



Incorporated October 25, 1882
In The Village of Ontario

Annual Report

2020

Tom Thomas, *President*
Will Elliott, *Vice President*
José Sanchez, *Secretary/Chief Financial officer*
Martha Goss, *Director*
Rudy Zuniga, *Director*
Gino Filippi, *Director*
Bob Cable, *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 at the time, self-sufficiency was critical to survival. To that end, the missionaries established rancherias surrounding Mission San Gabriel to provide food and supplies. Along with dozens of other rancherias, Cucamonga was established for cattle grazing in support of the Mission.

In 1821 Mexico (including the lands of Alta California) gained its independence from Spain. 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 13,045-acre Rancheria Cucamonga (and its water rights) was granted by the Mexican Governor of California to Tiburcio Tapia, a wealthy Los Angeles merchant. 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.

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. The US Government officially recognized the Rancho Cucamonga land grant to Leon V. Prudhomme in 1872. For the next 30 some-odd years the Rancho transferred ownership several times, including some family intrigue and an unsolved murder as a back-story.

In 1882 Canadians George and William Chaffey purchased 8,000-acres of the Cucamonga Rancho, including the water rights, and established an irrigation colony which they named Ontario, in honor of their homeland. On October 25, 1882 they also established the San Antonio Water Company under the General Corporation Laws of the United States. Those rancheria 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 Canyon 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 2020, 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 2020. The Company was able to provide access to full entitlement for all shareholders. In addition, the Company was able to move 3,893 AF of water into long term groundwater storage, helping build up a 'rainy day' water bank to assist with future dry years.

Shareholders	Shares (owned and leased, rounded)	Annual Entitlement, Acre Feet per Year (AFY)	2020 Delivery (AFY)
City of Upland	4,515	9,186.88	9,477.41
Monte Vista Water District	330	670.96	686.51
City of Ontario	295	600.76	511.40
Domestic Customers	624	1,268.66	1,370.5
Rock Company	132	269.10	302.90
Golf Courses	218	444.08	375.63
Grove Irrigators	50	102.25	57.53
Inactive Shares	225	457.31	0
Total shares	6,389	13,000	12,781.88

OUR CORPORATE COMMITMENT

TO PROVIDE OUR SHAREHOLDERS WITH RELIABLE AND GOOD QUALITY WATER SERVICE AT A COST EFFECTIVE RATE.

STATEMENT OF PURPOSE

This Company was formed 139 years ago, and both its original stated purpose (presented below) and its purpose today are focused on beneficial water service to all shareholders.

“Acquiring by appropriation, purchase, or otherwise, water, water rights, water privileges and right of way in the Counties of Los Angeles and San Bernardino and to furnish, lease or sell the same for irrigation, milling, manufacturing and other purposes. To own, hold, construct and maintain canals, ditches and all structures, lands, easements and rights appertaining thereto for the purpose of taking and conveying water as herein mentioned to owners of lots and blocks in the Village of Ontario and to stockholders in this Corporation and none others. To make improvements, borrow money and transact any and all business and things connected with the business of the Corporation and relating thereto.”

RIGHT TO SERVICE

Both the Articles of Incorporation and Bylaws of the Corporation address the delivery of water to shareholders as stated below.

Rights to water service from the company accrue only to those who are shareholders, and all water shall be supplied at cost. Subject to the rules, regulations, bylaws and determinations of the board, each shareholder shall be entitled to receive such part of the entire water of the company that is available for distribution as the number of shares of stock held by the shareholder bears to the number of shares outstanding.

Location and Contact information:

Office location is 139 N. Euclid Avenue, Upland, California, 91786

Telephone (24-hour) (909) 982-4107 and Fax (909) 920-3047



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 2020



President
Tom Thomas



Vice President
Will Elliott



Secretary/CFO
José Sanchez



Rudy Zuniga



Bob Cable



Martha Goss



Gino Filippi

Advisory Committees 2020

(PROC)
Planning, Resources & Operations Committee
Will Elliott - Chairman
Martha Goss
Gino Filippi

(AFC)
Administrative & Finance Committee
José Sanchez - Chairman
Bob Cable
Rudy Zuniga

Manager's Message

On behalf of the Board of Directors I am pleased to present the Company's 2020 Annual Report highlighting some of the Water Company's accomplishments and challenges in calendar year 2020.

