



# One Hundred Twenty Eight Annual Report



1040 El Campo Drive

Pasadena, California 91107-5506

FOR YEAR ENDED DECEMBER 31, 2022



# TABLE OF CONTENTS

1	BOARD OF DIRECTORS	PG 4
2	PRESIDENT'S LETTER	PG 5
3	SUNNY SLOPE WATER COMPANY	PG 6
4	RAINFALL 8 YEARS 2015-2022	PG 7
5	AUDITOR'S REPORT	PG 8

## FINANCIAL STATEMENTS

6	BALANCE SHEETS	PG 13
7	STATEMENTS OF INCOME	PG 14
8	STATEMENTS OF SHAREHOLDERS EQUITY	PG 15
9	STATEMENTS OF CASH FLOWS	PG 16
10	NOTES TO FINANCIAL STATEMENTS	PG 17
11	SUPPLEMENTARY INFORMATION	PG 26



## BOARD OF DIRECTORS

Steven R. Seiler	President
Lap T. Ng	1st Vice President
Mark J. Sedlacek	Secretary
Peter C. Jeong	Treasurer
John L. Shaw	Assist Sec/Treas

Sunny Slope Water Company

March 2023

Dear Sunny Slope Shareholder:

On behalf of the Board of Directors I am happy to report that Sunny Slope Water Company is financially strong and the water we deliver to our customers continues to be of high quality. The 2022 annual report details on the company's finances can be downloaded from our website at [sunnyslopedwatercompany.com](https://sunnyslopedwatercompany.com)

While California's ongoing drought provided more challenges for the company we were able to complete renovations of Reservoir #1 located at the corner of Huntington Drive and El Campo Drive. The company also replaced a 3,000 feet water main on Burton Avenue in San Gabriel as part of Sunny Slope's ongoing modernization of its aging infrastructure.

While the recent rains have helped ease the drought, California continues to face severe challenges in providing for the state's water needs. We are asking our shareholders to continue to help us meet these state mandates for reducing water use. We will continue to update you on those state requirements. Please use the company's web portal (<https://sunnyslope.watersmart.com>) to monitor your water usage and for tips on water conservation.

Your Sunny Slope Board of Directors and staff appreciate the support of our shareholders. We will continue to take every measure needed to maintain the Company's financial strength and provide a high quality of water at a reasonable cost.

Respectfully submitted,

Steven R. Seiler  
Board President

# Sunny Slope Water Company

For the benefit of the number of new shareholders who have moved into our service area this is an appropriate time to review our water position.

Sunny Slope is a Mutual Water Company incorporated January 7<sup>th</sup> 1895 to provide water at cost to the shareholders in the service area. This area encompasses a large portion of the City of Temple City, smaller portions of San Marino, San Gabriel, Arcadia and unincorporated territory of Los Angeles County.

## **Source of Supply**

The Company pumps its water from two areas. The Raymond Basin located North of Huntington Drive and the San Gabriel Basin located South of Huntington Drive.

The Company has an adjudicated right to 1,558 acre feet of water per year from the Raymond Basin. Under the terms of adjudication, the total annual production from the basin may be adjusted to prevent an overdraft condition. Our current fiscal year adjusted adjudicated right is 1,091 acre feet.

The remaining Company production requirements are pumped from the San Gabriel Basin. Our adjudicated right in this basin is 1,692 acre feet for the current fiscal year. Safe yield in the San Gabriel Basin is adjusted every year to adapt to current weather conditions. An assessment is levied on water pumped in excess of our allowance. The assessment is used by the Upper San Gabriel Municipal Water District to purchase imported water from Metropolitan Water District for groundwater replenishment.

## **Water System**

The water is pumped from five wells, two in the Raymond Basin and three in the San Gabriel Basin.

The company has a 6 million gallon reservoir and a 4 million gallon reservoir both located in the general vicinity of the Company office on El Campo drive, Pasadena. A 150,000 gallon elevated tank is located at the northern end of our service area.

There are three booster plants, two located in the upper zone and one in the middle zone.

To bring water to your home or place of business, the Company has approximately 60 miles of water mains ranging in sizes from 4" to 30" throughout our service area.

