

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 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 135 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, 2019 rainfall notwithstanding. Although the past three years have seen ‘average’ or ‘above average’ rainfall, it is important to remember that every year of ‘below average’ rainfall will require at least one 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 2019, full water entitlement was established at 12,000 Acre Feet (AF). The table below shows how that 12,000 AF was divided among current shareholders, along with actual water delivered in 2019. Thanks to abundant rainfall in 2019 the Company was able to provide access to full entitlement for all shareholders. In addition, the Company was able to move 6,283 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)	Annual Entitlement, Acre Feet per Year (AFY)	2019 Delivery (AFY)
City of Upland	4,514.75	8,479.73	8459.90
City of Ontario	295.25	554.55	531.10
Monte Vista Water District	329.75	619.35	618.41
Domestic Customers	633.50	1,189.86	1,120.46
Rock Company	132.25	248.40	468.06
Golf Courses	218.25	409.92	332.93
Grove Irrigators	50.25	94.38	45.05
Inactive Shares	215.25	403.82	0
Total shares	6,389	12,000	11,575.90

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 135 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
2019**



President
Tom Thomas



Vice President
Will Elliott



Secretary/CFO
Jose Sanchez



Rudy Zuniga



Bob Cable



Martha Goss



Gino Filippi

**Advisory Committees
2019**

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

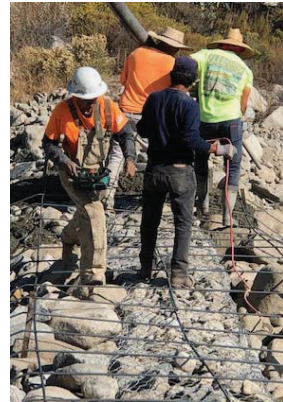
(AFC)
Administrative & Finance Committee
Jose Sanchez - Chairman
Bob Cable
Rudy Zuniga

Manager's Message

On behalf of the Board of Directors I am pleased to present the Company's 2019 Annual Report highlighting some of the Water Company's accomplishments and challenges in calendar year 2019.

Construction highlights for 2019 include:

- We repaired the Cucamonga Crosswalls breached during the 2019 storms. Given that half the crosswalls are constructed entirely of dirt and rock, these failures were expected. Repairs included installation of gabion baskets filled with rock, providing more structural support to the walls. Additionally, concrete spillways were installed to help channel storm flow over the walls in a controlled manner.
- We created a foundational pad and retaining wall for a new reservoir in the Holly Drive area. In 2020 we will construct a new 120,000-gallon storage tank on this pad to increase water storage capacity. In 2021 we intend to replace the site's existing 60,000-gallon tank with a new 120,000-gallon tank, further increasing storage for distribution and fire protection.



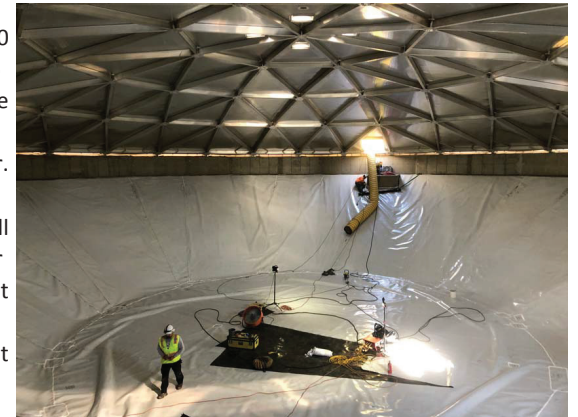
- We encapsulated the 500,000-gallon Reservoir 7 with a brand-new aluminum geodesic dome along with a new high strength geomembrane liner, providing better environmental protection for your drinking water.

- We finalized the replacement of an outdated System Control and Data

Acquisition (SCADA) central computer system. SCADA is the Company's 'nervous system', allowing remote facilities to communicate with our highly trained Operators. In 2018 the software programming was completed for a new modernized SCADA system. Hardware was purchased in early 2019 and installation was completed by the end of 2019.

