



One Hundred Thirtieth Annual Report



1040 El Campo Drive

Pasadena, California 91107-5506

FOR YEAR ENDED DECEMBER 31, 2024

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BOARD OF DIRECTORS

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

Dear Sunny Slope Shareholders:

On behalf of Sunny Slope Board of Directors, I am pleased to report that our Company remains financially strong and the water we deliver to our customers remains to be of high quality. The 2024 Annual Report details the Company's finances. The report can be downloaded from our website (<http://www.sunnyslopewatercompany.com>).

Our Company continues to implement the Master Plan which was updated in 2024. During 2024, we upgraded 1,200 feet of 12-inch main on Rosemead Blvd. Additionally, a new Billing System was implemented replacing a legacy system. This new system improves business operation efficiencies through better access to data and reporting. Another project completed in 2024 was the Phase I modernization of our SCADA (Supervisory Control and Data Acquisition) Server and Operating Software which provides vital operational data from our water well sites to our office.

The last two-thirds of 2024 was exceptionally dry across Southern California. Therefore we are urging our shareholders to continue conserving water as mandated by the state of California. We will continue to update you on California's conservation requirements. Please monitor your water usage on the Company's web portal (<https://sunnyslope.watersmart.com>).

I would like to thank our General Manager and his staff for their dedicated work throughout the year. Your Sunny Slope Board of Directors will continue to take every measure to maintain the Company's financial strength and to provide high quality water at a reasonable cost.

Respectfully Submitted,

Peter C. Jeong
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 7th 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 1,804 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	2017	2018	2019	2020	2021	2022	2023	2024	AVERAGE INCHES
JAN	11.23	1.77	8.18	0.46	0.71	0.12	13.45	1.81	4.72
FEB	4.42	0.03	6.44	0.36	2.03	0.10	8.77	14.44	4.57
MAR	0.34	2.69	3.26	4.96	1.55	1.54	9.30	5.27	3.61
APR	0.05	0.02	0.04	2.57	0.09	0.36	0.51	0.79	0.55
MAY	0.89	0.09	2.02	0.12	0.12	0.06	2.09	0.23	0.70
JUN	0.00	0.00	0.01	0.00	0.01	0.19	0.29	0.01	0.06
JUL	0.00	0.00	0.00	0.00	0.17	0.00	0.00	0.00	0.02
AUG	0.00	0.00	0.00	0.00	0.00	0.00	4.61	0.00	0.58
SEP	0.12	0.00	0.05	0.00	0.00	0.27	0.30	0.00	0.09
OCT	0.14	0.57	0.00	0.00	1.34	0.29	0.14	0.00	0.31
NOV	0.03	1.58	1.93	0.02	0.00	1.96	0.77	0.06	0.79
DEC	0.00	2.11	5.27	1.93	9.16	4.28	1.94	0.00	3.09
TOTALS	17.22	8.86	27.20	10.42	15.18	9.17	42.17	22.61	19.10

**SUNNY SLOPE WATER COMPANY
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
For the Year Ended
December 31, 2024
(With Comparative Amounts as of December 31, 2023)**

NIGRO & NIGRO^{PC}

SUNNY SLOPE WATER COMPANY
For the Year Ended December 31, 2024
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Financial Section



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, 2024 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, 2024, 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, 2023, from which such partial information was derived.

Murrieta, California
February 28, 2025

SUNNY SLOPE WATER COMPANY*Balance Sheets**December 31, 2024 (With Comparative Information as of December 31, 2023)*

ASSETS	2024	2023
Current assets:		
Cash and cash equivalents	\$ 1,840,176	\$ 844,272
Accrued interest receivable	75,241	70,249
Accounts receivable – water customers	822,578	814,759
Materials and supplies inventory	141,813	139,531
Prepaid expenses and deposits	155,318	142,230
Total current assets	3,035,126	2,011,041
Non-current assets:		
Investments (note 2)	9,545,086	8,757,798
Raymond Basin water storage (note 3)	582,879	588,770
Cyclical water storage (note 3)	1,615,590	1,823,848
Intangible assets – water rights	33,080	33,080
Utility plant and equipment, net (note 4)	21,054,701	20,530,653
Total non-current assets	32,831,336	31,734,149
Total assets	\$ 35,866,462	\$ 33,745,190
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	1,390,503	622,103
Unearned revenue – customer deposits	28,924	41,456
Deferred compensation (note 5)	8,000	8,000
Right-to-use lease payable, (note 6)	-	5,334
Total current liabilities	1,427,427	676,893
Non-current liabilities:		
Deferred compensation (note 5)	200,000	196,000
Line-of-credit (note 7)	-	900,000
Total liabilities	1,627,427	1,772,893
Members' equity		
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	34,109,035	31,842,297
Total members' equity	34,239,035	31,972,297
Total liabilities and members' equity	\$ 35,866,462	\$ 33,745,190