SUNNY SLOPE WATER COMPANY  
RAINFALL 8 YEAR PERIOD  
IN INCHES

MONTH	2015	2016	2017	2018	2019	2020	2021	2022	AVERAGE INCHES
JAN	0.76	5.64	11.23	1.77	8.18	0.46	0.71	0.12	3.61
FEB	1.38	0.66	4.42	0.03	6.44	0.36	2.03	0.10	1.93
MAR	0.04	2.32	0.34	2.69	3.26	4.96	1.55	1.54	2.09
APR	0.37	1.03	0.05	0.02	0.04	2.57	0.09	0.36	0.57
MAY	1.16	0.53	0.89	0.09	2.02	0.12	0.12	0.06	0.62
JUN	0.03	0.00	0.00	0.00	0.01	0.00	0.01	0.19	0.03
JUL	0.61	0.00	0.00	0.00	0.00	0.00	0.17	0.00	0.10
AUG	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SEP	1.83	0.00	0.12	0.00	0.05	0.00	0.00	0.27	0.28
OCT	0.29	0.24	0.14	0.57	0.00	0.00	1.34	0.29	0.36
NOV	0.13	1.12	0.03	1.58	1.93	0.02	0.00	1.96	0.85
DEC	0.90	4.81	0.00	2.11	5.27	1.93	9.16	4.28	3.56
TOTALS	7.50	16.35	17.22	8.86	27.20	10.42	15.18	9.17	14.00



**SUNNY SLOPE WATER COMPANY  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
For the Year Ended  
December 31, 2022  
(With Comparative Amounts as of December 31, 2021)**

**NIGRO & NIGRO<sup>PC</sup>**

**SUNNY SLOPE WATER COMPANY**  
*For the Year Ended December 31, 2022*  
*Table of Contents*

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**FINANCIAL SECTION**

	<b><u>Page</u></b>
Independent Auditors' Report .....	1
Financial Statements:	
Balance Sheets .....	3
Statements of Income .....	4
Statements of Changes in Members' Equity .....	5
Statements of Cash Flows .....	6
Notes to Financial Statements .....	7

**SUPPLEMENTARY SECTION**

Schedules of Operating Expenses .....	16
Schedules of Administrative Costs .....	17

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## ***Financial Section***

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Sunny Slope Water Company  
Pasadena, California

### Opinion

We have audited the accompanying financial statements of the Company (Company) (a California corporation), which comprise the balance sheet as of December 31, 2022 and the related statements of income, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Company as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### Change in Accounting Principle

As described in Notes 1 and 8 to the financial statements, as of January 1, 2021, the Company adopted new accounting guidance, ASC-842, Leases. Our opinion is not modified with respect to this matter.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of operating expenses and schedules of administrative costs are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

## **Prior-Year Comparative Information**

The financial statements include partial prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Company's financial statements for the year ended December 31, 2021, from which such partial information was derived.

*Nigro & Nigro, PC*

Murrieta, California  
March 20, 2023

**SUNNY SLOPE WATER COMPANY***Balance Sheets**December 31, 2022 (With Comparative Information as of December 31, 2021)*

<b>ASSETS</b>	<b>2022</b>	<b>2021</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 384,983	\$ 1,296,161
Accrued interest receivable	70,985	66,879
Accounts receivable – water customers	772,661	696,832
Materials and supplies inventory	134,215	127,884
Prepaid expenses and deposits	124,986	120,518
<b>Total current assets</b>	<b>1,487,830</b>	<b>2,308,274</b>
<b>Non-current assets:</b>		
Investments (note 2)	8,153,566	10,797,924
Raymond Basin water storage (note 3)	594,711	600,729
Cyclical water storage (note 3)	1,961,535	1,527,450
Intangible assets – water rights	33,080	33,080
Right-to-use leased asset, net (note 6)	12,350	-
Utility plant and equipment, net (note 4)	20,005,994	16,317,523
<b>Total non-current assets</b>	<b>30,761,236</b>	<b>29,276,706</b>
<b>Total assets</b>	<b>\$ 32,249,066</b>	<b>\$ 31,584,980</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 642,152	\$ 1,248,168
Accrued interest payable	6,645	-
Unearned revenue – customer deposits	24,762	53,184
Deferred compensation (note 5)	8,000	8,000
Right-to-use lease payable, (note 6)	7,285	-
<b>Total current liabilities</b>	<b>688,844</b>	<b>1,309,352</b>
<b>Non-current liabilities:</b>		
Deferred compensation (note 5)	177,211	173,211
Right-to-use lease payable, (note 6)	5,334	-
Line-of-credit (note 7)	1,400,000	-
<b>Total liabilities</b>	<b>2,271,389</b>	<b>1,482,563</b>
<b>Members' equity</b>		
Common stock, Class I, \$10 par value, 13,500 shares authorized 5,830 shares issued and outstanding	58,300	58,300
Common stock, Class II, \$10 par value, 20,000 shares authorized 7,170 shares issued and outstanding	71,700	71,700
Retained earnings	29,847,677	29,972,417
<b>Total members' equity</b>	<b>29,977,677</b>	<b>30,102,417</b>
<b>Total liabilities and members' equity</b>	<b>\$ 32,249,066</b>	<b>\$ 31,584,980</b>

