTHER ASSETS	<u>765,944</u>	<u>924,110</u>
TOTAL ASSETS	<u>\$ 31,714,551</u>	<u>\$ 30,528,464</u>

The accompanying notes are an integral part of the financial statements

San Antonio Water Company
Balance Sheets (continued)
December 31, 2021 and 2020

LIABILITIES AND STOCKHOLDERS' EQUITY

	2021	2020
CURRENT LIABILITIES		
Trade accounts payable	\$ 204,392	\$ 13,187
Accrued expenses	660,162	660,162
Deposits	1,700	850
Deferred revenue	14,016	4,824
Current portion of deferred gain	343,060	343,059
	1,223,330	1,022,082
LONG TERM LIABILITIES		
Deferred gain on sale of property, net of current portion	343,060	686,120
Deferred compensation liabilities	54,019	34,215
	397,079	720,335
TOTAL LONG TERM LIABILITIES		
	397,079	720,335
TOTAL LIABILITIES	1,620,409	1,742,417
STOCKHOLDERS' EQUITY		
Capital stock, par value \$100; authorized 15,000 shares; issued and outstanding 6,389 shares	638,900	638,900
Paid-in capital in excess of par value	447,258	447,258
Contributed property, plant and equipment	2,432,257	2,432,257
Retained earnings:		
Undesignated cumulative retained earnings	22,868,412	21,654,092
Designated by Board of Directors:		
Depreciation/Obsolescence reserve	3,707,315	3,613,540
Total retained earnings	26,575,727	25,267,632
TOTAL STOCKHOLDERS' EQUITY	30,094,142	28,786,047
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 31,714,551	\$ 30,528,464

The accompanying notes are an integral part of the financial statements

San Antonio Water Company
Statement of Operations and Retained Earnings
For the Year Ended December 31, 2021

REVENUE	
Domestic water income - stockholders	
Base rate - Includes availability charges	\$ 531,992
Supplemental usage - Includes Tier 2 and 3 charges	573,462
Municipal water income - stockholders	
Base rate - Includes availability charges	3,135,598
Miscellaneous water income - stockholders	
Base rate - Includes availability charges	246,206
Supplemental usage - Includes Tier 2 and 3 charges	9,063
Dormant water availability charge	52,094
Sale of stored ground water	430,000
Net gain on sale of assets	343,060
Miscellaneous	15,376
TOTAL REVENUE	<u>5,336,851</u>
EXPENSES	
Administrative services	389,547
Field labor	307,386
Payroll taxes & benefits	484,624
Repairs	236,709
Power-gas & electric (Utilities)	791,556
Office supplies/expenses	88,446
Directors fees & expenses	31,655
Insurance	51,661
Depreciation & amortization	947,867
Communication	41,227
Outside services	12,017
Human resources expense	71,245
Property taxes	222,112
Accounting & legal expense	260,345
Water resource management	127,753
Conservation	12,842
Staff development & training	6,017
All other	41,062
TOTAL EXPENSES	<u>4,124,071</u>
INCOME FROM OPERATIONS	<u>1,212,780</u>
OTHER INCOME	
Ground lease	69,514
Interest (net of fees)	34,943
INCOME BEFORE PROVISION FOR INCOME TAXES	<u>1,317,237</u>
PROVISION FOR INCOME TAXES	<u>9,142</u>
NET INCOME	<u>1,308,095</u>
RETAINED EARNINGS, JANUARY 1	<u>25,267,632</u>
RETAINED EARNINGS, DECEMBER 31	<u>\$ 26,575,727</u>

