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, 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 Ranchero Santa Ana de 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. Statehood for California also played a part. Lending practices, property taxes and other legalities in Mexico differed dramatically from the United States. Those issues, coupled with the population demands pressing westward proved too much for the ranchero bucolic way of life.

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. Ensuring a water supply was critical for the success of the Ontario Colony. Water, as always, has been scarce in Southern California. In 1882 it was not common for irrigation systems to be developed to serve and provide for multiple independently owned farms. Thus, the San Antonio Water Company served as the 'sugar' in the lemonade that the Chaffey Brothers were selling to potential citrus grove farmers.

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 2023, 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 2023. Steady rainfall and temperate weather suppressed water consumption for much of 2023.

Shareholders	**Shares (owned and leased, rounded)**	**Annual Entitlement, Acre Feet per Year (AFY)**	**2023 Delivery (AFY)**
City of Upland	4,511.50	9,179.76	9,385.55
Monte Vista Water District	332.75	677.06	559.03
City of Ontario	295.25	600.76	495.90
Domestic Customers (Heights and Red Hill HOA)	656	1,334.79	1,050.41
Rock Company	132.25	269.10	446.73
Golf Courses	197.75	402.37	318.73
Grove Irrigators	55.25	112.42	36.80
Dormant Shares	204.25	423.74	0
Total shares	**6,389**	**13,000**	**12,293.14**

Core Values

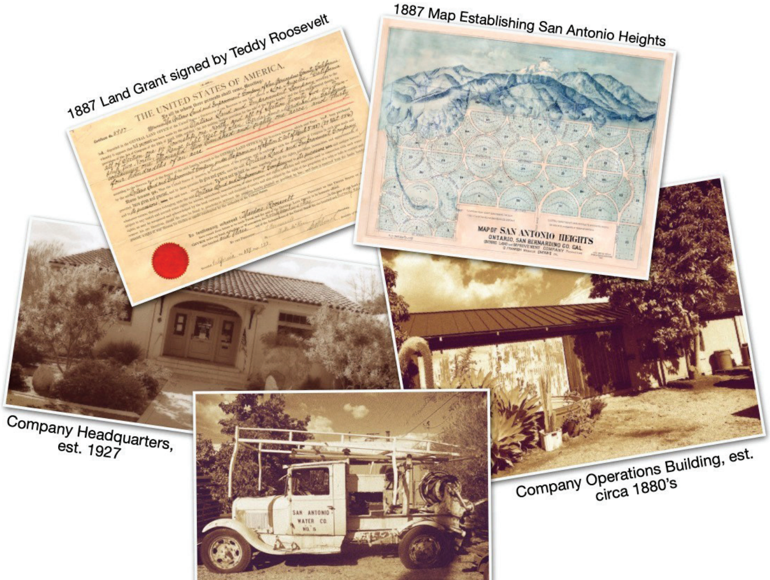
San Antonio Water Company's core company values create a framework within which individuals within the Company are free to act in a way that enables them to contribute to the long term prosperity of the business.

<u>As a Company, we value:</u>

- 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.

<u>Our continued vision is to achieve the following goals:</u>

- 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.



1887 Land Grant signed by Teddy Roosevelt

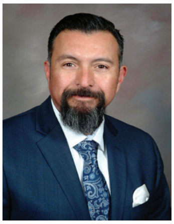
1887 Map Establishing San Antonio Heights

Company Headquarters, est. 1927

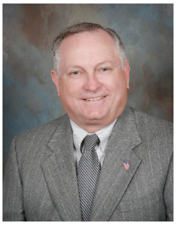
Company Operations Building, est. circa 1880's