**SUNNY SLOPE WATER COMPANY***Statements of Income**For the Year Ended December 31, 2022**(With Comparative Information for the Year Ended December 31, 2021)*

	<b>2022</b>	<b>2021</b>
<b>Operating revenues:</b>		
Minimum rate	\$ 1,982,654	\$ 1,958,175
Commercial rate – non-stock	539,260	397,728
Commercial rate – stock	177,148	132,989
Residential rate – non-stock	1,501,622	1,805,629
Residential rate – stock	1,297,836	1,260,693
Special surcharge	456,282	455,394
Other charges and revenues	89,289	45,138
<b>Total operating revenues</b>	<b>6,044,091</b>	<b>6,055,746</b>
<b>Operating expenses:</b>		
<b>Operating variable costs:</b>		
Source of supply	961,309	1,263,581
Pumping and power	641,005	628,910
Purification	220,203	194,337
Transmission and distribution	402,082	299,198
<b>Total operating variable costs</b>	<b>2,224,599</b>	<b>2,386,026</b>
<b>Administrative costs:</b>		
Customer collections	245,344	218,133
General and administrative	1,517,282	1,426,430
Other expenses	202,591	237,737
<b>Total administrative costs</b>	<b>1,965,217</b>	<b>1,882,300</b>
<b>Total operating expenses</b>	<b>4,189,816</b>	<b>4,268,326</b>
<b>Operating income before depreciation expense</b>	<b>1,854,275</b>	<b>1,787,420</b>
Depreciation and amortization expense	(881,236)	(811,593)
<b>Operating income</b>	<b>973,039</b>	<b>975,827</b>
<b>Non-operating revenues(expenses):</b>		
Capital contributions in aid of construction from members	421,156	144,155
Legal settlement (note 14)	-	3,614,268
Investment earnings, net (note 2)	322,028	277,195
Change in fair-value and accrued interest of investments	(1,819,253)	167,538
Rental revenue	24,850	22,400
Rental expenses	(2,460)	(1,350)
Sale of capital asset	1,440	-
Interest expense	(19,871)	-
<b>Total non-operating revenues, net</b>	<b>(1,072,110)</b>	<b>4,224,206</b>
<b>Income before provision for income tax</b>	<b>(99,071)</b>	<b>5,200,033</b>
Provision for income tax – current year	(25,669)	(36,638)
<b>Net income(loss)</b>	<b>\$ (124,740)</b>	<b>\$ 5,163,395</b>

**SUNNY SLOPE WATER COMPANY***Statements of Changes in Members' Equity**For the Year Ended December 31, 2022**(With Comparative Information for the Year Ended December 31, 2021)*

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	<b>Common Stock Issued and Outstanding</b>	<b>Retained Earnings</b>	<b>Total Member's Equity</b>
<b>Balance at January 1, 2021</b>	\$ 130,000	\$ 24,809,022	\$ 24,939,022
Net income	-	5,163,395	5,163,395
<b>Balance at December 31, 2021</b>	130,000	29,972,417	30,102,417
Net loss	-	(124,740)	(124,740)
<b>Balance at December 31, 2022</b>	<u>\$ 130,000</u>	<u>\$ 29,847,677</u>	<u>\$ 29,977,677</u>

**SUNNY SLOPE WATER COMPANY***Statements of Cash Flows**For the Year Ended December 31, 2022**(With Comparative Information for the Year Ended December 31, 2021)*