The accompanying notes are an integral part of the financial statements

**San Antonio Water Company
Statement of Cash Flows
For the Year Ended December 31, 2021**

NET INCOME	\$ 1,308,095
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	947,867
Gain on sale of property as part of the installment sale	(343,060)
Changes in assets and liabilities related to operations:	
(Increase) decrease in receivables	(130,141)
(Increase) decrease in other receivables	(463,219)
(Increase) decrease in prepaid income taxes	(2,714)
(Increase) decrease in inventories	(71,248)
(Increase) decrease in deferred compensation asset	(19,804)
Increase (decrease) in payables	191,205
Increase (decrease) in deposits	850
Increase (decrease) in deferred compensation liability	19,804
Increase (decrease) in deferred revenue	9,192
	1,446,827
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,446,827
Cash flows from investing activities:	
Proceeds from sale of certificate of deposit	20,000
Proceeds from sale of property as part of the installment sale	344,000
Purchases of property, plant and equipment	(3,297,871)
Purchases of documents and studies	(201,849)
	(3,135,720)
NET CASH USED BY INVESTING ACTIVITIES	(3,135,720)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,688,893)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,806,281
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 6,117,388
SUPPLEMENTAL INFORMATION:	
Cash paid for income taxes	\$ 9,142
Installment Sale	
Deferred gain	\$ 687,200
Cash received	363,402
Interest received	19,402

The accompanying notes are an integral part of the financial statements

San Antonio Water Company
Notes to Financial Statements
December 31, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The San Antonio Water Company (Company) is a mutual water company and, in accordance with Internal Revenue Code Section 501 (c) (12), is exempt from federal income taxes. To qualify for the exemption, at least 85% of the Company's revenue must be from shareholders. The Company does pay California income taxes on other income unrelated to the water operations.

GAAP provides accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Company in its federal exempt and state organization tax return are more likely than not to be sustained upon examination. The Company's tax returns are subject to examination by Federal taxing authorities for a period of three years from the date they are filed and for a period of four years for California taxing authorities.

Changes in fair value of investments that occur during the year are recognized as investment earnings reported for that year. Investment income includes interest earnings, dividends, unrealized gains and losses and any gains or losses realized upon the liquidation or sale of investments.

The Company uses the straight-line method of depreciation over the useful lives of 4 years to 50 years depending on the asset for its plant and equipment. Property and equipment are carried at historical cost, which is purchase or construction cost, less accumulated depreciation and any recognized impairment loss. Work in progress includes all direct and certain indirect costs of construction, in accordance with our accounting policy. Depreciation of constructed assets commences when the assets are ready for their intended use.

The Company assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances have made full recovery of the asset's carrying value unlikely. An impairment loss would be recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset. Should impairment exist, the impairment loss would be measured based on the excess of the carrying amount of the asset over the asset's fair value. No impairment charges were recognized on long-lived assets during the years ending December 31, 2021 and 2020.

Documents and studies are carried at historical cost less accumulated amortization and any recognized impairment loss. The Company amortizes the documents and studies with finite lives on a straight-line basis over their estimated useful lives. Documents and studies include maps and research documents that are being amortized over 5-15 years.

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Also, the Company considers all short term highly liquid investments that are readily convertible to known amounts of cash and so near to maturity that they present insignificant risk of changes in value.

San Antonio Water Company
Notes to Financial Statements
December 31, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories are valued at lower of cost or market using the first-in, first-out method.

Accounts receivable are considered to be fully collectible; accordingly, no allowance for doubtful accounts is normally required. The Company reviews any accounts receivable other than trade receivables that are over a year old for collectability. When collectability is in question then the process is started to force a sale of the shares to cover the receivable.

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, liabilities, revenues, and expenses during the reported periods. Actual results could differ from those estimates.

The Company evaluated events subsequent to December 31, 2021 and through March 2, 2022, the audit report date and the issue date of the financial statements.

The Company's financial instruments are cash, certificate of deposit, accounts receivable, and accounts payable. The recorded values of cash, certificate of deposit, accounts receivable and accounts payable approximate their fair values based on their short-term nature.

Revenue Recognition: San Antonio Water delivers water to its shareholders. Each shareholder must have at least a quarter share of stock in the company in order to receive water. This is considered the shareholders entitlement. Water is delivered to each shareholder at the base rate up to their entitlement and any water delivered after that is delivered at the excess, or tier 2 or tier 3 rate. Revenue is recognized every other month at a single point in time when the shareholders water meter is read.

NOTE 2. WATER RIGHTS AND ASSESSMENTS

Chino Basin

The Company holds water rights within the Chino groundwater basin based on a 1978 adjudication. Annual production rights may be adjusted by the Courts. The cost of administering the judgment provisions is assessed annually to the parties and water producers under the terms of the judgment.