SUNNY SLOPE WATER COMPANY*Statements of Income**For the Year Ended December 31, 2024**(With Comparative Information for the Year Ended December 31, 2023)*

	<u>2024</u>	<u>2023</u>
Operating revenues:		
Minimum rate	\$ 2,026,073	\$ 1,995,139
Commercial rate – non-stock	648,436	550,545
Commercial rate – stock	201,826	207,809
Residential rate – non-stock	1,527,130	1,299,740
Residential rate – stock	1,375,223	1,345,778
Special surcharge	458,699	457,716
Other charges and revenues	266,319	177,350
Total operating revenues	<u>6,503,706</u>	<u>6,034,077</u>
Operating expenses:		
Operating variable costs:		
Source of supply	705,572	607,523
Pumping and power	800,925	682,755
Purification	174,106	206,395
Transmission and distribution	423,199	502,413
Total operating variable costs	<u>2,103,802</u>	<u>1,999,086</u>
Administrative costs:		
Customer collections	249,218	238,854
General and administrative	1,531,736	1,535,961
Other expenses	228,725	203,467
Total administrative costs	<u>2,009,679</u>	<u>1,978,282</u>
Total operating expenses	<u>4,113,481</u>	<u>3,977,368</u>
Operating income before depreciation expense	2,390,225	2,056,709
Depreciation and amortization expense	<u>(992,344)</u>	<u>(994,003)</u>
Operating income	<u>1,397,881</u>	<u>1,062,706</u>
Non-operating revenues(expenses):		
Capital contributions in aid of construction from members	244,864	181,193
Investment earnings, net (note 2)	356,537	349,489
Change in fair-value and accrued interest of investments	346,107	504,021
Rental revenue	21,850	21,850
Rental expenses	(9,325)	(1,137)
Interest expense	<u>(52,204)</u>	<u>(90,575)</u>
Total non-operating revenues, net	<u>907,829</u>	<u>964,841</u>
Income before provision for income tax	2,305,710	2,027,547
Provision for income tax – current year	<u>(38,972)</u>	<u>(32,927)</u>
Net income	<u>\$ 2,266,738</u>	<u>\$ 1,994,620</u>

SUNNY SLOPE WATER COMPANY*Statements of Changes in Members' Equity**For the Year Ended December 31, 2024**(With Comparative Information for the Year Ended December 31, 2023)*

	Common Stock Issued and Outstanding	Retained Earnings	Total Member's Equity
Balance at January 1, 2023	\$ 130,000	\$ 29,847,677	\$ 29,977,677
Net income	-	1,994,620	1,994,620
Balance at December 31, 2023	130,000	31,842,297	31,972,297
Net income	-	2,266,738	2,266,738
Balance at December 31, 2024	<u>\$ 130,000</u>	<u>\$ 34,109,035</u>	<u>\$ 34,239,035</u>

SUNNY SLOPE WATER COMPANY

Statements of Cash Flows

For the Year Ended December 31, 2024

(With Comparative Information for the Year Ended December 31, 2023)

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Operating income	\$ 1,397,881	\$ 1,062,706
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	992,344	994,003
Provision for income tax	(38,972)	(32,927)
(Increase)decrease in operating assets:		
Accounts receivable – water customers	(7,819)	(42,098)
Materials and supplies inventory	(2,282)	(5,316)
Prepaid expenses and deposits	(13,088)	(17,244)
Raymond Basin water storage	5,891	5,941
Cyclical water storage	208,258	137,687
Increase(decrease) in operating liabilities:		
Accounts payable and accrued expenses	768,400	(20,049)
Unearned revenue – customer deposits	(12,532)	16,694
Deferred compensation	4,000	18,789
Total adjustments	<u>1,904,200</u>	<u>1,055,480</u>
Net cash provided by operating activities	<u>3,302,081</u>	<u>2,118,186</u>
Cash flows from investing activities:		
Purchases of utility plant, equipment and right-to-use leased asset	(1,516,392)	(1,506,312)
Proceeds from capital contributions for aid in construction	244,864	181,193
Purchase of investments	(600,000)	-
Proceeds from the sale of investments	510,311	250,000
Investment earnings – cash and cash equivalents	53	14
Rental revenue	21,850	21,850
Rental expenses	(9,325)	(1,137)
Net cash used in investing activities	<u>(1,348,639)</u>	<u>(1,054,392)</u>
Cash flows from financing activities:		
Payments on right-to-use lease payable	(5,334)	(7,285)
Principal payments on line-of-credit	(900,000)	(500,000)
Interest payments on line-of-credit	(52,204)	(97,220)
Net cash used in financing activities	<u>(957,538)</u>	<u>(604,505)</u>
Net increase in cash and cash equivalents	995,904	459,289
Cash and cash equivalents:		
Beginning of year	844,272	384,983
End of year	<u>\$ 1,840,176</u>	<u>\$ 844,272</u>