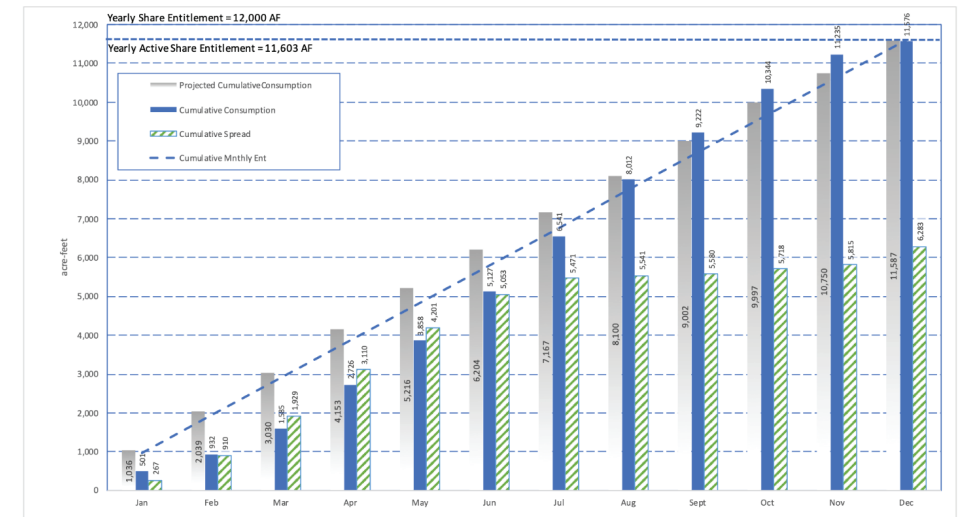
- We abandoned an aged pipeline located within residential backyards near Campus Avenue, installing approximately 3,400 lineal feet of new pipeline within 20th Street, 21st Street and Campus Avenue.

Looking forward, the Company's anticipated capital projects for 2020 total \$2.1M. We are planning to begin construction on many of the remaining 2017 Master Plan capital projects this upcoming budget year. An additional and major expense planned for this upcoming year will be completion of the 2020 Master Plan and Asset Management Program. With this master plan we intend to chart the Company's asset management program for the next ten years, including a source-water loss-risk review to help prepare the Company for catastrophic impacts to our source water and system.



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.

2019 Production and Consumption



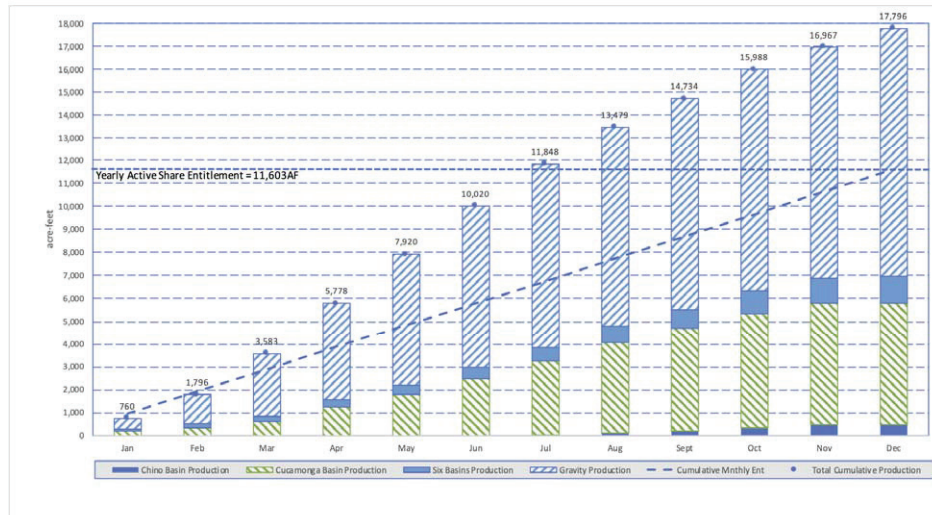
The company continues efforts to improve outreach to residents and businesses in the San Antonio Canyon regarding protecting the watershed from both an environmental and legal perspective. We continue our efforts to develop a regional consensus regarding watershed

protection. 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 will 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 2019 Assistant General Manager Teri Layton represented the Company at the Chino Basin Appropriative Pool. I continued serving as a Director on Six Basins Water Master Board. 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.