San Antonio Water Company
Notes to Financial Statements
December 31, 2021

NOTE 2. WATER RIGHTS AND ASSESSMENTS (continued)

Cucamonga Basin

The Company holds water rights within the Cucamonga groundwater basin based on a 1958 Decree. Although the decree defines responsibilities there is no provision for assessments. Parties to this basin include the San Antonio Water Company, Cucamonga Valley Water District and the West End Consolidated Water Company.

Six Basins

The Company holds water rights within the Six Basins groundwater basin based on a 1998 adjudication. Operating safe yield is adjusted annually. The cost of administering the judgment provisions is assessed annually to the parties and water producers under the terms of the Judgment.

Pomona Valley Protective Association

The Company holds stock in the Pomona Valley Protective Association (PVPA), nonprofit entity that spreads San Antonio Canyon flow waters for the benefit of its shareholders. The water is spread over approximately 760 acres of land owned by PVPA. Under the recent Six Basins Judgment of 1998, PVPA conducts water spreading at the direction of the Six Basins Watermaster.

Stream Diversions

The Company holds water rights in the San Antonio Canyon. Company stream diversions were established pre-1914 and are shared by the Company and the City of Pomona. The two parties have shared expenses to date based on percentage of water rights. There is no assessment mechanism in place.

The Company initiated a water rights investigation of the San Antonio Canyon Watershed in 2009. The investigation confirmed that the Company stripped most riparian, appropriative and overlying rights to property previously sold within the canyon. Those stripped rights remain with the Company. Most of the cabins in the Mt. Baldy area are currently permitted under a US Forest Service special-use permit with no apparent provision of water rights conveyed with said permits.

In 2009, the Company developed a License Agreement for the purpose of allowing certain private and special-use lots to continue using water from the San Antonio Creek, provided that the lots limit and pay for their water usage as an ongoing claim and not as a commodity rate.

San Antonio Water Company
Notes to Financial Statements
December 31, 2021

NOTE 3. INVESTMENTS

Investments are recorded at fair value. The historical cost and fair value at December 31, 2021 is as follows:

	2021			
	Historical Cost	Reinvested Gains	Book Value	Fair Value
Mutual funds	<u>\$ 40,578</u>	<u>\$ 13,441</u>	<u>\$ 54,019</u>	<u>\$ 54,019</u>
	2020			
	Historical Cost	Reinvested Gains	Book Value	Fair Value
Mutual funds	<u>\$ 29,757</u>	<u>\$ 4,458</u>	<u>\$ 34,215</u>	<u>\$ 34,215</u>

Investments in the amount of \$54,019 have been restricted by the Board for the payments of a non-qualified deferred compensation plan established for the general manager (See Note 12).

NOTE 4. FAIR VALUE MEASUREMENTS

Under the Fair Value Measurements statement, which prioritizes the inputs to valuation techniques used to measure fair value, the three levels of the fair value hierarchy are as follows:

- Level 1 – inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at measurement date.
- Level 2 – inputs are inputs other than quoted prices included in Level 1 that are either directly or indirectly observable for the assets or liabilities.
- Level 3 – inputs are unobservable inputs for the assets or liabilities.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

All of the Company’s investments at December 31, 2021 and 2020 are measured within the Level 1 of the fair value hierarchy with the LAIF being measured within the Level 2 (See Note 10).

San Antonio Water Company
Notes to Financial Statements
December 31, 2021

NOTE 5. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment are shown at 1929 appraised values plus subsequent additions at cost. Actual values may be higher.

	2021	2020
Land and water rights	\$ 920,161	\$ 920,161
Tunnels and forebay	1,587,111	1,587,111
Wells, shafts, building	4,910,919	4,887,027
Pipelines	18,532,025	16,435,127
Boosters	2,500,593	2,448,690
Reservoirs	3,081,787	3,081,787
Work in progress	2,211,330	1,133,239
All other	3,603,271	3,594,765
	<u>37,347,197</u>	<u>34,087,907</u>
Less: Accumulated depreciation	(14,366,295)	(13,473,024)
TOTALS	<u><u>\$ 22,980,902</u></u>	<u><u>\$ 20,614,883</u></u>

A detailed listing of changes to property, plant, and equipment is as follows:

	Balance 01/01/21	Additions	Disposals/ Retirements	Work in Progress Transfers	Balance 12/31/21
Land and water rights	\$ 920,161	\$	\$	\$	\$ 920,161
Tunnels and forebay	1,587,111				1,587,111
Wells, shafts, building	4,887,027	23,892			4,910,919
Pipelines	16,435,128		(6,080)	2,090,817	18,532,025
Boosters	2,448,690			51,903	2,500,593
Reservoirs	3,081,787				3,081,787
Work in progress	1,133,239	3,265,472	44,661	(2,142,720)	2,211,330
All other	3,594,764	8,507			3,603,271
	<u><u>\$34,087,907</u></u>	<u><u>\$3,297,871</u></u>	<u><u>\$ 38,581</u></u>	<u><u>\$</u></u>	<u><u>\$37,347,197</u></u>

Depreciation of \$893,271 was charged to operations in 2021.

San Antonio Water Company
Notes to Financial Statements
December 31, 2021

NOTE 6. OTHER ASSETS

Documents and Studies

	2021	2020
Master Plan Update 2017	\$ 278,870	\$ 278,870
Facilities Mapping	135,534	135,534
Water Rights Study	112,798	112,798
Hydrogeologic Study	48,000	48,000
Urban Water Management Plan (UWMP) 2016	33,292	33,292
Work in Progress	244,586	49,711
All other	298,886	259,284
	1,151,966	917,489
Less: Accumulated amortization	(730,023)	(681,380)
TOTALS	\$ 421,943	\$ 236,109

Amortization of \$54,595 was charged to operations in 2021.

Estimated future amortization expense for the document and studies as December 31, 2021.

December 31,		
2022	\$	47,031
2023		40,819
2024		39,838
2025		16,599
2026		-
Thereafter		277,656
	\$	421,943

Master Plan Update

A 2017 Master Plan Update was adopted by the Board on December 6, 2017 and placed in service in January 2018. The Company is currently working towards completing a new update and expects it to be finished in 2022.

Facilities Mapping

The Company started in 2019 and began amortizing in 2021, a Geographic Information System (GIS). The intent of the GIS database is to aggregate pertinent information of Company facilities into a database that can be readily queried. Water Systems Consulting is currently maintaining the database and will implement any updates or changes.

San Antonio Water Company
Notes to Financial Statements
December 31, 2021

NOTE 6. OTHER ASSETS (continued)

Water Rights Study

A legal opinion of the Company's water rights was completed in 1993.

Hydrogeologic Study

This study evaluated the hydrogeologic characteristics of the local ground water basins. Its purpose was to evaluate the feasibility of rehabilitating some existing well casings and identify possible sites for new water wells. The study was completed in 1997.

Urban Water Management Plan

Urban Water Management Plan's (UWMP) are prepared by water suppliers to support long-term resource planning and ensure adequate water supplies are available to meet existing and future water demands. The State of California requires all urban water suppliers to create an UWMP once every five years.

The company completed its first UWMP in 2005. In 2010 the Company shifted its UWMP from 'retailer' to 'wholesaler', impacting Best Management Practices (BMP's) identified in the 2005 UWMP and the 2010 requirements of a State mandated 20% water reduction by 2020.

The most recent UWMP will be completed for the 2022 year.

All Other

These assets include well site evaluations, San Antonio Creek Watershed Sanitary Survey, Cucamonga Basin groundwater study, alternative spread in Cucamonga wash, study to expand spreading grounds, Edison Ponds, alternative energy feasibility study and photo history documentation.

Pomona Valley Protective Association

The Company is a member and owns a small interest (1.5%) in the Pomona Valley Protective Association (PVPA), a nonprofit entity that owns approximately 760 acres of land dedicated to water conservation.

Due to the nature of the PVPA as a membership organization, the Company's investment is stated at \$1 on the Company's records.

NOTE 7. DEFERRED REVENUE

The San Bernardino County Transportation Authority has paid for a ground lease at East 6th Street, Ontario to use while they work on the I-10 Freeway Corridor Contract 1 Project. They paid the full amount of \$8,040 for the five year term of the lease. San Antonio Water recorded the \$1,608 lease income for the year and the remaining amount of \$3,216 is recorded as deferred revenue. The Company also was paid the full amount of \$21,000 for an 18 month lease starting in April 2021. The deferred amount is \$10,800. Total deferred revenue is \$4,824 and \$14,016 for 2020 and 2021, respectively.