	<u>2022</u>	<u>2021</u>
<b>Cash flows from operating activities:</b>		
Operating income	\$ 973,039	\$ 975,827
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	881,236	811,593
Provision for income tax	(25,669)	(36,638)
Legal settlement	-	3,614,268
(Increase)decrease in operating assets:		
Accounts receivable – water customers	(75,829)	(41,654)
Materials and supplies inventory	(6,331)	(553)
Prepaid expenses and deposits	(4,468)	(14,309)
Raymond Basin water storage	6,018	6,069
Cyclical water storage	(434,085)	707,180
Increase(decrease) in operating liabilities:		
Accounts payable and accrued expenses	(606,016)	701,928
Unearned revenue – customer deposits	(28,422)	20,712
Deferred compensation	4,000	4,000
<b>Total adjustments</b>	<u>(289,566)</u>	<u>5,772,596</u>
<b>Net cash provided by operating activities</b>	<u>683,473</u>	<u>6,748,423</u>
<b>Cash flows from investing activities:</b>		
Purchases of utility plant, equipment and right-to-use leased asset	(4,582,057)	(2,600,092)
Proceeds from capital contributions for aid in construction	421,156	144,155
Proceeds from sale of capital assets	1,440	-
Proceeds from the sale of investments	1,143,000	-
Purchases of investments	-	(4,364,269)
Investment earnings – cash and cash equivalents	27	221
Rental revenue	24,850	22,400
Rental expenses	(2,460)	(1,350)
<b>Net cash used in investing activities</b>	<u>(2,994,044)</u>	<u>(6,798,935)</u>
<b>Cash flows from financing activities:</b>		
Payments on right-to-use lease payable	(7,141)	-
Proceeds from right-to-use lease payable	19,760	-
Proceeds from line-of-credit	1,400,000	-
Interest payments on line-of-credit	(13,226)	-
<b>Net cash provided by financing activities</b>	<u>1,399,393</u>	<u>-</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(911,178)</u>	<u>(50,512)</u>
<b>Cash and cash equivalents:</b>		
Beginning of year	<u>1,296,161</u>	<u>1,346,673</u>
End of year	<u><u>\$ 384,983</u></u>	<u><u>\$ 1,296,161</u></u>

*See accompanying notes and auditors' report.*

## SUNNY SLOPE WATER COMPANY

### *Notes to Financial Statements*

*December 31, 2022*

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#### **NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

**A. Nature of Activities**

The Sunny Slope Water Company (Company) is a California non-profit mutual benefit corporation operating as a mutual water company. The Company was incorporated in 1895 to provide potable water to residents of certain parts of the cities of Temple City, San Marino, San Gabriel, Arcadia and an unincorporated area of the County of Los Angeles, California. As a mutual-owned water utility, its members are the recipients of water from its distribution system.

**B. Basis of Accounting**

The Company's policy is to prepare its financial statements on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities under this method. This means that revenues are recorded when earned, rather than when received, and expenses are recorded when incurred, not when they are paid. This conforms to generally accepted accounting principles as prescribed by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), and the American Institute of Certified Public Accountants (AICPA).

**C. Basis of Presentation**

Financial statement presentation follows the recommendations promulgated by the Financial Accounting Standards Board ("FASB"), commonly referred to as accounting principles generally accepted in the United States of America ("U.S. GAAP").

**D. Cash and Cash Equivalents**

The Company considers cash on hand and demand deposits with financial institutions to be considered cash and cash equivalents on the balance sheets and statements of cash flows.

**E. Accounts Receivable and an Allowance for Doubtful Accounts**

The Company's accounts receivable consists of balances due from its customers for water sales and services. As of December 31, 2022, management has considered the accounts receivable balance fully collectible; therefore, the Company has not established an allowance for doubtful accounts.

**F. Materials and Supplies Inventory**

These items consist of pipes and meters that are used for the repairs and maintenance of the Company's transmission and distribution system. These items are stated at the lower of cost or net realizable value, using the first-in first-out method for inventory valuation.

**G. Prepaid Expenses and Deposits**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses and deposits.

**H. Water Rights**

Water rights have been capitalized at cost and are not being amortized.

## SUNNY SLOPE WATER COMPANY

### Notes to Financial Statements

December 31, 2022

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#### NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

##### I. Right-To-Use Leased Asset and Right-To-Use Lease Payable

The primary objective is to enhance the relevance and consistency of information about the organizations' leasing activities. The Company has established a single model for lease accounting based on the principle that leases are financings of a right-to-use underlying asset. As a lessee, the Company is required to recognize a lease liability (payable) and an intangible right-to-use leased asset. At the commencement of a lease, the Company initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The leased asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the leased asset is amortized on a straight-line basis over its useful life. The Company monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the leased assets and lease payable if certain changes occur that are expected to significantly affect the amount of the lease payable.