2019 Total Yearly Production

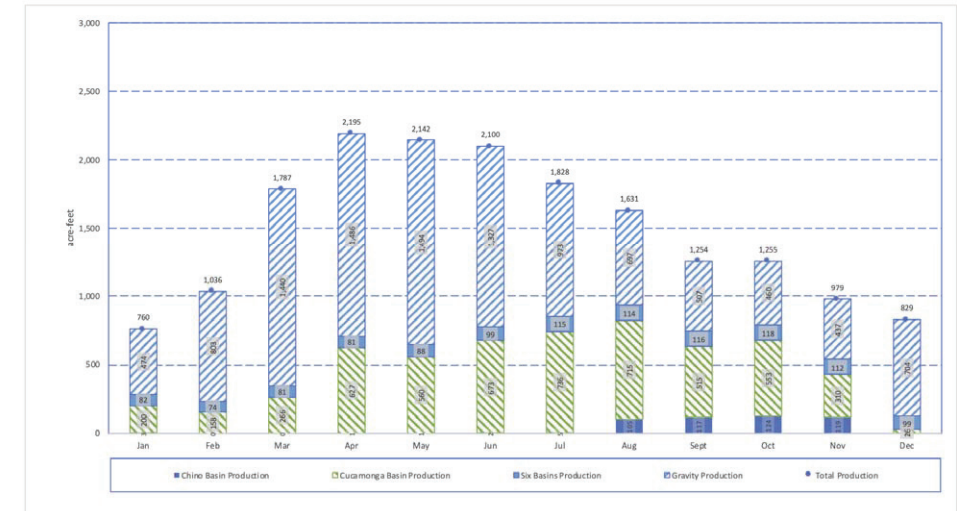


As I currently look out my window wondering when the rain will fall, I am reminiscing about the winter rains from early 2019. Once again, at the start of 2020 Mother Nature bluntly reminds us that California is an arid environment. Our annual rainfall average is approximately 17 inches. Conservation is a way of life for those of us blessed to live in this beautiful region. Multiple years of below average rainfall require multiple years of above average rainfall to balance out and last year’s storms provided much needed replenishment to our local water supplies. Regrettably, one year of good storm-fall is not enough. November and December of 2019 teased us into hoping for a repeat of 2019 winter rains. With that hope, the Company raised full yearly entitlement to 13,000 AF 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. If 2020 rainfall does not materialize a correction may be necessary.

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Tot
8.63	12.02	9.13	0.41	3.16	0.20	0.00	0.00	0.22	0.00	3.70	6.38	43.85

2019 Monthly Production



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 138 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 18, 2019

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.

In 2019 the City of Ontario received 96% of its full annual entitlement.

The 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.

In 2019 the District received 100% of its full annual entitlement.

SAN ANTONIO WATER COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 2018

**San Antonio Water Company
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**San Antonio Water Company
Organization Data
December 31, 2018**

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
Sue Sundell.....Secretary/Chief Financial Officer

DIRECTORS:

Tom Thomas	Will Elliott	John Gerardi
Gino Filippi	Sue Sundell	Jose R. Sanchez
Bob Cable		

GENERAL MANAGER:..... Brian Lee

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



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 sheet as of December 31, 2018 and 2017, and the related statements of operations and retained earnings, and cash flows for the year ended December 31, 2018, 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, 2018 and 2017, and the results of its operations and its cash flows for the year ended December 31, 2018 in accordance with accounting principles generally accepted in the United States of America.

Bowen, McBeth, Inc.

Bowen, McBeth, Inc.
February 22, 2019

**San Antonio Water Company
Balance Sheets
December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
Cash undesignated	\$ 2,662,968	\$ 1,328,637
Cash designated	3,529,386	4,377,303
Certificates of deposits	20,000	20,000
Receivables		
Due from domestic customers	124,504	165,659
Due from municipal customers	138,915	288,389
Due from miscellaneous customers	19,618	41,398
Other receivables	12,444	9,357
Prepaid expenses	9,238	9,238
Inventory - supplies, materials	93,446	85,679
TOTAL CURRENT ASSETS	<u>6,610,519</u>	<u>6,325,660</u>
INVESTMENTS		
Pomona Valley Protective Association	<u>1</u>	<u>1</u>
TOTAL INVESTMENTS	<u>1</u>	<u>1</u>
PROPERTY, PLANT, AND EQUIPMENT		
Land, water rights, wells, buildings and equipment	31,147,904	30,137,900
Less: accumulated depreciation	<u>(11,851,502)</u>	<u>(11,012,234)</u>
TOTAL PROPERTY, PLANT, AND EQUIPMENT	<u>19,296,402</u>	<u>19,125,666</u>
OTHER ASSETS		
Documents and studies	867,778	1,166,975
Less: accumulated amortization	<u>(574,025)</u>	<u>(831,235)</u>
TOTAL OTHER ASSETS	<u>293,753</u>	<u>335,740</u>
TOTAL ASSETS	<u>\$ 26,200,675</u>	<u>\$ 25,787,067</u>

**San Antonio Water Company
Balance Sheets (continued)
December 31, 2018 and 2017**

LIABILITIES AND STOCKHOLDERS' EQUITY

	2018	2017
CURRENT LIABILITIES		
Trade accounts payable	\$ 284,933	\$ 109,124
Accrued expenses	453,236	77,413
Income taxes payable	2,430	2,695
Deposits	850	
Water service entitlement payable		370,527
TOTAL CURRENT LIABILITIES	741,449	559,759
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	2,404,270	2,404,270
Retained earnings:		
Undesignated cumulative retained earnings	18,439,412	17,359,577
Designated by Board of Directors: Depreciation/Obsolescence reserve	3,529,386	4,377,303
Total retained earnings	21,968,798	21,736,880
TOTAL STOCKHOLDERS' EQUITY	25,459,226	25,227,308
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 26,200,675	\$ 25,787,067

