



# One Hundred Twenty Seventh Annual Report



1040 El Campo Drive

Pasadena, California 91107-5506

FOR YEAR ENDED DECEMBER 31, 2021



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## BOARD OF DIRECTORS

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

SUNNY SLOPE WATER CO  
March 2022  
Letter to Shareholders

Dear Sunny Slope Water Co. Shareholder:

We have had another challenging year and with the ongoing pandemic and office remodel, many of our employees continue to work from home. I am pleased to report though, that on behalf of the Board of Directors, the Company continues to be financially strong, and water delivered to our customers remains of excellent quality. The 2021 Annual Report which provides more details on our finances, can be downloaded from our website at [sunnyslopewatercompany.com](http://sunnyslopewatercompany.com).

During this year we began the rehabilitation of Reservoir # 1 at the corner of Huntington Drive and El Campo Drive. That rehabilitation is still ongoing. We are also in the last stages of completion of the main office building remodel project, and we hope to be back in the office before the Annual meeting of shareholders on March 21, 2022.

The company staff completed a U.S. EPA required **Risk and Resiliency Certification** this year. In the past we found it necessary to pay outside consultants over \$150,000 to do that assessment. This was a savings for our shareholders. By having the Office Staff work from home during the remodel project the company saved another \$50,000 by not leasing temporary office space.

The Company also replaced about 1,500 feet of mainline piping on Avon Avenue as part of an ongoing multiyear plan to modernize aging distribution infrastructure.

California continues to face severe drought conditions and we need to have all of our customer and shareholders to assist us in meeting the state mandates with respect to water use. We will continue to update you on the state requirements. Please use our 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 our shareholders for the continuing support. We always take every measure needed to maintain the Company's financial strength and provide a high quality of water at a reasonable cost.

Respectfully submitted

John L. Shaw  
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

AVERAGE

MONTH	2014	2015	2016	2017	2018	2019	2020	2021	INCHES
JAN	0.12	0.76	5.64	11.23	1.77	8.18	0.46	0.71	3.60
FEB	2.09	1.38	0.66	4.42	0.03	6.44	0.36	2.03	2.17
MAR	1.83	0.04	2.32	0.34	2.69	3.26	4.96	1.55	2.12
APR	0.41	0.37	1.03	0.05	0.02	0.04	2.57	0.09	0.57
MAY	0.00	1.16	0.53	0.89	0.09	2.02	0.12	0.12	0.61
JUN	0.00	0.03	0.00	0.00	0.00	0.01	0.00	0.01	0.06
JUL	0.00	0.61	0.00	0.00	0.00	0.00	0.00	0.17	0.07
AUG	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.02
SEP	0.06	1.83	0.00	0.12	0.00	0.05	0.00	0.00	2.06
OCT	0.00	0.29	0.24	0.14	0.57	0.00	0.00	1.34	0.32
NOV	1.15	0.13	1.12	0.03	1.58	1.93	0.02	0.00	0.74
DEC	4.76	0.90	4.81	0.00	2.11	5.27	1.93	9.16	3.61
<b>TOTALS</b>	<b>10.44</b>	<b>7.5</b>	<b>16.35</b>	<b>17.22</b>	<b>8.86</b>	<b>27.2</b>	<b>10.42</b>	<b>15.18</b>	<b>15.95</b>

**SUNNY SLOPE WATER COMPANY  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
For the Year Ended  
December 31, 2021  
(With Comparative Amounts as of December 31, 2020)**

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



**SUNNY SLOPE WATER COMPANY**  
*For the Year Ended December 31, 2021*  
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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, 2021 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, 2021, 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.

### 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, 2020, from which such partial information was derived.



Murrieta, California  
February 28, 2022

**SUNNY SLOPE WATER COMPANY***Balance Sheets**December 31, 2021 (With Comparative Information as of December 31, 2020)*

<b>ASSETS</b>	<b>2021</b>	<b>2020</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,296,161	\$ 1,346,673
Accrued interest receivable	66,879	40,602
Accounts receivable – water customers	696,832	655,178
Materials and supplies inventory	127,884	127,331
Prepaid expenses and deposits	120,518	106,209
<b>Total current assets</b>	<b>2,308,274</b>	<b>2,275,993</b>
<b>Non-current assets:</b>		
Investments (note 2)	10,797,924	6,015,420
Raymond Basin water storage (note 3)	600,729	606,798
Cyclical water storage (note 3)	1,527,450	2,234,630
Intangible assets – water rights	33,080	33,080
Utility plant and equipment, net (note 4)	16,317,523	14,529,024
<b>Total non-current assets</b>	<b>29,276,706</b>	<b>23,418,952</b>
<b>Total assets</b>	<b>\$ 31,584,980</b>	<b>\$ 25,694,945</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 1,248,168	\$ 546,240
Unearned revenue – customer deposits	53,184	32,472
Deferred compensation (note 5)	8,000	8,000
<b>Total current liabilities</b>	<b>1,309,352</b>	<b>586,712</b>
<b>Non-current liabilities:</b>		
Deferred compensation (note 5)	173,211	169,211
<b>Total liabilities</b>	<b>1,482,563</b>	<b>755,923</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	29,972,417	24,809,022
<b>Total members' equity</b>	<b>30,102,417</b>	<b>24,939,022</b>
<b>Total liabilities and members' equity</b>	<b>\$ 31,584,980</b>	<b>\$ 25,694,945</b>