##### J. Utility Plant and Equipment and Depreciation Expense

Utility plant and equipment items acquired and/or constructed are capitalized at historical cost. The Company's policy has set the capitalization threshold for reporting these items at \$5,000. Contributed assets are recorded at their estimated fair-market value at the date of contribution. Upon retirement or other disposition of property and equipment, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation expense is recorded on a straight-line basis over the estimated useful lives of these assets as follows:

Treatment, transmission and distribution system	30 to 50 years
Buildings and improvements	7 to 40 years
Equipment	3 to 10 years
Vehicles	5 to 10 years

The Company reviews the carrying value of utility plant and equipment assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition and other economic factors.

##### K. Fair Value Measurements

In accordance with fair value measurements, the Company categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

## SUNNY SLOPE WATER COMPANY

### *Notes to Financial Statements*

*December 31, 2022*

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#### **NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **K. Fair Value Measurements (continued)**

Financial assets and liabilities recorded on the balance sheet are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The Company has the ability to access the holding and quoted prices as of the measurement date.

*Level 2* – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

*Level 3* – Inputs that are unobservable. Unobservable inputs reflect the Company's own assumptions about the factors market participants would use in pricing an investment and is based on the best information available in the circumstances.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonable possible that changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in the Company's financial statements.

##### **L. Operating Revenues**

Water sales and service revenues are billed on a monthly cyclical basis. Estimated unbilled water sales and service revenue through December 31<sup>st</sup> has been accrued at year-end.

##### **M. Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Significant estimates include the lives used for depreciation of property and equipment and allocation of costs between the various programs and expense categories. Actual results could differ from those estimates.

## SUNNY SLOPE WATER COMPANY

### Notes to Financial Statements

December 31, 2022

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#### NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

##### N. Income Taxes

The Company is a non-profit mutual benefit corporation exempt from the payment of income taxes on activities related to its exempt purposes under Internal Revenue Code Section 501(c)12. However, the Company is not exempt from paying income taxes in California on non-member related net income. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The Company files an annual informational return with the Internal Revenue Service and a corporation tax return with the state of California.

The Company's provision for income tax is based on non-member net income under the state of California and is computed as follows:

<u>Account Type</u>	<u>Balance</u>
Investment earnings	\$ 322,203
Investment expenses	(175)
CA municipal bond interest – tax exempt	(30,750)
Investment – realized gains/(losses)	(23,300)
Rental revenue	24,850
Rental expenses	(2,460)
<b>Total taxable earnings</b>	<u>\$ 290,368</u>
<b>CA state corporate tax rate – 8.84%</b>	<u>\$ 25,669</u>

#### NOTE 2 – INVESTMENTS

The Company considers its investments as trading securities, which requires the recognition of changes in fair-value as a component of net income. Debt-type securities are carried at fair-value based on quoted market prices within active markets. Exchange traded ETFs and mutual funds are valued at the net asset value using quoted prices of active markets. The following is a listing of the Company's investment type holdings at their amortized cost basis and fair value at year-end:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Fair-Value Level 1</u>
CA municipal bonds	\$ 961,855	\$ 825,293
Corporate bonds	5,706,059	4,783,294
Exchange traded ETFs	2,413,999	2,115,651
Money-market funds	14,527	14,598
Mutual funds	389,927	414,730
<b>Total investments</b>	<u>\$ 9,486,367</u>	<u>\$ 8,153,566</u>

## SUNNY SLOPE WATER COMPANY

### Notes to Financial Statements

December 31, 2022

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#### NOTE 2 – INVESTMENTS (continued)

Investment earnings, net was calculated as follows:

<u>Description</u>	<u>Amount</u>
Investment earnings	\$ 322,203
Investment expenses	<u>(175)</u>
<b>Investment earnings, net</b>	<b><u>\$ 322,028</u></b>

#### NOTE 3 – SOURCE OF SUPPLY

##### Raymond Basin Water Storage

The Company has a 1955 decreed right of 1,558 acre-feet of water storage in the Raymond Basin, located in the San Gabriel Valley. Under the terms of adjudication, the total annual production from the basin may be adjusted to prevent an “overdraft” condition. The Company has increased its acre-feet storage in the basin to 2,355.8 acre-feet as of the beginning of the year. The basin’s water loss factor for the year was 1.0% or 23.6 acre-feet, which reduced the Company’s storage factor to 2,332.2 acre-feet. The change in the value of the Company’s Raymond Basin water storage was as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2022</u>	<u>Purchases</u>	<u>Usage</u>	<u>Balance, Dec. 31, 2022</u>
Raymond Basin	<u>\$ 600,729</u>	<u>\$ -</u>	<u>\$ (6,018)</u>	<u>\$ 594,711</u>