San Antonio Water Company
Notes to Financial Statements
December 31, 2021

NOTE 8. MAJOR CUSTOMERS

The Company's principal operation consists of providing domestic and irrigation water to its stockholders. Revenue from its major shareholder is as follows:

GOVERNMENTAL AGENCY	2021	2020
City of Upland (see note 9)	\$ 2,722,953	\$ 3,356,125
% of Total Revenue	50.0%	57.8%
Accounts Receivable from Major Customer	\$ 367,573	\$ 189,746

NOTE 9. LICENSE AGREEMENTS

City of Upland Water Service Agreement:

The City of Upland's Water Service Agreement started on January 1, 2017 and expired on December 31, 2021. The agreement provides the City full yearly entitlement at the base rate with no seasonal restrictions. In exchange the City has no guarantee of full entitlement delivery and is prohibited from exceeding its annual entitlement unless agreed to by Company.

The Company is working to renew the agreement for another five-year term.

City of Ontario Water Service Agreement:

The City of Ontario's Water Service Agreement started on January 1, 2017 and expired on December 31, 2021. The agreement provides the City a full yearly entitlement at the base rate with no seasonal restrictions. In exchange the City has no guarantee of full entitlement delivery and is prohibited from exceeding its annual entitlement unless agreed to by Company.

The Company is working to renew the agreement for another five-year term.

Monte Vista Water District (MVWD) Water Service Agreement:

The Monte Vista Water District Water Service Agreement started on January 1, 2017 and expired on December 31, 2021. The agreement provides the District a full yearly entitlement at the base rate with no seasonal restrictions. In exchange the District has no guarantee of full entitlement delivery and is prohibited from exceeding its annual entitlement unless agreed to by Company.

The Company is working to renew the agreement for another five-year term.

San Antonio Water Company
Notes to Financial Statements
December 31, 2021

NOTE 10. CONCENTRATION OF CREDIT RISK

The Company maintains its cash and certificates of deposit balances in two financial institutions. The balance at Citizens Business Bank is collateralized up to \$2,000,000. The remaining balance is insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. At December 31, 2021, the Company maintained deposits of \$2,761,648 leaving an uninsured balance of \$511,648 at this institution. Also, at December 31, 2021 the Company had a balance of \$3,408,807 deposited with the Local Agency Investment Fund (LAIF). This is a highly liquid account that is managed by the State of California. The fund is fully secured and is at no cost to the Company. We have included this amount in the cash and cash equivalents due to the amounts being readily convertible to cash. Based on the investments of the LAIF it is considered to fall into the Level 2 of the fair value hierarchy at December 31, 2021. (See Note 4).

Net earnings on LAIF was comprised of interest in the amount of \$15,311 at December 31, 2021.

NOTE 11. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Company's financial assets as of December 31, 2021, reduced by amounts not available for general use because of board designated reserves that have been created to fund the Depreciation/Obsolescence reserves or due to contractual requirements.

Financial assets at December 31, 2021:

Cash	\$	6,117,388
Receivables		589,206
Other receivables		688,544
Note receivable, current portion		344,000
Total financial assets		7,739,138
Less: Unavailable for general expenditures within one year due to:		
Board designated reserves		3,707,315
Total unavailable financial assets		3,707,315
Financial assets available to meet cash needs for general		
expenditures within one year	\$	4,031,823

As part of its liquidity management, excess cash is invested in the Local Agency Investment Funds which is a highly liquid account that is managed by the State of California. The fund pays interest and is very liquid. The fund is fully secured and is at no cost to the Company.

San Antonio Water Company
Notes to Financial Statements
December 31, 2021

NOTE 12. PENSION PLAN

On May 15, 2018, the Board approved changing the current employee Nationwide 401(k) plan to the Nationwide Flexible Advantage Program. This changed the current plan from an annuity that provides some protection for principle investments and beneficiaries but carries associated fees which reduce the interest gained relative to current investments in the market.

The Nationwide Flexible Advantage Program provides more investment flexibility for the employee, in person and online education and tools, lowers overall cost and provides a higher return on investments. The transfer of assets and contributions to the new investment platform started in May of 2019. The Company expense for the pension plan was \$59,946 and \$68,971 for 2020 and 2021, respectively.