Operations Truck, Model-T. Built pre-1927 Decommissioned late 1970's

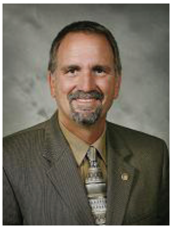
Board of Directors
2023



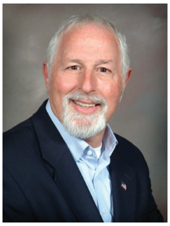
President
Rudy Zuniga



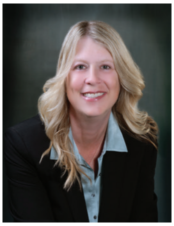
Vice President
Will Elliott



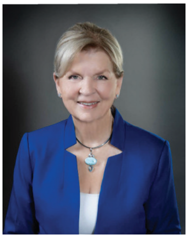
Secretary
Bob Cable



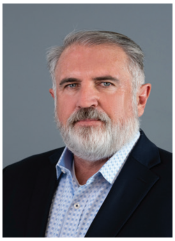
CFO
Bill Velto



Kati Parker



Becky Miller



Bob Bowcock

Advisory Committees
2023

(PROC)
Planning, Resources & Operations Committee
Will Elliott - Chairman
Kati Parker
Bob Bowcock

(AFC)
Administrative & Finance Committee
Bill Velto - Chairman
Bob Cable
Becky Miller

Manager’s Message

On behalf of the Board of Directors I am pleased to present the Company’s 2023 Annual Report highlighting some of the Water Company’s accomplishments and challenges in calendar year 2023.

I am happy to report that your water company achieved a remarkable amount of progress this past year.

Capital highlights for 2023 include completion of the following:

- Construction of a test well in Cucamonga Canyon.
- Based on the results of the test well, Construction of a production well in Cucamonga Canyon.
- Construction of the second 120,000 gallon tank at our Holly Drive Reservoir Site.
- Repaired Well 16 and Well 31 to provide for longer service life.
- Repaired winter storm damage to San Antonio Canyon stream intake and the Cucamonga Crosswalls.
- Contracted to design a pipeline replacement for the Paloma Curve Hydraulic Break modernization.
- Contracted to design a pipeline replacement for Well 31 in The Colonies.

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 2023 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.

Our annual rainfall average is approximately 17 inches. In 2023 we received almost double that average thanks to a series of early storms in January, February, and March. Consumption was down due to last year's mild weather allowing us to put 7,500 acre-feet of water into groundwater storage for future use.

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 2024 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 entitlement to water availability. Conservation is a way of life for those of us blessed to live in this beautiful region.

Rainfall Totals for 2023 (inches)												
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
6.26	5.99	10.86	1.44	1.14	0.79	0.00	2.94	0.94	0.16	0.81	1.28	32.61

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 140 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 21, 2024

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SAN ANTONIO WATER COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 2023

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San Antonio Water Company
Table of Contents

CONTENTS **PAGE**

San Antonio Water Company
Organization Data
December 31, 2023

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:

Rudy Zuniga.. President

Will Elliott... Vice President

Bill Velto...Chief Financial Officer

Bob Cable...Secretary

DIRECTORS:

Bob Bowcock	Bob Cable	Will Elliott
Becky Miller	Kati Parker	Bill Velto
Rudy Zuniga		

GENERAL MANAGER:.. Brian Lee
ASSISTANT GENERAL MANAGER:..Teri Layton

JAMES M. GARBO, CPA
CRAIG B. MILLER, CPA
DEBRA ANN STEWART, 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

To the Board of Directors
and Management
San Antonio Water Company

We have audited the financial statements of San Antonio Water Company for the year ended December 31, 2023, and have issued our report thereon dated February 21, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 19, 2023. Professional standards also require that we communicate to you the following information related to our audit.

<u>Significant Audit Findings</u>

Qualitative Aspects of Accounting Practices

Management is responsible for selection and use of appropriate accounting policies. We will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Company are described in Note 1 to the financial statements. The Company is following the new standard ASU 2016-02, Leases (Topic 842). However, any adjustment related to the standard are immaterial and therefore, no adjustments will be made. The existing policies were not changed during the year ended December 31, 2023. We noted no transactions entered into by the Company during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Management has informed us that they used all the relevant facts available to them at the time to make the best judgments about accounting estimates, such as estimating the useful life of their capital assets. We considered this information in the scope of our audit and, based on our procedures, we were able to conclude that the estimates provided by management were reasonable for financial statement purposes.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. We appreciated the courtesy and cooperation extended to our audit team by all members of management and staff from the Company during the performance of our work.