SUNNY SLOPE WATER COMPANY

Notes to Financial Statements

December 31, 2024

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, 2024, 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, 2024

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, 2024

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 bi-monthly cyclical basis. Estimated unbilled water sales and service revenue through December 31st 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, 2024

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	\$ 356,712
Investment expenses	(175)
CA municipal bond interest – tax exempt	(30,750)
Investment – realized gains/(losses)	102,547
Rental revenue	21,850
Rental expenses	<u>(9,325)</u>
Total taxable earnings	<u>\$ 440,859</u>
CA state corporate tax rate – 8.84%	<u>\$ 38,972</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	\$ 924,304	\$ 820,627
Corporate bonds	5,320,342	4,719,738
Exchange traded ETFs	1,957,630	2,443,803
Money-market funds	901,376	901,376
Mutual funds	<u>606,842</u>	<u>659,542</u>
Total investments	<u>\$ 9,710,494</u>	<u>\$ 9,545,086</u>

SUNNY SLOPE WATER COMPANY

Notes to Financial Statements

December 31, 2024

NOTE 2 – INVESTMENTS (continued)

Investment earnings, net was calculated as follows:

<u>Description</u>	<u>Amount</u>
Investment earnings	\$ 356,712
Investment expenses	<u>(175)</u>
Investment earnings, net	<u>\$ 356,537</u>

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 2,332.2 acre-feet as of the beginning of the year. The basin’s water loss factor for the year was 1.0% or 23.3 acre-feet, which reduced the Company’s storage factor to 2,308.9 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, 2024</u>	<u>Purchases</u>	<u>Usage</u>	<u>Balance, Dec. 31, 2024</u>
Raymond Basin	<u>\$ 588,770</u>	<u>\$ -</u>	<u>\$ (5,891)</u>	<u>\$ 582,879</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, 2024</u>	<u>Purchases</u>	<u>Usage</u>	<u>Balance, Dec. 31, 2024</u>
Cyclic storage	<u>\$ 1,823,848</u>	<u>\$ -</u>	<u>\$ (208,258)</u>	<u>\$ 1,615,590</u>

SUNNY SLOPE WATER COMPANY

Notes to Financial Statements

December 31, 2024

NOTE 4 – UTILITY PLANT AND EQUIPMENT, NET

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

	Balance, Jan. 1, 2024	Additions	Dispositions/ Transfers	Balance, Dec. 31, 2024
Utility assets not being depreciated:				
Land	\$ 349,355	\$ -	\$ -	\$ 349,355
Construction-in-progress	51,914	159,292	-	211,206
Total utility assets not being depreciated	401,269	159,292	-	560,561
Utility assets being depreciated:				
Transmission and distribution system	12,368,019	921,222	-	13,289,241
Purification system	4,849,438	22,328	-	4,871,766
Reservoirs, wells and tanks	6,453,148	-	-	6,453,148
Meter system	4,884,509	244,864	-	5,129,373
Buildings and improvements	2,149,399	-	-	2,149,399
Equipment	1,131,337	-	-	1,131,337
Vehicles	408,187	168,686	-	576,873
Total utility assets being depreciated	32,244,037	1,357,100	-	33,601,137
Accumulated depreciation	(12,119,593)	(987,404)	-	(13,106,997)
Total utility assets being depreciated, net	20,124,444	369,696	-	20,494,140
Right-to-use assets being amortized:				
Right-to-use leased vehicle	19,760	-	(19,760)	-
Total right-to-use assets being amortized	19,760	-	(19,760)	-
Accumulated amortization	(14,820)	(4,940)	19,760	-
Total right-to-use assets being amortized, net	4,940	(4,940)	-	-
Total utility assets, net	\$ 20,530,653	\$ 524,048	\$ -	\$ 21,054,701

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, 2024 was \$208,000.