**SUNNY SLOPE WATER COMPANY***Statements of Income**For the Year Ended December 31, 2021**(With Comparative Information for the Year Ended December 31, 2020)*

	<b>2021</b>	<b>2020</b>
<b>Operating revenues:</b>		
Minimum rate	\$ 1,958,175	\$ 1,903,594
Commercial rate – non-stock	397,728	375,881
Commercial rate – stock	132,989	136,532
Residential rate – non-stock	1,805,629	1,803,017
Residential rate – stock	1,260,693	1,321,028
Special surcharge	455,394	-
Other charges and revenues	45,138	32,586
<b>Total operating revenues</b>	<b>6,055,746</b>	<b>5,572,638</b>
<b>Operating expenses:</b>		
<b>Operating variable costs:</b>		
Source of supply	1,263,581	1,064,200
Pumping and power	628,910	573,055
Purification	194,337	204,030
Transmission and distribution	299,198	336,003
<b>Total operating variable costs</b>	<b>2,386,026</b>	<b>2,177,288</b>
<b>Administrative costs:</b>		
Customer collections	218,133	210,809
General and administrative	1,426,430	1,337,186
Other expenses	237,737	189,400
<b>Total administrative costs</b>	<b>1,882,300</b>	<b>1,737,395</b>
<b>Total operating expenses</b>	<b>4,268,326</b>	<b>3,914,683</b>
<b>Operating income before depreciation expense</b>	<b>1,787,420</b>	<b>1,657,955</b>
Depreciation expense	(811,593)	(814,040)
<b>Operating income</b>	<b>975,827</b>	<b>843,915</b>
<b>Non-operating revenues(expenses):</b>		
Capital contributions in aid of construction from members	144,155	202,282
Legal settlement (note 13)	3,614,268	-
Investment earnings, net (note 2)	277,195	150,813
Change in fair-value and accrued interest of investments	167,538	311,232
Rental revenue	22,400	27,500
Rental expenses	(1,350)	(2,331)
<b>Total non-operating revenues, net</b>	<b>4,224,206</b>	<b>689,496</b>
<b>Income before provision for income tax</b>	<b>5,200,033</b>	<b>1,533,411</b>
Provision for income tax – current year	(36,638)	(21,177)
<b>Net income</b>	<b>\$ 5,163,395</b>	<b>\$ 1,512,234</b>

See accompanying notes and auditors' report.

**SUNNY SLOPE WATER COMPANY***Statements of Changes in Members' Equity**For the Year Ended December 31, 2021**(With Comparative Information for the Year Ended December 31, 2020)*

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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, 2020</b>	\$ 130,000	\$ 23,296,788	\$ 23,426,788
Net income	-	1,512,234	1,512,234
<b>Balance at December 31, 2020</b>	130,000	24,809,022	24,939,022
Net income	-	5,163,395	5,163,395
<b>Balance at December 31, 2021</b>	<u>\$ 130,000</u>	<u>\$ 29,972,417</u>	<u>\$ 30,102,417</u>

**SUNNY SLOPE WATER COMPANY***Statements of Cash Flows**For the Year Ended December 31, 2021**(With Comparative Information for the Year Ended December 31, 2020)*