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, 2018**

REVENUE

Domestic water income - stockholders	
Base rate - Includes availability charges	\$ 502,035
Supplemental usage - Includes Tier 2 and 3 charges	471,274
Municipal water income - stockholders	
Base rate - Includes availability charges	3,036,596
Miscellaneous water income - stockholders	
Base rate - Includes availability charges	245,508
Supplemental usage - Includes Tier 2 and 3 charges	140,247
Dormant water availability charge	53,696
Miscellaneous	14,220
TOTAL REVENUE	4,463,576

EXPENSES

Administrative services	328,637
Field labor	292,108
Payroll taxes & benefits	450,823
Repairs	552,393
Power-gas & electric (Utilities)	774,034
Office supplies/expenses	91,714
Directors fees & expenses	33,283
Insurance	42,224
Depreciation & amortization	881,254
Communication	21,671
Outside services	37,749
Human resources expense	45,398
Property taxes	216,774
Accounting & legal expense	276,050
Water resource management	220,869
Conservation	33,166
Staff development & training	11,344
All other	24,658
TOTAL EXPENSES	4,334,149

INCOME FROM OPERATIONS

129,427

OTHER INCOME

Ground lease	53,645
Interest (net of fees)	58,676

INCOME BEFORE PROVISION FOR INCOME TAXES

241,748

PROVISION FOR INCOME TAXES

9,830

NET INCOME

231,918

RETAINED EARNINGS, JANUARY 1

21,736,880

RETAINED EARNINGS, DECEMBER 31

\$ 21,968,798

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, 2018**

**San Antonio Water Company
Notes to Financial Statements
December 31, 2018**

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.

Investments are recorded at cost.

The Company uses the straight-line method of depreciation for its plant and equipment.

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.

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 required.

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, 2018 and through February 22, 2019, the audit report date and the issue date of the financial statements.

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.

NET INCOME	\$ 231,918
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	881,254
Changes in assets and liabilities related to operations:	
(Increase) decrease in receivables	212,410
(Increase) decrease in other receivables	(3,086)
(Increase) decrease in inventories	(7,768)
Increase (decrease) in payables	175,809
Increase (decrease) in income taxes payable	(265)
Increase (decrease) in accrued expenses	375,823
Increase (decrease) in deposits	850
Increase (decrease) in water service entitlement payable	<u>(370,527)</u>
Total adjustments	<u>1,264,500</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,496,418</u>
Cash flows from investing activities:	
Purchases of property, plant and equipment	<u>(1,010,004)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(1,010,004)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	486,414
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,705,940</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 6,192,354</u>
SUPPLEMENTAL INFORMATION:	
Cash paid for income taxes	\$ 9,830

The accompanying notes are an integral part of the financial statements

**San Antonio Water Company
Notes to Financial Statements
December 31, 2018**

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), a 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, 2018**

NOTE 3. INVESTMENTS

The Company 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 Association, the Company's investment is stated at \$1 on the Company's records.

NOTE 4. FAIR VALUE OF INSTRUMENTS

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.

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.

	2018	2017
Land and water rights	\$ 924,864	\$ 924,864
Tunnels and forebay	1,587,111	1,537,180
Wells, shafts, building	4,877,875	4,834,925
Pipelines	15,613,893	15,613,893
Boosters	2,181,281	2,159,256
Reservoirs	1,644,765	1,635,165
Work in progress	1,032,620	167,910
All other	3,285,495	3,264,707
	<u>31,147,904</u>	<u>30,137,900</u>
Less: Accumulated depreciation	(11,851,502)	(11,012,234)
TOTALS	<u>\$ 19,296,402</u>	<u>\$ 19,125,666</u>

**San Antonio Water Company
Notes to Financial Statements
December 31, 2018**

NOTE 5. PROPERTY, PLANT, AND EQUIPMENT (continued)

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

	Balance 01/01/18	Additions	Disposals/ Retirements	Work in Progress Transfers	Balance 12/31/18
Land and water rights	\$ 924,864	\$	\$	\$	\$ 924,864
Tunnels and forebay	1,537,180	49,931			1,587,111
Wells, shafts, building	4,834,925	42,950			4,877,875
Pipelines	15,613,893				15,613,893
Boosters	2,159,256	22,024			2,181,280
Reservoirs	1,635,165	9,600			1,644,765
Work in progress	167,910	864,710			1,032,620
All other	3,264,707	20,789			3,285,496
	<u>\$30,137,900</u>	<u>\$1,010,004</u>	<u>\$</u>	<u>\$</u>	<u>\$31,147,904</u>

Depreciation of \$839,268 was charged to operations in 2018.