Like everyone else, SAWCO adapted and adjusted to the ever-changing rules regarding COVID-19. Shareholders, Directors and staff are all to be commended for their patience and resilience as we learned about daily disinfection and temperature taking, masks, social distancing, toilet paper shortages, 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 2020 include completion of the following:

- Campus Avenue Waterline Replacement
- Reservoir 7 Reroof Replacement
- Edison Pond Valve Replacement
- GIS Mapping for entire Company infrastructure
- Advanced Metering Infrastructure (AMI) study

We also successfully bid and started construction on the following projects:

- Holly Drive Reservoir, Phase II
- Water pipeline replacements at Primrose, Linda, Lamplighter and Euclid Crescent East.
- Company-wide AMI meter installation
- Frankish Tunnel Pipeline Repair and Meter Installation
- Reservoir 9 Pipeline Replacement

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.

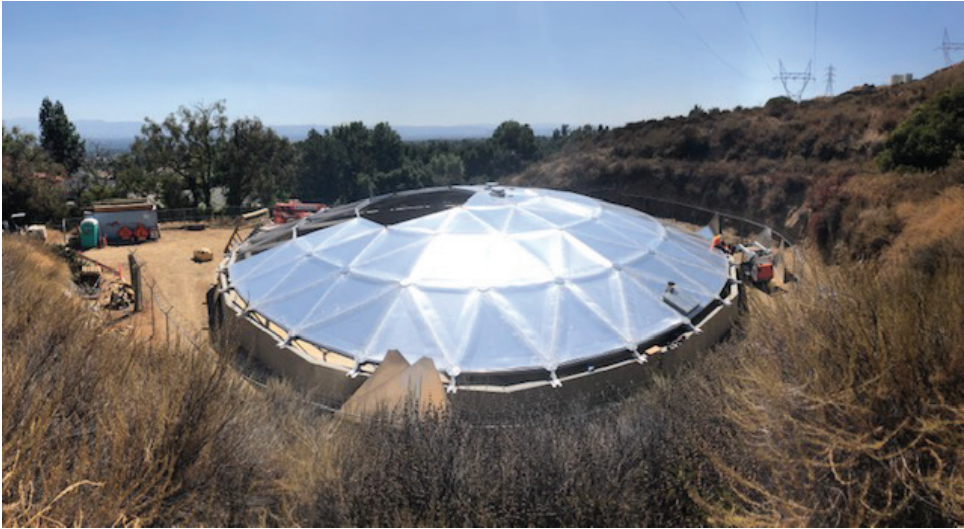


Frankish Tunnel Outfall

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.



Euclid Crescent Pipeline



Reservoir 7 Reroof

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 2020 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, the start of 2021 bluntly reminds us that California is an arid environment. Our annual rainfall average is approximately 17 inches. In 2020 we received just over 14 inches. 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 to 13,000 AF for 2021 and reduced our water alert to ‘Conservation Program – Year-Round’ stage. While we remain committed to delivering full entitlements, we will be conducting a midyear review, comparing established



Pipeline Valves

entitlement to water availability. If 2021 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 2020 (inches)												
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Tot
0.17	0.24	4.69	5.71	0.15	0.01	0.00	0.00	0.00	0.00	1.15	1.95	14.07

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 24, 2021

SAN ANTONIO WATER COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 2020

This page intentionally left blank.

**San Antonio Water Company
Table of Contents**

CONTENTS	PAGE
Organization Data	1
Independent Auditors' Report	2
 FINANCIAL STATEMENTS	
Balance Sheets	4-5
Statement of Operations and Retained Earnings.....	6
Statement of Cash Flows	7
Notes to Financial Statements	8-22

**San Antonio Water Company
Organization Data
December 31, 2020**

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. Sanchez.....Secretary/Chief Financial Officer

DIRECTORS:

Tom Thomas
Gino Filippi
Bob Cable

Will Elliott
Rudy Zuniga

Martha Goss
José R. Sanchez

GENERAL MANAGER:..... Brian Lee

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

The logo for Bowen, McBeth, Inc. features a stylized graphic of vertical lines and diagonal lines forming a triangular shape. The text "BOWEN, McBETH, INC." is centered above the graphic, and "CERTIFIED PUBLIC ACCOUNTANTS" is centered below it.

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, 2020 and 2019, and the related statements of operations and retained earnings, and cash flows for the year ended December 31, 2020, 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, 2020 and 2019, and the results of its operations and its cash flows for the year ended December 31, 2020 in accordance with accounting principles generally accepted in the United States of America.

Bowen, McBeth, Inc.