##### Cyclical Water Storage

The Company’s other water supply is a decreed pumping right of 1,691.55 acre-feet per year from the Company’s wells in the San Gabriel Basin using a safe yield which is adjusted annually to adapt to current weather conditions. An assessment is levied on water pumped in excess of the Company’s pumping allowance. The assessment is used by the Upper San Gabriel Municipal Water District to purchase imported water from the Metropolitan Water District of Southern California for groundwater replenishment. The change in the value of the Company’s cyclical water storage was as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2022</u>	<u>Purchases</u>	<u>Usage</u>	<u>Balance, Dec. 31, 2022</u>
Cyclic storage	<u>\$ 1,527,450</u>	<u>\$ 902,000</u>	<u>\$ (467,915)</u>	<u>\$ 1,961,535</u>

**SUNNY SLOPE WATER COMPANY***Notes to Financial Statements**December 31, 2022***NOTE 4 – UTILITY PLANT AND EQUIPMENT, NET**

Changes in the Company's utility plant and equipment balances consisted of the following:

	Balance, Jan. 1, 2022	Additions	Dispositions/ Transfers	Balance, Dec. 31, 2022
<b>Utility assets not being depreciated:</b>				
Land	\$ 289,776	\$ -	\$ -	\$ 289,776
Construction-in-progress	2,081,389	2,580,047	(4,590,372)	71,064
Total utility assets not being depreciated	2,371,165	2,580,047	(4,590,372)	360,840
<b>Utility assets being depreciated:</b>				
Transmission and distribution system	9,673,952	1,487,146	-	11,161,098
Purification system	4,767,034	-	-	4,767,034
Reservoirs, wells and tanks	3,711,756	-	2,741,392	6,453,148
Meter system	4,293,140	421,156	-	4,714,296
Buildings and improvements	294,074	-	1,848,980	2,143,054
Equipment	1,057,389	73,948	-	1,131,337
Vehicles	446,503	-	(38,316)	408,187
Total utility assets being depreciated	24,243,848	1,982,250	4,552,056	30,778,154
<b>Accumulated depreciation</b>	(10,297,490)	(873,826)	38,316	(11,133,000)
Total utility assets being depreciated, net	14,001,361	1,108,424	4,590,372	19,645,154
<b>Total utility assets, net</b>	<u>\$ 14,529,024</u>	<u>\$ 3,688,471</u>	<u>\$ -</u>	<u>\$ 20,005,994</u>

**NOTE 5 – DEFERRED COMPENSATION**

The Company has deferred compensation agreements with one employee and one former employee which provides benefits upon their retirement or termination from the Company. One agreement provides ten annual payments of \$8,000. The other agreement provides for a monthly payment of \$1,000 for each month of employment. The accrued benefit does not increase for interest. The total fair value of plan assets held by the Company as of December 31, 2022 was \$185,211.

**NOTE 6 – RIGHT-TO-USE LEASED ASSET AND RIGHT-TO-USE LEASE PAYABLE**

Changes in right-to-use leased asset for fiscal year ending December 31, 2022 was as follows:

Description	Balance, Jan. 1, 2022	Additions	Dispositions/ Transfers	Balance, Dec. 31, 2022
<b>Right-to-use leased asset:</b>				
Vehicle - Tesla	\$ -	\$ 19,760	\$ -	\$ 19,760
<b>Accumulated amortization:</b>				
Vehicle - Tesla	-	(7,410)	-	(7,410)
<b>Total right-to-use leased asset, net</b>	<u>\$ -</u>	<u>\$ 12,350</u>	<u>\$ -</u>	<u>\$ 12,350</u>

**SUNNY SLOPE WATER COMPANY***Notes to Financial Statements**December 31, 2022*

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**NOTE 6 – RIGHT-TO-USE LEASED ASSET AND RIGHT-TO-USE LEASE PAYABLE (continued)**

Changes in right-to-use lease payable for fiscal year ending December 31, 2022 was as follows:

<b>Balance, Jan. 1, 2022</b>	<b>Additions</b>	<b>Payments</b>	<b>Balance, Dec. 31, 2022</b>	<b>Current Portion</b>	<b>Long-term Portion</b>
<b>\$ -</b>	<b>\$ 19,760</b>	<b>\$ (7,141)</b>	<b>\$ 12,619</b>	<b>\$ 7,285</b>	<b>\$ 5,334</b>