NOTE 6. OTHER ASSETS

	2018	2017
Master Plan Update 2017	\$ 278,870	\$
Master Plan Update 2006		299,196
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		278,871
All other	259,284	259,284
	<u>867,778</u>	<u>1,166,975</u>
Less: Accumulated amortization	<u>(574,025)</u>	<u>(831,235)</u>
TOTALS	<u>\$ 293,753</u>	<u>\$ 335,740</u>

Amortization of \$41,986 was charged to operations in 2018.

Master Plan Update

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

**San Antonio Water Company
Notes to Financial Statements
December 31, 2018**

NOTE 6. OTHER ASSETS (continued)

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.

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.

NOTE 7. 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	
City of Upland (see note 8)	<u>\$ 2,360,315</u>

**San Antonio Water Company
Notes to Financial Statements
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NOTE 8. 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.

In 2018 the City of Upland received 93% 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.

In 2018 the City of Ontario received 65% 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.

In 2018 the District received 65% of its full annual entitlement.

NOTE 9. 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, 2018, the Company maintained deposits of \$2,965,136 leaving an uninsured balance of \$715,136 at this institution. Also, at December 31, 2018 the Company had a balance of \$3,266,005 deposited with the Local Agency Investment Fund. 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.

**San Antonio Water Company
Notes to Financial Statements
December 31, 2018**

NOTE 10. 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 \$60,210 for the year ended December 31, 2018.

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.

NOTE 11. 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 2018 the Company's payroll expense was \$950,280 which includes base pay and time off compensation (i.e. vacation, sick leave, holidays, etc.). Benefit costs (i.e. health insurance, retirement, etc.) were \$209,476 and the cost of employment (i.e. payroll taxes and worker's compensation insurance) was \$85,870. This is a total of \$1,245,626 for labor and related expenses.

NOTE 12. 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 balances that were maintained in the Capital Facilities (MP) Reserve, Operating Reserve, Emergency Reserve, and Emergency Drought Reserve was transferred to the Depreciation and Obsolescence Reserve and thereafter closed out the books and records. 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, 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. The update of the master plan in 2017 summarized recommended Capital Improvement projects and costs estimates for the domestic and irrigation system totaling \$18,787,626.

San Antonio Water Company
Notes to Financial Statements
December 31, 2018

NOTE 12. CASH ACCUMULATION DESIGNATED BY BOARD OF DIRECTORS FOR DEPRECIATION AND OBSOLESCENCE RESERVES (continued)

In addition to the Water Master Plan, staff developed a 25-year Asset Management Plan designed to identify cumulated depreciated assets with proposed schedule for replacement, rehabilitation. 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 2018, a total of \$129,427 will be added to the Depreciation and Obsolescence Reserves. These funds are derived from the following:

Positive Balance of Operating Results	\$ 129,427
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There is a net gain on operations funds to be transferred based on audited financials.

During 2018 a total of \$330,285 was spent on projects in the Capital Facilities Improvement Plan and \$637,688 was spent on capital improvement projects 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	\$ 18,457.3
Cash Available for Reserves at Year End	3,529.4
Additional funds required to fund the reserves	\$ 14,927.9

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 13. 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.

San Antonio Water Company
Notes to Financial Statements
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NOTE 14. 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. Effective July 1, 2017, San Antonio Water Company started charging a water availability charge to all shareholders regardless if they were receiving water from the Company. As a result, some shareholders did not pay and pursuant to the California Commercial Code, the San Antonio Water Company held two stock auctions in 2018. The first stock auction of 2018 was held on May 8, 2018. Sealed bids were received with 5 individuals being the highest bidder of various stocks ranging from one quarter share up to 2 shares paying from \$13,153 to \$80,100, respectively. The second stock auction was held on October 9, 2018 with one individual and the City of Upland being the highest bidder of 10 quarter shares and 1 half share. The winning bids ranged from \$13,600 to \$27,500. 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 2018, no money was turned over to the State of California. At this point in time, the financial statements includes under accrued expenses a total of \$408,013 owed to respective shareholders for recent and prior year's stock auctions.

NOTE 15. 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.

Government Entities	\$ 1,920,715
Developers	483,555
	\$ 2,404,270

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