Bowen, McBeth, Inc.
March 9, 2021

**San Antonio Water Company
Balance Sheets
December 31, 2020 and 2019**

ASSETS

	2020	2019
CURRENT ASSETS		
Cash and cash equivalents		
Cash undesignated	\$ 4,192,741	\$ 3,935,405
Cash designated	3,613,540	2,656,215
Certificates of deposits	20,000	20,000
Receivables		
Due from domestic customers	194,204	113,990
Due from municipal customers	244,151	122,599
Due from miscellaneous customers	20,709	19,847
Other receivables	225,324	225,801
Prepaid income taxes	144	
Note receivable, current portion	344,000	344,000
Prepaid expenses	9,238	9,238
Inventory - supplies, materials	91,205	87,775
TOTAL CURRENT ASSETS	8,955,256	7,534,870
INVESTMENTS		
Deferred compensation asset	34,215	16,496
TOTAL INVESTMENTS	34,215	16,496
PROPERTY, PLANT, AND EQUIPMENT		
Land, water rights, wells, buildings and equipment	34,087,907	33,130,027
Less: accumulated depreciation	(13,473,024)	(12,635,360)
TOTAL PROPERTY, PLANT, AND EQUIPMENT	20,614,883	20,494,667
OTHER ASSETS		
Pomona Valley Protective Association	1	1
Note receivable, net of current portion	688,000	1,032,000
Documents and studies	917,489	867,778
Less: accumulated amortization	(681,380)	(631,865)
TOTAL OTHER ASSETS	924,110	1,267,914
TOTAL ASSETS	\$ 30,528,464	\$ 29,313,947

The accompanying notes are an integral part of the financial statements

**San Antonio Water Company
Balance Sheets (continued)
December 31, 2020 and 2019**

LIABILITIES AND STOCKHOLDERS' EQUITY

	2020	2019
CURRENT LIABILITIES		
Trade accounts payable	\$ 13,187	\$ 259,623
Accrued expenses	660,162	586,785
Income taxes payable		2,005
Deposits	850	1,700
Deferred revenue	4,824	6,432
Current portion of deferred gain	343,059	343,059
	1,022,082	1,199,604
LONG TERM LIABILITITES		
Deferred gain on sale of property, net of current portion	686,120	1,029,179
Deferred compensation liabilities	34,215	16,496
	720,335	1,045,675
TOTAL LONG TERM LIABILITIES		
	1,742,417	2,245,279
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	2,426,040
Retained earnings:		
Undesignated cumulative retained earnings	21,654,092	20,900,255
Designated by Board of Directors:		
Depreciation/Obsolescence reserve	3,613,540	2,656,215
Total retained earnings	25,267,632	23,556,470
	28,786,047	27,068,668
TOTAL STOCKHOLDERS' EQUITY		
	28,786,047	27,068,668
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 30,528,464	\$ 29,313,947

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, 2020

REVENUE

Domestic water income - stockholders	
Base rate - Includes availability charges	\$ 524,862
Supplemental usage - Includes Tier 2 and 3 charges	534,176
Municipal water income - stockholders	
Base rate - Includes availability charges	3,691,266
Supplemental usage - Includes Tier 2 and 3 charges	79,717
Miscellaneous water income - stockholders	
Base rate - Includes availability charges	250,700
Supplemental usage - Includes Tier 2 and 3 charges	47,969
Dormant water availability charge	52,322
Sale of stored ground water	108,480
Water connections	17,073
Net gain on sale of assets	344,059
Unrealized gain on deferred compensation asset	4,953
Miscellaneous	17,484
TOTAL REVENUE	5,673,061

EXPENSES

Administrative services	366,206
Field labor	304,933
Payroll taxes & benefits	486,187
Repairs	284,326
Power-gas & electric (Utilities)	623,669
Office supplies/expenses	89,828
Directors fees & expenses	32,008
Insurance	44,947
Depreciation & amortization	936,733
Communication	46,688
Outside services	4,378
Human resources expense	58,603
Property taxes	206,134
Accounting & legal expense	314,378
Water resource management	245,134
Conservation	7,587
Staff development & training	4,628
All other	29,152
TOTAL EXPENSES	4,085,519