	<u>2021</u>	<u>2020</u>
<b>Cash flows from operating activities:</b>		
Operating income	\$ 975,827	\$ 843,915
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	811,593	814,040
Provision for income tax	(36,638)	(21,177)
Legal settlement	3,614,268	-
(Increase)decrease in operating assets:		
Accounts receivable – water customers	(41,654)	27,094
Materials and supplies inventory	(553)	(761)
Prepaid expenses and deposits	(14,309)	(10,189)
Raymond Basin water storage	6,069	6,126
Cyclical water storage	707,180	(332,189)
Increase(decrease) in operating liabilities:		
Accounts payable and accrued expenses	701,928	50,204
Unearned revenue – customer deposits	20,712	19,095
Deferred compensation	4,000	4,000
<b>Total adjustments</b>	<u>5,772,596</u>	<u>556,243</u>
<b>Net cash provided by operating activities</b>	<u>6,748,423</u>	<u>1,400,158</u>
<b>Cash flows from investing activities:</b>		
Purchases of utility plant and equipment	(2,600,092)	(363,756)
Proceeds from capital contributions for aid in construction	144,155	202,282
Sale of certificates-of-deposit	-	141,402
Purchases of investments	(4,364,269)	(1,450,000)
Investment earnings – cash and cash equivalents	221	509
Rental revenue	22,400	27,500
Rental expenses	(1,350)	(2,331)
<b>Net cash used in investing activities</b>	<u>(6,798,935)</u>	<u>(1,444,394)</u>
<b>Net decrease in cash and cash equivalents</b>	(50,512)	(44,236)
<b>Cash and cash equivalents:</b>		
Beginning of year	<u>1,346,673</u>	<u>1,390,909</u>
End of year	<u>\$ 1,296,161</u>	<u>\$ 1,346,673</u>

See accompanying notes and auditors' report.

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## SUNNY SLOPE WATER COMPANY

### *Notes to Financial Statements*

*December 31, 2021*

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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, 2021, 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, 2021

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

##### I. 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.

##### J. 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.

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.

## SUNNY SLOPE WATER COMPANY

### Notes to Financial Statements

December 31, 2021

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

##### J. Fair Value Measurements (continued)

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.

##### K. Operating Revenues

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

##### L. 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.

##### M. 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	\$ 277,370
CA municipal bond interest – tax exempt	(3,100)
Investment expenses	(175)
Investment – realized gains/(losses)	119,312
Rental revenue	22,400
Rental expenses	(1,350)
<b>Total taxable earnings</b>	<u>414,457</u>
<b>CA state corporate tax rate – 8.84%</b>	<u>\$ 36,638</u>

## SUNNY SLOPE WATER COMPANY

### Notes to Financial Statements

December 31, 2021

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#### 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	\$ 980,208	\$ 962,674
Corporate bonds	5,527,661	5,534,674
Exchange traded ETFs	2,413,999	2,952,522
Money-market funds	663,569	863,826
Mutual funds	389,927	484,227
<b>Total investments</b>	<b>\$ 9,975,364</b>	<b>\$ 10,797,923</b>

Investment earnings, net was calculated as follows:

<u>Description</u>	<u>Amount</u>
Investment earnings	\$ 277,370
Investment expenses	(175)
<b>Investment earnings, net</b>	<b>\$ 277,195</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 2,379.6 acre-feet as of the beginning of the year. The basin's water loss factor for the year was 1.0% or 23.8 acre-feet, which reduced the Company's storage factor to 2,355.86 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, 2021</u>	<u>Purchases</u>	<u>Usage</u>	<u>Balance, Dec. 31, 2021</u>
Raymond Basin	\$ 606,798	\$ -	\$ (6,069)	\$ 600,729

**SUNNY SLOPE WATER COMPANY***Notes to Financial Statements**December 31, 2021***NOTE 3 – SOURCE OF SUPPLY (continued)****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, 2021</u>	<u>Purchases</u>	<u>Usage</u>	<u>Balance, Dec. 31, 2021</u>
Cyclic storage	<u>\$ 2,234,630</u>	<u>\$ -</u>	<u>\$ (707,180)</u>	<u>\$ 1,527,450</u>

**NOTE 4 – UTILITY PLANT AND EQUIPMENT, NET**

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

	<u>Balance, Jan. 1, 2021</u>	<u>Additions</u>	<u>Dispositions/ Transfers</u>	<u>Balance, Dec. 31, 2021</u>
<b>Utility assets not being depreciated:</b>				
Land	\$ 289,776	\$ -	\$ -	\$ 289,776
Construction-in-progress	237,887	1,843,502	-	2,081,389
Total utility assets not being depreciated	527,663	1,843,502	-	2,371,165
<b>Utility assets being depreciated:</b>				
Transmission and distribution system	9,126,636	547,316	-	9,673,952
Purification system	4,767,034	-	-	4,767,034
Reservoirs, wells and tanks	3,646,637	65,119	-	3,711,756
Meter system	4,148,985	144,155	-	4,293,140
Buildings and improvements	294,074	-	-	294,074
Equipment	1,057,389	-	-	1,057,389
Vehicles	446,503	-	-	446,503
Total utility assets being depreciated	23,487,258	756,590	-	24,243,848
<b>Accumulated depreciation</b>	<u>(9,485,897)</u>	<u>(811,593)</u>	<u>-</u>	<u>(10,297,490)</u>
Total utility assets being depreciated, net	14,001,361	(55,003)	-	13,946,358
<b>Total utility assets, net</b>	<u>\$ 14,529,024</u>	<u>\$ 1,788,499</u>	<u>\$ -</u>	<u>\$ 16,317,523</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, 2021 was \$181,211.