Corrected and Uncorrected Misstatements

For the purpose of this letter, professional standards define a misstatement as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. A misstatement may or may not indicate matters that could have a material effect, both individually and in the aggregate, on the Organization's financial reporting process. There were no material adjustments in the current audit. Overall, the adjustments, related to the income tax expense, the asset and liability related to the 457b plan, accounts receivable adjustment, and accounts payable adjustment, caused the following changes to the financial statements:

- Increase to total assets of approximately $46,200
- Decrease to total liabilities of approximately $48,400
- Increase to total expense of approximately $9,400
- Increase to total income of approximately $7,200

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. The aggregate of the audit adjustments caused a net decrease in the net assets of approximately $2,200 to the financial statements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 21, 2024.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves the application of an accounting principle or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Company's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We wish to thank the General Manager, the Assistant General Manager, and all staff for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Directors, Finance Committee, management, and others within the Company and is not intended to be and should not be used by anyone other than these specified parties.

Bowen, McBeth, Inc.

Rancho Cucamonga, California
February 21, 2024

San Antonio Water Company
Balance Sheets
December 31, 2023 and 2022

ASSETS

	2023	2022
CURRENT ASSETS		
Cash and cash equivalents		
Cash undesignated	$ 1,387,146	$ 1,018,264
Cash designated	3,400,452	7,231,693
Receivables		
Due from domestic customers	114,607	116,538
Due from municipal customers	459,595	254,602
Due from miscellaneous customers	20,936	15,990
Other receivables	490,408	224,989
Note receivable, current portion		344,000
Prepaid expenses	30,844	9,238
Inventory - supplies, materials	156,920	171,431
TOTAL CURRENT ASSETS	6,060,908	9,386,745
INVESTMENTS		
Deferred compensation asset	90,326	56,227
TOTAL INVESTMENTS	90,326	56,227
PROPERTY, PLANT, AND EQUIPMENT		
Land, water rights, wells, buildings and equipment	42,185,717	37,448,818
Less: accumulated depreciation	(16,316,085)	(15,350,344)
TOTAL PROPERTY, PLANT, AND EQUIPMENT	25,869,632	22,098,474
OTHER ASSETS		
Pomona Valley Protective Association	1	1
Documents and studies	959,237	1,227,266
Less: accumulated amortization	(610,589)	(757,592)
TOTAL OTHER ASSETS	348,649	469,675
TOTAL ASSETS	$ 32,369,515	$ 32,011,121

The accompanying notes are an integral part of the financial statements

San Antonio Water Company
Balance Sheets (continued)
December 31, 2023 and 2022

LIABILITIES AND STOCKHOLDERS' EQUITY

	2023	2022
CURRENT LIABILITIES		
Trade accounts payable	$ 108,437	$ 182,236
Accrued expenses	308,108	509,801
Deposits	2,550	1,700
Deferred revenue	1,200	2,808
Income taxes payable	9,435	518
Current portion of deferred gain		343,060
TOTAL CURRENT LIABILITIES	429,730	1,040,123
LONG TERM LIABILITITES		
Deferred compensation liabilities	90,326	56,227
TOTAL LONG TERM LIABILITIES	90,326	56,227
TOTAL LIABILITIES	520,056	1,096,350
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	21,099,351	20,164,663
Designated by Board of Directors:		
Depreciation/Obsolesence reserve	7,231,693	7,231,693
Total retained earnings	28,331,044	27,396,356
TOTAL STOCKHOLDERS' EQUITY	31,849,459	30,914,771
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 32,369,515	$ 32,011,121