INCOME FROM OPERATIONS

1,587,542

OTHER INCOME

Ground lease	60,352
Interest (net of fees)	75,124
	135,476

INCOME BEFORE PROVISION FOR INCOME TAXES

1,723,018

PROVISION FOR INCOME TAXES

11,856

NET INCOME

1,711,162

RETAINED EARNINGS, JANUARY 1

23,556,470

RETAINED EARNINGS, DECEMBER 31

\$ 25,267,632

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, 2020

NET INCOME	\$ 1,711,162
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	936,733
Gain on sale of asset	(1,000)
Gain on sale of property as part of the installment sale	(343,059)
Unrealized earnings on deferred compensation asset	(4,953)
Unrealized earnings on deferred compensation liability	4,953
Changes in assets and liabilities related to operations:	
(Increase) decrease in receivables	(202,628)
(Increase) decrease in other receivables	477
(Increase) decrease in prepaid income taxes	(144)
(Increase) decrease in inventories	(3,430)
Increase (decrease) in payables	(246,436)
Increase (decrease) in income taxes payable	(2,005)
Increase (decrease) in accrued expenses	73,377
Increase (decrease) in deposits	(850)
Increase (decrease) in deferred compensation liability	17,719
Increase (decrease) in deferred revenue	(1,608)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,938,308
Cash flows from investing activities:	
Proceeds from sale of property as part of the installment sale	344,000
Proceeds from sale of asset	1,000
Purchases of investments	(17,719)
Purchases of property, plant and equipment	(1,057,145)
NET CASH USED BY INVESTING ACTIVITIES	(729,864)
Cash flows from financing activities:	
Contributions of property, plant and equipment	6,217
NET CASH PROVIDED BY FINANCING ACTIVITIES	6,217
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,214,661
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,591,620
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 7,806,281
SUPPLEMENTAL INFORMATION:	
Cash paid for income taxes	\$ 11,856
Installment Sale	
Deferred gain	\$ 1,029,178
Cash received	374,243
Interest received	31,184

The accompanying notes are an integral part of the financial statements

San Antonio Water Company
Notes to Financial Statements
December 31, 2020

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 40 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, 2020 and 2019.

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, 2020

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, 2020 and through March 9, 2021, 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.

The Company has analyzed the provisions of the FASB's ASC Topic 606, Revenue from Contracts with Customers, and has concluded that no changes are necessary to conform with the new standard.

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, 2020

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, 2020

NOTE 3. INVESTMENTS

Investments are recorded at fair value. The historical cost and fair value at December 31, 2020 is as follows:

	2020	
	Cost	Fair Value
Mutual funds	\$ 29,757	\$ 34,215

Net investment earnings was comprised of the following at December 31, 2020:

	2020
Dividends	\$ 274
Long term capital gains	904
Short term capital gains	1
Realized/Unrealized gains/(losses)	3,774
Investment earnings	\$ 4,953

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, 2020 and 2019 are measured within the Level 1 of the fair value hierarchy with the LAIF being measured within the Level 2.

San Antonio Water Company
Notes to Financial Statements
December 31, 2020

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.

	2020	2019
Land and water rights	\$ 920,161	^\$ 920,161
Tunnels and forebay	1,587,111	1,587,111
Wells, shafts, building	4,887,027	4,879,915
Pipelines	16,435,127	15,921,611
Boosters	2,448,690	2,448,690
Reservoirs	3,081,787	1,712,022
Work in progress	1,133,239	2,212,636
All other	3,594,765	3,447,881
	<u>34,087,907</u>	<u>33,130,027</u>
Less: Accumulated depreciation	(13,473,024)	(12,635,360)
TOTALS	<u><u>\$ 20,614,883</u></u>	<u><u>\$ 20,494,667</u></u>

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

	Balance 01/01/20	Additions	Disposals/ Retirements	Work in Progress Transfers	Balance 12/31/20
Land and water rights	\$ 920,161	\$	\$	\$	\$ 920,161
Tunnels and forebay	1,587,111				1,587,111
Wells, shafts, building	4,879,915	11,721	4,609		4,887,027
Pipelines	15,921,611	2,388	27,101	538,230	16,435,128
Boosters	2,448,690				2,448,690
Reservoirs	1,712,022	5,273		1,364,492	3,081,787
Work in progress	2,212,636	966,588	25,090	(2,020,895)	1,133,239
All other	3,447,881	46,553	17,843	118,173	3,594,764
	<u>\$33,130,027</u>	<u>\$1,032,523</u>	<u>\$ 74,643</u>	<u>\$</u>	<u>\$34,087,907</u>

Depreciation of \$887,218 was charged to operations in 2020.

**San Antonio Water Company
Notes to Financial Statements
December 31, 2020**

NOTE 6. OTHER ASSETS

Documents and Studies

	2020	2019
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	49,711	
All other	259,284	259,284
	917,489	867,778
Less: Accumulated amortization	(681,380)	(631,865)
TOTALS	\$ 236,109	\$ 235,913

Amortization of \$49,515 was charged to operations in 2020.