## **SUNNY SLOPE WATER COMPANY**

### *Notes to Financial Statements*

*December 31, 2021*

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#### **NOTE 6 – 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 were no amounts outstanding as of year-end.

#### **NOTE 7 – 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 8 – 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 9 – 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, 2021 the Company's total expense was \$79,869.

#### **NOTE 10 – 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, 2021, there was \$853,807 in cash that was exposed to custodial deposit risk.

## **SUNNY SLOPE WATER COMPANY**

### *Notes to Financial Statements*

*December 31, 2021*

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#### **NOTE 11 – 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.

#### **NOTE 12 – COMMITMENTS AND CONTINGENCIES**

##### **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 2021 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 13 – LEGAL SETTLEMENT**

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

#### **NOTE 14 – SUBSEQUENT EVENTS**

Events subsequent to December 31, 2021 have been evaluated through February 28, 2022, 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, 2021**(With Comparative Information for the Year Ended December 31, 2020)*

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	<u>2021</u>	<u>2020</u>
<b>Operating variable costs:</b>		
Source of supply:		
Cyclic storage usage	\$ 707,180	\$ 525,811
Raymond Basin assessment	44,959	37,207
Watermaster assessments	<u>511,442</u>	<u>501,182</u>
<b>Total source of supply</b>	<u>1,263,581</u>	<u>1,064,200</u>
Pumping and power:		
Purchased power	555,812	480,322
Repairs and maintenance	<u>73,098</u>	<u>92,733</u>
<b>Total pumping and power</b>	<u>628,910</u>	<u>573,055</u>
Purification:		
Purification labor	25,722	26,003
Purification operations	61,395	60,502
Materials and services	<u>107,220</u>	<u>117,525</u>
<b>Total purification</b>	<u>194,337</u>	<u>204,030</u>
Transmission and distribution:		
Operations labor	146,109	145,476
Materials and services	<u>153,089</u>	<u>190,527</u>
<b>Total transmission and distribution</b>	<u>299,198</u>	<u>336,003</u>
<b>Total operating variable costs</b>	<u>\$ 2,386,026</u>	<u>\$ 2,177,288</u>

**SUNNY SLOPE WATER COMPANY***Schedules of Administrative Costs**For the Year Ended December 31, 2021**(With Comparative Information for the Year Ended December 31, 2020)*

	<b>2021</b>	<b>2020</b>
<b>Administrative costs:</b>		
Customer collections:		
Clerical labor	\$ 122,207	\$ 125,111
Meter reading labor	35,318	39,745
Postage and printing	44,388	34,056
Information technology	16,220	11,897
<b>Total customer collections</b>	<b>218,133</b>	<b>210,809</b>
General and administrative:		
Management and administrative labor	543,480	541,207
Vacation and holiday labor costs	130,999	129,264
Deferred compensation and bonuses	12,000	12,000
Retirement	79,869	75,034
Payroll taxes	90,046	89,183
Employee benefits	161,277	166,799
Overhead absorption	(8,570)	(13,787)
Sub-total – labor and benefit costs	1,009,101	999,700
Director's fees	46,700	48,450
Dues and subscriptions	28,391	6,015
Information technology	70,453	69,118
Insurance	86,728	78,899
Legal	25,225	15,020
Office remodel	7,910	15,202
Other	11,805	22,765
Professional services	59,055	25,600
Services and supplies	39,992	15,932
Telephone and utilities	34,209	38,030
Travel and education	6,861	2,455
<b>Total general and administrative</b>	<b>1,426,430</b>	<b>1,337,186</b>
Other expenses:		
Grounds labor	68,110	70,974
Materials and services	83,740	39,043
Sub-total – repairs and maintenance	151,850	110,017
Vehicles labor	17,510	10,343
Fuel costs	17,968	21,636
Materials and services	33,593	29,613
Sub-total – vehicles expense	69,071	61,592
Property taxes	16,816	17,791
<b>Total other expenses</b>	<b>237,737</b>	<b>189,400</b>
<b>Total administrative costs</b>	<b>\$ 1,882,300</b>	<b>\$ 1,737,395</b>
<b>Total operating expenses</b>	<b>\$ 4,268,326</b>	<b>\$ 3,914,683</b>