Annual debt service requirements for the right-to-use lease payable are as follows:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2023	\$ 7,285	\$ 186	\$ 7,471
2024	5,334	42	5,376
Total	12,619	\$ 228	\$ 12,847
Current	(7,285)		
Long-Term	\$ 5,334		

The Company is reporting a total right-to-use leased asset, net of \$12,350 and a right-to-use lease payable of \$12,619 for the year ending December 31, 2022. Also, the Company is reporting total amortization expense of \$7,410, principal payments of \$7,141 and interest expense of \$330 related to the above noted lease.

The lease held by the Company does not have an implicit rate of return, therefore the Company used their incremental borrowing rate of 2.00% to discount the lease payments to the net present value. In some cases, leases contain termination clauses. In these cases, the clause requires the lessee or lessor to show cause to terminate the lease.

The Company's lease is summarized as follows:

**Vehicle – Tesla**

As of January 1, 2022, the Company had 32-months remaining on a 36-month lease for a Tesla to serve as the General Managers company car. An initial right-to-use lease liability was recorded in the amount of \$19,760. The Company makes monthly fixed lease payments of \$623 per month. The lease has an implied interest rate of 2.0%. The Company is amortizing the right-to-use leased asset of \$19,760 at \$618 per month. The lease term ends in September 2024.

**NOTE 7 – LINE OF CREDIT**

The Company maintains a line of credit providing borrowings up to \$1,600,000. Interest is payable at a variable rate of 2.644%. The Company's investments secure borrowings under the line. There was \$1,400,000 outstanding as of year-end.

## **SUNNY SLOPE WATER COMPANY**

### *Notes to Financial Statements*

*December 31, 2022*

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#### **NOTE 8 – WATER TREATMENT SERVICES AGREEMENT**

In 2013, the Company entered into an agreement for financing a new treatment plant and for water treatment services of well water. Under the terms of the agreement, monthly payments are to be provided to the contractor depending on the amount of well water treated. The contractor is to receive a fixed-monthly payment amount if the treatment plant reaches its negotiated treatment capacity. The treatment plant is operational; however, the treatment plant has not reached its negotiated treatment capacity. Therefore, the Company continues to pay for only the amount of well water treated at its current capacity. At the expiration of the agreement, title to the treatment plant will be transferred to the Company; however, the physical assets and intellectual property contained within the treatment plant will not be transferred. Once the treatment plant becomes fully operational, future minimum payments could become \$195,996 per year.

#### **NOTE 9 – COMMON STOCK**

The Company has two classes of common stock: Class I and Class II. Class II Common Stock is appurtenant to the shareholder's land requiring transfer of the shares with the sale or transfer of the property. Class I Common Stock is convertible to Class II shares. Class I shares may be redeemed at the request of the shareholder for the \$10 par value.

#### **NOTE 10 – RETIREMENT PLAN**

The Company maintains a defined contribution retirement plan under Internal Revenue Code Section 401(k) covering eligible employees. Annual contributions are limited to a percentage of eligible employee compensation under relevant Internal Revenue Code sections and an optional Company contribution. The Company has elected to contribute 3% of each participant's compensation and matches the employee's contribution up to 4% of the amount deferred. For the year ended December 31, 2022 the Company's total expense was \$76,709.

#### **NOTE 11 – CONCENTRATION OF CUSTODIAL DEPOSIT RISK**

The Company's cash and cash equivalents balance at times may exceed federally insured limits. Cash and cash equivalents in excess of FDIC and similar insurance coverage amounts are subject to the usual banking risks of funds in excess of those limits. Investments are subject to the usual market risks. As of December 31, 2022, there was \$163,164 in cash that was exposed to custodial deposit risk.

#### **NOTE 12 – CONCENTRATION OF CREDIT RISK**

The Company's accounts receivables are due from individuals and business located in a specific geographic area. The collection of these receivables may be impacted by economic conditions in this area.

## SUNNY SLOPE WATER COMPANY

### Notes to Financial Statements

December 31, 2022

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#### NOTE 13 – COMMITMENTS AND CONTINGENCIES

##### **Excluded Leases – Short-Term Leases and De Minimis Leases**

The Company does not recognize a lease receivable and a deferred revenue for short-term leases. Short-term leases are certain leases that have a maximum possible term under the lease contract of 12-months (or less), including any options to extend, regardless of their probability of being exercised.