Estimated future amortization expense for the document and studies as December 31, 2020.

December 31,		
	2021	\$ 47,623
	2022	41,519
	2023	40,819
	2024	39,838
	2025	16,599
	Thereafter	49,711
		\$ 236,109

Master Plan Update

A 2017 Master Plan Update was adopted by the Board on December 6, 2017 and placed in service in January 2018.

Facilities Mapping

The Company has invested in mapping the irrigation and domestic water distribution. In 2013, the Company updated the system maps to include new waterline installations. The Company has also created site plans for strategic facilities and developed a comprehensive Gate Valve Book for its domestic water system, including a database reference for pipelines and appurtenances.

Water Rights Study

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

**San Antonio Water Company
Notes to Financial Statements
December 31, 2020**

NOTE 6. OTHER ASSETS (continued)

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 was completed for the 2015 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 \$4,824 is recorded as deferred revenue.

**San Antonio Water Company
Notes to Financial Statements
December 31, 2020**

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	2020	2019
City of Upland (see note 9)	\$ 3,356,125	\$ 3,004,624
% of Total Revenue	66.0%	67.3%
Accounts Receivable from Major Customer	\$ 189,746	\$ 89,518

NOTE 9. LICENSE AGREEMENTS

City of Upland Water Service Agreement:

The City of Upland's Water Service Agreement went into effect on July 1, 2017. 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.

Through a special agreement in 2020 the City of Upland received 103% of its full annual entitlement.

City of Ontario Water Service Agreement:

The City of Ontario's Water Service Agreement went into effect on July 1, 2017. 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.

In 2020 the City of Ontario received 85% of its full annual entitlement.

Monte Vista Water District (MVWD) Water Service Agreement:

The Monte Vista Water District Water Service Agreement went into effect on July 1, 2017. 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.

Through a special agreement in 2020 the District received 102% of its full annual entitlement.

**San Antonio Water Company
Notes to Financial Statements
December 31, 2020**

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, 2020, the Company maintained deposits of \$2,821,983 leaving an uninsured balance of \$571,983 at this institution. Also, at December 31, 2020 the Company had a balance of \$5,128,496 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, 2020. (See Note 4).

Net earnings on LAIF was comprised of interest in the amount of \$38,132 at December 31, 2020.

NOTE 11. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Company's financial assets as of December 31, 2020, 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, 2020:

Cash	\$	7,806,281
Certificate of deposit		20,000
Receivables		447,879
Other receivables		225,324
Note receivable, current portion		344,000
Total financial assets		8,843,484
Less: Unavailable for general expenditures within one year due to:		
Contractual restrictions		20,000
Board designated reserves		3,613,540
Total unavailable financial assets		3,633,540
Financial assets available to meet cash needs for general expenditures within one year		
	\$	5,209,944

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, 2020

NOTE 12. PENSION PLAN

Effective January 1, 2011 the board approved becoming sole sponsor and trustee of San Antonio Water Company's 401(k) plan using the services of a third party administrator. The Company makes contributions as a percent of pay based on certain matching contributions by the employee. Total pension expense was \$59,946 for the year ended December 31, 2020.

On February 9, 2013, the Board approved converting the Company's existing traditional 401(k) Plan to a "Safe Harbor 401(k) Plan". This plan basically guarantees a minimum level of employer contributions. It is similar to traditional 401(k) plans but have specific requirements regarding vesting and employer contributions.

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.

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, 2020 the plan had a total liability of \$34,215 which is comprised of mutual funds investments (See Note 3). Total cost for the deferred compensation plan and life insurance policy in 2020 was \$19,912.

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 2020 the Company's payroll expense was \$993,762 which includes base pay and time off compensation (i.e. vacation, sick leave, holidays, etc.). Benefit costs (i.e. health insurance, retirement, etc.) were \$238,568 and the cost of employment (i.e. payroll taxes and worker's compensation insurance) was \$85,961. This is a total of \$1,318,291 for labor and related expenses.