On February 5, 2019 the company established a non-qualified deferred compensation plan for the General Manager. The plan pays 7.5% of the General Manager salary to the deferred compensation and also pays for a \$100,000 whole life insurance policy. At December 31, 2021 the plan had a total liability of \$54,019 which is comprised of mutual funds investments (See Note 3). Total cost for the deferred compensation plan and life insurance policy in was \$19,912 and \$15,677 for 2020 and 2021, respectively.

NOTE 13. PAYROLL AND RELATED EXPENSES

The San Antonio Water Company tracks all expenses based on a specific activity and desires to expand the understanding of our shareholders by presenting a clear picture of labor expenses. For 2021 the Company's payroll expense was \$1,035,488 which includes base pay and time off compensation (i.e. vacation, sick leave, holidays, etc.). Benefit costs (i.e. health insurance, retirement, etc.) were \$250,488 and the cost of employment (i.e. payroll taxes and worker's compensation insurance) was \$89,365. This is a total of \$1,375,341 for labor and related expenses.

NOTE 14. SALE OF STORED GROUND WATER

In February of 2021, the Water Company leased the pumping rights of 600 acre-feet of water for \$300 per acre foot for \$150,000 and in December of 2021, the Water Company leased the pumping rights of 300 acre feet of water for \$500 per acre foot for \$180,000 out of its Six Basin storage account to the Three Valleys Municipal Water District total of \$330,000. Also, in December of 2021, the Water Company leased the pumping rights of 200 acre-feet of water for \$500 per acre foot for \$100,000 out of its Six Basin storage account to the City of La Verne. Total sale of stored ground water was \$430,000 in 2021.

**San Antonio Water Company
Notes to Financial Statements
December 31, 2021**

NOTE 15. CASH ACCUMULATION DESIGNATED BY BOARD OF DIRECTORS FOR DEPRECIATION AND OBSOLESCENCE RESERVES

On February 18, 2020, the Board approved the following reserve policies:

- Operating reserve – 90-180 days budgeted operating expense
- Capital Investment and Depreciation Reserve Funds (D&O Reserve) – 5%-20% of Company’s total property & equipment from auditor’s statement
- Debt Service Reserves – Minimum as set forth in borrowing documents

On February 16, 2021, the Board approved a Facility Modernization Fund for the purpose of funding rehabilitation of abandoned property and a new office and yard facility in the future. This reserve is called Modernization Fund.

Given the above reserve policies, at year end the Company’s status is as follows:

Reserve	Desired Amount based on policy	Actual Amount
Operating Reserve	\$794,200 - \$1,588,400	\$4.2 million
D&O Reserve	\$1.0 million - \$4.0 million	\$3.6 million
Debt Service Reserve	\$0	\$0
Modernization Fund	\$0	\$0.7 million

The Company currently does not have any debt and does not require any reserves in the Debt Service Reserves Fund.

The Company is currently updating their master plan. The last update of the master plan in 2017 summarized recommended Capital Improvement projects and cost estimates for the domestic and irrigation system totaling \$18,787,626.

Development of the D&O reserves will fund depreciation of assets and all capital improvements, Master Plan and non-master plan improvements. In the past, the Company funded this reserve with monies received from the sale of any stored water in the groundwater basins where company rights exist, and any positive balance of operations resulting from the annual service operations of the Company. New policies in 2020 changed this methodology and amounts in reserves are determined by the policy and not the source of revenue.

During 2021, a total of \$1,729,729 was spent on projects in the Capital Facilities Improvement Plan [Master Plan] and \$1,614,336 was spent on capital improvement projects or other asset not identified in the master plan.

San Antonio Water Company
Notes to Financial Statements
December 31, 2021

NOTE 15. CASH ACCUMULATION DESIGNATED BY BOARD OF DIRECTORS FOR DEPRECIATION AND OBSOLESCENCE RESERVES (continued)

The following details the amount required to fund the reserves as established by the board of directors.

Board of Directors Established Reserves Amounts	(in thousands)
Depreciation and Obsolescence Reserve	\$ 16,387.5
Cash Available for Reserves at Year End	2,994.9
Additional funds required to fund the reserves	\$ 13,392.6

NOTE 16. CONTINGENCIES

The Company is periodically involved in legal actions and claims that arise as a result of events that occur in the normal course of operations. The ultimate resolution of these actions is not expected to have a material adverse effect on the Company's financial position.