Also, *de minimis* lessor or lessee leases are certain leases (i.e., room rental, copiers, printers, postage machines) that regardless of their lease contract period are *de minimis* with regards to their aggregate total dollar amount to the financial statements as a whole.

##### **General Liability and Workers' Compensation**

The Company is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; job-related illnesses or injuries to employees; and natural disasters for which the Company carries commercial insurance. The Company also purchases commercial insurance to cover the risk of loss for property and business liability. In 2022 there are no known claims or incidents that may result in the assertion of material claims arising from potential losses.

##### **Litigation**

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

#### NOTE 14 – LEGAL SETTLEMENT

The Company reached a financial settlement on a long-standing claim.

#### NOTE 15 – SUBSEQUENT EVENTS

Events subsequent to December 31, 2022 have been evaluated through March 20, 2023, the date at which the Company's audited financial statements were available to be issued.

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## ***Supplementary Information***

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**SUNNY SLOPE WATER COMPANY***Schedules of Operating Expenses**For the Year Ended December 31, 2022**(With Comparative Information for the Year Ended December 31, 2021)*

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	<u>2022</u>	<u>2021</u>
<b>Operating variable costs:</b>		
Source of supply:		
Cyclic storage usage	\$ 467,915	\$ 707,180
Raymond Basin assessment	52,716	44,959
Watermaster assessments	<u>440,678</u>	<u>511,442</u>
<b>Total source of supply</b>	<u>961,309</u>	<u>1,263,581</u>
Pumping and power:		
Purchased power	567,303	555,812
Repairs and maintenance	<u>73,702</u>	<u>73,098</u>
<b>Total pumping and power</b>	<u>641,005</u>	<u>628,910</u>
Purification:		
Purification labor	27,112	25,722
Purification operations	69,002	61,395
Materials and services	<u>124,089</u>	<u>107,220</u>
<b>Total purification</b>	<u>220,203</u>	<u>194,337</u>
Transmission and distribution:		
Operations labor	153,506	146,109
Materials and services	<u>248,576</u>	<u>153,089</u>
<b>Total transmission and distribution</b>	<u>402,082</u>	<u>299,198</u>
<b>Total operating variable costs</b>	<u>\$ 2,224,599</u>	<u>\$ 2,386,026</u>

**SUNNY SLOPE WATER COMPANY***Schedules of Administrative Costs**For the Year Ended December 31, 2022**(With Comparative Information for the Year Ended December 31, 2021)*

	<b>2022</b>	<b>2021</b>
<b>Administrative costs:</b>		
Customer collections:		
Clerical labor	\$ 132,849	\$ 122,207
Meter reading labor	48,609	35,318
Postage and printing	43,404	44,388
Information technology	20,482	16,220
<b>Total customer collections</b>	<b>245,344</b>	<b>218,133</b>
General and administrative:		
Management and administrative labor	642,752	543,480
Vacation and holiday labor costs	136,679	130,999
Deferred compensation and bonuses	12,000	12,000
Retirement	76,709	79,869
Payroll taxes	92,332	90,046
Employee benefits	144,855	161,277
Overhead absorption	(18,011)	(8,570)
Sub-total – labor and benefit costs	1,087,316	1,009,101
Director's fees	48,450	46,700
Dues and subscriptions	26,455	28,391
Information technology	48,195	70,453
Insurance	92,217	86,728
Legal	15,075	25,225
Office remodel	1,246	7,910
Other	35,789	11,805
Professional services	79,568	59,055
Services and supplies	43,762	39,992
Telephone and utilities	37,604	34,209
Travel and education	1,605	6,861
<b>Total general and administrative</b>	<b>1,517,282</b>	<b>1,426,430</b>
Other expenses:		
Grounds labor	7,637	68,110
Materials and services	124,384	83,740
Sub-total – repairs and maintenance	132,021	151,850
Vehicles labor	15,155	17,510
Fuel costs	25,079	17,968
Materials and services	14,285	33,593
Sub-total – vehicles expense	54,519	69,071
Property taxes	16,051	16,816
<b>Total other expenses</b>	<b>202,591</b>	<b>237,737</b>
<b>Total administrative costs</b>	<b>\$ 1,965,217</b>	<b>\$ 1,882,300</b>
<b>Total operating expenses</b>	<b>\$ 4,189,816</b>	<b>\$ 4,268,326</b>