SUNNY SLOPE WATER COMPANY

Notes to Financial Statements

December 31, 2024

NOTE 6 – RIGHT-TO-USE LEASE PAYABLE

Changes in right-to-use lease payable for fiscal year ending December 31, 2024 was as follows:

Balance, Jan. 1, 2024	Additions	Payments	Balance, Dec. 31, 2023
\$ 5,334	\$ -	\$ (5,334)	\$ -

The Company is reporting a total right-to-use lease payable of \$0 for the year ending December 31, 2024. The Company is reporting total principal payments of \$5,334 and interest expense of \$42 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 ended in 2024 and the leased vehicle was returned.

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. As of December 31, 2024, the Company had not drawn any funds from the line of credit.

SUNNY SLOPE WATER COMPANY

Notes to Financial Statements

December 31, 2024

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, 2024 the Company's total expense was \$77,872.

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, 2024, there was \$1,584,517 in cash that was exposed to custodial deposit risk.

NOTE 12 – CONCENTRATION OF CREDIT RISK

The Company's accounts receivable 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, 2024

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 2024 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 – SUBSEQUENT EVENTS

Events subsequent to December 31, 2024, have been evaluated through February 28, 2025, the date at which the Company's audited financial statements were available to be issued.

Supplementary Information

SUNNY SLOPE WATER COMPANY*Schedules of Operating Expenses**For the Year Ended December 31, 2024**(With Comparative Information for the Year Ended December 31, 2023)*

	<u>2024</u>	<u>2023</u>
Operating variable costs:		
Source of supply:		
Cyclic storage usage	\$ 208,258	\$ 137,687
Raymond Basin assessment	56,443	52,614
Watermaster assessments	440,871	417,222
Total source of supply	<u>705,572</u>	<u>607,523</u>
Pumping and power:		
Purchased power	684,442	570,142
Repairs and maintenance	116,483	112,613
Total pumping and power	<u>800,925</u>	<u>682,755</u>
Purification:		
Purification labor	24,830	27,470
Purification operations	75,161	77,021
Materials and services	74,115	101,904
Total purification	<u>174,106</u>	<u>206,395</u>
Transmission and distribution:		
Operations labor	129,090	140,146
Materials and services	294,109	362,267
Total transmission and distribution	<u>423,199</u>	<u>502,413</u>
Total operating variable costs	<u>\$ 2,103,802</u>	<u>\$ 1,999,086</u>

SUNNY SLOPE WATER COMPANY

Schedules of Administrative Costs

For the Year Ended December 31, 2024

(With Comparative Information for the Year Ended December 31, 2023)

	<u>2024</u>	<u>2023</u>
Administrative costs:		
Customer collections:		
Clerical labor	\$ 144,096	\$ 138,992
Meter reading labor	52,693	54,341
Postage and printing	35,572	35,052
Information technology	16,857	10,469
Total customer collections	<u>249,218</u>	<u>238,854</u>
General and administrative:		
Management and administrative labor	632,649	592,565
Vacation and holiday labor costs	147,806	134,691
Deferred compensation and bonuses	12,000	26,789
Retirement	77,872	76,942
Payroll taxes	89,471	89,135
Employee benefits	142,994	131,359
Overhead absorption	(9,964)	(10,621)
Sub-total – labor and benefit costs	1,092,828	1,040,860
Director's fees	49,600	50,700
Dues and subscriptions	31,950	27,066
Information technology	61,050	57,067
Insurance	111,389	100,023
Legal	15,000	15,000
Other	32,848	43,836
Professional services	57,388	128,495
Services and supplies	32,783	29,368
Telephone and utilities	42,553	38,371
Travel and education	4,347	5,175
Total general and administrative	<u>1,531,736</u>	<u>1,535,961</u>
Other expenses:		
Grounds labor	3,496	3,347
Materials and services	141,305	129,947
Sub-total – repairs and maintenance	<u>144,801</u>	<u>133,294</u>
Vehicles labor	4,660	4,373
Fuel costs	21,982	25,289
Materials and services	38,354	23,030
Sub-total – vehicles expense	<u>64,996</u>	<u>52,692</u>
Property taxes	18,928	17,481
Total other expenses	<u>228,725</u>	<u>203,467</u>
Total administrative costs	<u>\$ 2,009,679</u>	<u>\$ 1,978,282</u>
Total operating expenses	<u>\$ 4,113,481</u>	<u>\$ 3,977,368</u>