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, 2023

REVENUE	
Domestic water income - stockholders	
Base rate - Includes availability charges	$ 488,150
Supplemental usage - Includes Tier 2 and 3 charges	224,797
Municipal water income - stockholders	
Base rate - Includes availability charges	3,647,010
Miscellaneous water income - stockholders	
Base rate - Includes availability charges	230,216
Supplemental usage - Includes Tier 2 and 3 charges	132,468
Dormant water availability charge	50,999
Sale of stored ground water	250,000
Water connections	4,682
Net gain on sale of assets	357,509
Net loss on disposal of assets	(66,398)
Miscellaneous	112,168
TOTAL REVENUE	5,431,601
EXPENSES	
Administrative services	490,164
Field labor	412,203
Payroll taxes & benefits	539,485
Repairs	552,603
Power-gas & electric (Utilities)	711,229
Office supplies/expenses	109,578
Directors fees & expenses	31,213
Insurance	77,174
Depreciation & amortization	1,098,704
Communication	33,294
Outside services	18,301
Human resources expense	24,215
Property taxes	257,648
Accounting & legal expense	305,436
Conservation	16,881
Staff development & training	2,044
All other	16,252
TOTAL EXPENSES	4,696,424
INCOME FROM OPERATIONS	735,177
OTHER INCOME	
Ground lease	74,408
Interest (net of fees)	144,238
INCOME BEFORE PROVISION FOR INCOME TAXES	953,823
PROVISION FOR INCOME TAXES	19,135
NET INCOME	934,688
RETAINED EARNINGS, JANUARY 1	27,396,356
RETAINED EARNINGS, DECEMBER 31	$ 28,331,044

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, 2023

NET INCOME	$ 934,688
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	1,098,704
Gain on sale of property as part of the installment sale	(357,509)
Loss on disposal of assets	66,398
Changes in assets and liabilities related to operations:	
(Increase) decrease in receivables	(208,007)
(Increase) decrease in other receivables	(265,419)
(Increase) decrease in prepaid expense	(21,607)
(Increase) decrease in inventories	14,511
(Increase) decrease in deferred compensation asset	(34,099)
Increase (decrease) in payables	(72,950)
Increase (decrease) in accrued expenses	(201,693)
Increase (decrease) in income taxes payable	8,917
Increase (decrease) in deferred compensation liability	34,099
Increase (decrease) in deferred revenue	(1,608)
NET CASH PROVIDED BY OPERATING ACTIVITIES	994,425
Cash flows from investing activities:	
Proceeds from sale of property as part of the installment sale	344,000
Proceeds from disposal of assets	14,450
Purchases of property, plant and equipment	(4,804,393)
Purchases of documents and studies	(10,841)
NET CASH PROVIDED BY INVESTING ACTIVITIES	(4,456,784)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,462,359)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,249,957
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,787,598
RECONCILIATION TO CASH AND CASH EQUIVALENTS, page 4	
Cash undesignated	$ 1,387,146
Cash designated	3,400,452
	$ 4,787,598
SUPPLEMENTAL INFORMATION:	
Cash paid for income taxes	$ 19,135
Installment Sale	
Deferred gain	$ 343,600
Cash received	350,467
Interest received	6,467

The accompanying notes are an integral part of the financial statements

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, 2023 and 2022.

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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2023 and through February 21, 2024, 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

<u>Chino Basin</u>
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.

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.

NOTE 3. INVESTMENTS

Investments are recorded at fair value. The historical cost and fair value at December 31, 2023 is as follows:

2023

	Historical Cost	Reinvested Gains	Book Value	Fair Value
Mutual funds	$ 73,321	$ 17,005	$ 90,326	$ 90,326

2022

	Historical Cost	Reinvested Gains	Book Value	Fair Value
Mutual funds	$ 54,010	$ 2,217	$ 56,227	$ 56,227

Investments in the amount of $90,326 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, 2023 and 2022 are measured within the Level 1 of the fair value hierarchy with the LAIF being measured within the Level 2 (See Note 10).

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.