**San Antonio Water Company
Notes to Financial Statements
December 31, 2020**

NOTE 14. CASH ACCUMULATION DESIGNATED BY BOARD OF DIRECTORS FOR DEPRECIATION AND OBSOLESCENCE RESERVES

On June 19, 2012, the Board of Directors approved eliminating and combining existing established reserves into a single Depreciation and Obsolescence Reserve and adopted resolution no. 2012-07-01. The resolution established an opening balance of \$5,076,582 for the Depreciation and Obsolescence Reserve. There shall be added to the Depreciation and Obsolescence Reserve each year from time to time throughout the year any proceeds from the sale of stored water, and as of December 31st of each year, a substantial portion of any positive balance on any operating account. The Board of Directors reserves the right to transfer for and in any given year from the Depreciation and Obsolescence Reserve (D&O Reserve), or reduce the otherwise planned addition thereto, any amount of funds, which in its sole judgment, may be required for other company purposes, and for which no other source of funding is reasonably available.

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

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

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. The Company, when able, will continue to fund this reserve with monies received from the sales 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. At the end of 2020, a total of \$1,696,021 will be added to the Depreciation and Obsolescence Reserves. These funds are derived from the following:

**San Antonio Water Company
Notes to Financial Statements
December 31, 2020**

NOTE 14. CASH ACCUMULATION DESIGNATED BY BOARD OF DIRECTORS FOR DEPRECIATION AND OBSOLESCENCE RESERVES (continued)

Sale of Stored Ground Water	\$ 108,480
Positive Balance of Operating Results	1,587,542
	\$ 1,696,022

There is a net gain on operations funds to be transferred based on audited financials. However, during the year, the Company previously moved a total of \$3,500,000 to LAIF which in the past was all D&O reserves and the operating owed D&O reserves \$18,551 at year end. No transfer will be done and the money in LAIF of \$1,822,530 will be considered Operating money at the end of 2020.

During 2020 a total of \$231,599 was spent on projects in the Capital Facilities Improvement Plan and \$1,055,513 was spent on capital improvement projects or other assets not identified in the master plan.

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	\$ 18,117.3
 Cash Available for Reserves at Year End	 3,613.5
 Additional funds required to fund the reserves	 \$ 14,503.8

From time to time the board of directors will review the progress of the Company's Capital Facilities Improvement Plan and adjust the level of reserve required for master plan projects.

NOTE 15. 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 16. SALE OF STORED GROUND WATER

In March of 2020, the Water Company leased the pumping rights of 643.3 acre-feet of water and in December of 2020, the Water Company leased the pumping rights of 300 acre feet of water out of its Six Basin storage account to the City of Pomona at a rate of \$115 per acre-foot for a total of \$108,480.

**San Antonio Water Company
Notes to Financial Statements
December 31, 2020**

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:

	2020	2019
Note receivable on installment sale	\$ 1,032,000	\$ 1,376,000
Deferred gain on sale of property	1,029,179	1,372,238

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. On August 4, 2020, a stock auction was held and 5 stock certificates were auctioned. The Company received 42 bids. The highest bidder of a quarter share stock ranged from \$15,001 to \$16,688. 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.

In 2020, 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 a total of \$614,939 owed to respective shareholders for recent and prior year's stock auctions.

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.

	2020	2019
Total Contributed Property, Plant and Equipment	\$ 2,432,257	\$ 2,426,040

San Antonio Water Company
Notes to Financial Statements
December 31, 2020

NOTE 20. 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	\$ 223,779	\$	\$ 223,779
Repairs to facilities and equipment	284,326		284,326
Power-gas & electric	623,669		623,669
Customer service	81,500		81,500
Conservation	7,587		7,587
Non-facility related labor	81,154		81,154
Supplies	19,869		19,869
Depreciation/amortization	936,733		936,733
Property taxes	206,135		206,135
Water resource management	245,134		245,134
Administrative services		289,335	289,335
Development/water service application		240	240
Payroll taxes		70,908	70,908
Worker's compensation insurance		15,053	15,053
Benefits pay (vacation, sick, etc.)		259,188	259,188
Benefits insurance		156,090	156,090
Office/IT support		62,552	62,552
Directors fees & expense		32,008	32,008
Liability insurance		29,894	29,894
Communication		46,688	46,688
Dues & publications		2,758	2,758
Outside services		4,378	4,378
Income tax expense		11,856	11,856
Accounting		72,366	72,366
Legal		242,013	242,013
Human resource expense		58,604	58,604
All other		33,558	33,558
TOTAL	<u>\$ 2,709,886</u>	<u>\$ 1,387,489</u>	<u>\$ 4,097,375</u>

**San Antonio Water Company
Notes to Financial Statements
December 31, 2020**

NOTE 21. 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,		
2021	\$	51,982
2022		33,622
2023		35,063
2024		37,776
2025		37,776
Thereafter		113,329
	\$	<u>309,548</u>