NOTE 17. SALE OF PROPERTY

The Company, in 2019, sold a portion of property to the City of Upland for them to construct a replacement reservoir. The sale price was \$1,720,000 payable in installments of \$344,000 plus interest. The gain is being recognized over the term of the installment period as the payments are made. The total gain will be \$1,715,297 with \$343,059 being recognized each year as payment is made. At December 31, 2020 and December 31, 2019 the balances were as follows:

	2021	2020
Note receivable on installment sale	\$ 688,000	\$ 1,032,000
Deferred gain on sale of property	686,120	1,029,179

NOTE 18. STOCK AUCTION

The Company implemented a procedure to collect debt on past water usage bills from shareholders who were no longer receiving services through the process of a stock auction. The most recent auction was held on August 4, 2020. There were no stock auction held in 2021. Upon collecting the delinquent fees and calculated related expenses associated with the auction, the remaining funds are distributed to the delinquent shareholder or turned over to the State of California in accordance with State law.

San Antonio Water Company
Notes to Financial Statements
December 31, 2021

NOTE 18. STOCK AUCTION (continued)

In 2021, the Company was unable to locate and distribute any of unclaimed money to the past shareholders. At this point in time, the financial statements includes under accrued expenses amounts owed to respective shareholders for recent and prior year's stock auctions, a total of \$614,939 and \$614,939 for 2020 and 2021, respectively,

NOTE 19. CONTRIBUTED PROPERTY, PLANT AND EQUIPMENT

Government Entities

San Antonio Water Company received assets from government entities from the construction of the SR 30/210 freeway by Caltrans, the United States Forest Service requested construction of certain water services related assets for their purposes of which the Company was reimbursed and received title, and the Company received monies from FEMA for the repair of company assets that had been damaged by prior year storm events.

Developers

San Antonio Water Company received assets from developers of housing projects after completion. The developers installed waterlines, equipment, and other assets, which are then quitclaimed to the Company.

	2021	2020
Total Contributed Property, Plant and Equipment	\$ 2,432,257	\$ 2,432,257

NOTE 20. GROUND LEASES

The Company has ground leases with cell phone service companies and a transportation authority in order for them to set up cell phone towers and for the transportation authority to store their equipment on land owned by the Company. There are a total of 5 leases with varying payments. The following is the future lease income:

December 31,		
2022	\$	60,550
2023		61,991
2024		64,704
2025		64,704
2026		65,378
Thereafter		558,372
	\$	875,699

San Antonio Water Company
Notes to Financial Statements
December 31, 2021

NOTE 21. FUNCTIONAL CLASSIFICATION OF EXPENSES

The costs of providing the operations and maintenance and general and administrative activities has been summarized on a functional basis in the following schedule. Accordingly, the costs have been recorded to the operations or administrative services benefited. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Company.

	Operations & Maintenance	General & Administrative	Total
Facility related field labor	\$ 232,989	\$	\$ 232,989
Repairs to facilities and equipment	236,709		236,709
Power-gas & electric	791,556		791,556
Customer service	82,812		82,812
Conservation	12,842		12,842
Non-facility related labor	74,397		74,397
Supplies	17,514		17,514
Depreciation/amortization	947,867		947,867
Property taxes	222,112		222,112
Water resource management	127,753		127,753
Administrative services		312,752	312,752
Payroll taxes		73,214	73,214
Worker's compensation insurance		16,151	16,151
Benefits pay (vacation, sick, etc.)		250,278	250,278
Benefits insurance		161,133	161,133
Office/IT support		54,866	54,866
Directors fees & expense		31,655	31,655
Liability insurance		35,510	35,510
Communication		41,227	41,227
Dues & publications		2,653	2,653
Outside services		12,017	12,017
Income tax expense		9,142	9,142
Accounting		73,202	73,202
Legal		187,142	187,142
Human resource expense		71,245	71,245
All other		54,475	54,475
TOTAL	<u>\$ 2,746,551</u>	<u>\$ 1,386,662</u>	<u>\$ 4,133,213</u>