	2023	2022
Land and water rights	$ 920,161	$ 920,161
Tunnels and forebay	1,587,111	1,587,111
Wells, shafts, building	4,910,919	4,910,919
Pipelines	19,228,761	19,228,761
Boosters	2,629,885	2,500,593
Reservoirs	3,081,787	3,081,787
Work in progress	6,009,056	1,484,227
All other	3,818,037	3,735,259
	42,185,717	37,448,818
Less: Accumulated depreciation	(16,316,085)	(15,350,344)
TOTALS	$ 25,869,632	$ 22,098,474

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

	Balance 01/01/23	Additions	Disposals/ Retirements	Work in Progress Transfers	Balance 12/31/23
Land and water rights	$ 920,161	$	$	$	$ 920,161
Tunnels and forebay	1,587,111				1,587,111
Wells, shafts, building	4,910,919				4,910,919
Pipelines	19,228,761				19,228,761
Boosters	2,500,593			129,292	2,629,885
Reservoirs	3,081,787				3,081,787
Work in progress	1,484,227	4,654,121		(129,292)	6,009,056
All other	3,735,259	150,272	67,494		3,818,037
	$37,448,818	$4,804,393	$ 67,494	$	$42,185,717

Depreciation of $1,033,235 was charged to operations in 2023.

NOTE 6. OTHER ASSETS

Documents and Studies

	2023	2022
Master Plan Update 2017	$ -	$ 278,870
Master Plan Update 2023	221,703	
Facilities Mapping	135,534	135,534
Water Rights Study	112,798	112,798
Hydrogeologic Study	48,000	48,000
Urban Water Management Plan (UWMP)	42,942	42,942
Work in Progress	6,858	310,236
All other	391,402	298,886
	959,237	1,227,266
Less: Accumulated amortization	(610,589)	(757,592)
TOTALS	$ 348,648	$ 469,674

Amortization of $65,469 was charged to operations in 2023.

Estimated future amortization expense for the document and studies as December 31, 2023.

December 31,	
2024	$ 58,547
2025	58,547
2026	58,547
2027	52,437
2028	44,889
Thereafter	75,681
	$ 348,648

Master Plan Update

A 2020 Master Plan Update was adopted by the Board on March 21, 2023 and placed in service in March 2023.

Facilities Mapping

The Company has invested in mapping the irrigation and domestic water distribution. In 2020 the Company updated the system maps and incorporated them into a new Geographical Information System (GIS). 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.

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 was completed in the 2021 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 each year through 2022. The Company was also paid the full amount of $8,400 for a 6 month lease extension starting in August 2023. The deferred amount is $1,200. Total deferred revenue is $2,808 and $1,200 for 2022 and 2023, respectively.

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	2023	2022
City of Upland (see note 9)	$ 3,228,493	$ 3,392,179
% of Total Revenue	58.1%	62.3%
Accounts Receivable from Major Customer	$ 428,327	$ 200,346

NOTE 9. LICENSE AGREEMENTS

The following agreements have expired December 31, 2021 and the Company is working to renew the agreements with the parties involved. Until such time that new agreements are in place, the parties have agreed to continue honoring the terms of the expired agreements.

<u>City of Upland Water Service Agreement:</u>

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.

<u>City of Ontario Water Service Agreement:</u>

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.

<u>Monte Vista Water District (MVWD) Water Service Agreement:</u>

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.

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, 2023, the Company maintained deposits of $2,283,773 leaving an uninsured balance of $33,773 at this institution. Also, at December 31, 2023 the Company had a balance of $2,594,383 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, 2023. (See Note 4).

Net earnings on LAIF was comprised of interest in the amount of $137,899 at December 31, 2023.

NOTE 11. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Company's financial assets as of December 31, 2023, 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, 2023:

Cash	$ 4,787,599
Receivables	596,914
Other receivables	488,631
Total financial assets	5,873,144
Less: Unavailable for general expenditures within one year due to:	
Board designated reserves	2,594,383
Total unavailable financial assets	2,594,383
Financial assets available to meet cash needs for general expenditures within one year	$ 3,278,761

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.

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 $68,821 and $69,512 for 2022 and 2023, 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, 2023 the plan had a total liability of $90,326 which is comprised of mutual funds investments (See Note 3). Total cost for the deferred compensation plan and life insurance policy was $17,395 and $20,123 for 2022 and 2023, 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 2023 the Company's payroll expense was $1,133,800 which includes base pay and time off compensation (i.e. vacation, sick leave, holidays, etc.). Benefit costs (i.e. health insurance, retirement, etc.) were $250,647 and the cost of employment (i.e. payroll taxes and worker's compensation insurance) was $98,422. This is a total of $1,482,869 for labor and related expenses.

NOTE 14. SALE OF STORED GROUND WATER

In December of 2023, the Water Company leased the pumping rights from Six Basins of 400 acre-feet of water for $625 per acre foot for $250,000 to the Three Valleys Municipal Water District.

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	$875K - $1.75M	$1.3 million
D&O Reserve	$1.1 million - $4.4 million	$1.6 million
Debt Service Reserve	$0	$0
Modernization Fund	$0	$1.7 million

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

The Company has finished updating their master plan. The 2023 master plan update recommended Capital Improvement projects and cost estimates for the domestic and irrigation system totaling $9,079,200.

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 2023, a total of $0 was spent on projects in the Capital Facilities Improvement Plan [Master Plan] and $4,969,140 was spent on capital improvement projects or other asset not identified in the master plan.

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	$ 9,079.2
Cash Available for Reserves at Year End	1,617.2
Additional funds required to fund the reserves	$ 7,462.0

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, 2023 and December 31, 2022 the balances were as follows:

	2023	2022
Note receivable on installment sale	$ -	$ 344,000
Deferred gain on sale of property		343,060

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 November 14, 2023, a stock auction was held and 3 stock certificates were auctioned. The Company received 7 bids. The highest bids for all 3 quarter shares of stock were $17,000, $16,928 and $10,000. 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 or respective state in accordance with State law.

NOTE 18. STOCK AUCTION (continued)

In 2023, the Company was able to locate and distribute $14,804 of unclaimed money to past shareholders. In accordance to law, the shareholder's last residency state receives the unclaimed monies due. The following was turned over to the proper states:

* Arizona Unclaimed Property	$	13,625
* State of California	$	205,284

At this point the Company is waiting for the approval to remit further money to the State of California. The financial statements includes under accrued expenses a total of $262,422 owed to respective shareholders for recent and prior year's stock auctions.

NOTE 19. 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. The Company is following the newly issued ASU 2016-02, Leases (Topic 842). For the Company as lessor there is very little change to the accounting and disclosure. There are a total of 7 leases with varying payments. The following is the future lease income:

December 31,		
2024	$	60,846
2025		60,846
2026		61,520
2027		63,539
2028		55,060
Thereafter		408,767
	$	710,578

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.

NOTE 20. FUNCTIONAL CLASSIFICATION OF EXPENSES (continued)

	Operations & Maintenance	General & Administrative	Total
Facility related field labor	$ 377,828	$	$ 377,828
Repairs to facilities and equipment	552,603		552,603
Power-gas & electric	711,229		711,229
Customer service	29,202		29,202
Conservation	16,881		16,881
Non-facility related labor	34,374		34,374
Supplies	15,397		15,397
Depreciation/amortization	1,098,704		1,098,704
Property taxes	257,648		257,648
Administrative services		463,006	463,006
Payroll taxes		80,280	80,280
Worker's compensation insurance		18,142	18,142
Benefits pay (vacation, sick, etc.)		303,352	303,352
Benefits insurance		155,854	155,854
Office/IT support		76,770	76,770
Directors fees & expense		31,213	31,213
Liability insurance		59,031	59,031
Communication		33,294	33,294
Dues & publications		9,476	9,476
Outside services		18,301	18,301
Income tax expense		19,135	19,135
Accounting		41,455	41,455
Legal		263,982	263,982
Human resource expense		24,215	24,215
All other		24,187	24,187
TOTAL	$ 3,093,866	$ 1,621,693	$ 4,715,559

NOTE 21. 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.

NOTE 21. CONTRIBUTED PROPERTY, PLANT AND EQUIPMENT (continued)

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.

	2023	2022
Total Contributed Property, Plant and Equipment	$ 2,432,257	$ 2,432,257

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