



One Hundred Twenty Fifth
Annual Report



1040 El Campo Drive
Pasadena, California 91107-5506

FOR YEAR ENDED DECEMBER 31, 2019

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 2012-2019	PG 7
5	AUDITOR'S REPORT	PG 8
6	BALANCE SHEETS	PG 13

FINANCIAL STATEMENTS

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 24



BOARD OF DIRECTORS

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



March 2020

Dear Sunny Slope Shareholder:

On behalf of the Board of Directors, I am pleased to report that our company is financially strong and the quality of delivered water remains excellent. The 2019 Annual Report, which provides more details on our finances, can be downloaded beginning March 1, 2020 from our website at: sunnyslopewatercompany.com news tab.

In 2019, the company continued to implement its 2014 Master Plan, which called for upgrades and replacements of existing infrastructure. We completed the installation of over 5,200 feet of mainline pipe and finalized the feasibility study for our two reservoirs, which range in age between 66 and 101 years old and have storage capacities of four and six million gallons. As essential infrastructure assets in our distribution system, the reservoirs are needed to meet daily water demands and emergency fire flow requirements.

In order to maintain the reservoirs in an operating condition, the Board approved a \$6 per month fixed surcharge for a 10-year period, which will be used solely to fund major rehabilitation work on the reservoirs. The surcharge will become effective on July 1, 2020. Since other operational costs have continued to rise with inflation, the Board also approved a 6% (about a \$1 per month) increase of the ready to serve connection (meter) fee. For example, the monthly charge for a 5/8" meter will increase by \$0.93 to \$16.52. The last time this fee was increased was in 1992. Seasonal rates for water usage will remain unchanged.

In addition to ongoing infrastructure projects, Sunny Slope has recently initiated a comprehensive risk assessment of our entire utility operations to comply with new federal requirements and ensure a reliable water supply. Through this assessment, we will update existing emergency response strategies and allocate additional resources to improve system resiliency in the event of a natural disaster.

As reported in the media, California continues to face the potential for severe droughts, which has resulted in the state moving from temporary emergency drought measures to permanent regulatory changes to increase conservation efforts and prepare for more frequent and persistent periods of limited water supply. Sunny Slope will monitor these new developments and implement the necessary water conservation programs for our community. As a customer and shareholder, you can assist in these efforts by utilizing our web portal (<https://sunnyslope.watersmart.com>), which has individual water use data available, including historical and seasonal water use and quick tips on how to save water.

Your Sunny Slope Board of Directors and staff thank you for your support. We will continue to take every measure needed to maintain the Company's financial strength and provide a high quality, reliable source of water at a reasonable cost.

Respectfully submitted,

Mark J. Sedlacek
Board President

1040 El Campo Drive, Pasadena, CA 91107

Phone: 626-287-5238 E-mail: sswc@sunnyslopewatercompany.com

Office Hours Mon-Thu 7am – 4pm Alternate Friday 7am – 3:30pm Closed every other Friday

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 1,692 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	2012	2013	2014	2015	2016	2017	2018	2019	AVERAGE INCHES
JAN	1.05	1.59	0.12	0.76	5.64	11.23	1.77	8.18	3.80
FEB	4.48	0.48	2.09	1.38	0.66	4.42	0.03	6.44	2.50
MAR	3.17	1.34	1.83	0.04	2.32	0.34	2.69	3.26	1.88
APR	3.18	0.13	0.41	0.37	1.03	0.05	0.02	0.04	0.66
MAY	0.38	1.06	0.00	1.16	0.53	0.89	0.09	2.02	0.77
JUN	0.00	0.00	0.00	0.03	0.00	0.00	0.00	0.01	0.01
JUL	0.02	0.00	0.00	0.61	0.00	0.00	0.00	0.00	0.08
AUG	0.08	0.00	0.02	0.00	0.00	0.00	0.00	0.00	0.02
SEP	0.00	0.00	0.06	1.83	0.00	0.12	0.00	0.05	0.26
OCT	0.58	0.21	0.00	0.29	0.24	0.14	0.57	0.00	0.26
NOV	1.09	0.77	1.15	0.13	1.12	0.03	1.58	1.93	0.98
DEC	3.59	0.06	4.76	0.90	4.81	0.00	2.11	5.27	2.69
TOTALS	17.62	5.64	10.44	7.50	16.35	17.22	8.86	27.20	13.91

**SUNNY SLOPE WATER COMPANY
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
For the Year Ended
December 31, 2019
(With Comparative Amounts as of December 31, 2018)**

SUNNY SLOPE WATER COMPANY
For the Year Ended December 31, 2019
Table of Contents

FINANCIAL SECTION

	<u>Page</u>
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	14
Schedules of Administrative Costs	15

Financial Section

INDEPENDENT AUDITORS' REPORT

Board of Directors
Sunny Slope Water Company
Pasadena, California

We have audited the accompanying financial statements of the Sunny Slope Water Company, (a California mutual benefit corporation) which comprise the balance sheets as of December 31, 2019, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheet of the Sunny Slope Water Company as of December 31, 2019, and the changes in its members' equity and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedules of operating expenses and administrative costs on pages 14 and 15 are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. These schedules have 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, these schedules are fairly stated in all material respects in relation to the financial statements taken 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, 2018, from which such partial information was derived.



Murrieta, California
January 31, 2020

SUNNY SLOPE WATER COMPANY*Balance Sheets**December 31, 2019 (With Comparative Information as of December 31, 2018)*

ASSETS	2019	2018
Current assets:		
Cash and cash equivalents	\$ 1,390,909	\$ 2,284,899
Accrued interest receivable	34,136	15,394
Accounts receivable – water customers	682,272	764,043
Materials and supplies inventory	126,570	124,007
Prepaid expenses and deposits	96,020	100,150
Total current assets	2,329,907	3,288,493
Non-current assets:		
Investments (note 2)	4,251,752	2,668,205
Raymond Basin water storage (note 3)	612,924	619,115
Cyclical water storage (note 3)	1,902,441	2,422,816
Intangible assets – water rights	33,080	33,080
Utility plant and equipment, net (note 4)	14,979,308	13,457,766
Total non-current assets	21,779,505	19,200,982
Total assets	\$ 24,109,412	\$ 22,489,475
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 496,036	\$ 382,148
Unearned revenue – customer deposits	13,377	-
Deferred compensation (note 5)	8,000	8,000
Total current liabilities	517,413	390,148
Non-current liabilities:		
Deferred compensation (note 5)	165,211	161,211
Total liabilities	682,624	551,359
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	23,296,788	21,808,116
Total members' equity	23,426,788	21,938,116
Total liabilities and members' equity	\$ 24,109,412	\$ 22,489,475

See accompanying notes and auditors' report.

SUNNY SLOPE WATER COMPANY*Statements of Income**For the Year Ended December 31, 2019**(With Comparative Information for the Year Ended December 31, 2018)*

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Minimum rate	\$ 1,873,259	\$ 1,848,651
Commercial rate – non-stock	469,553	468,234
Commercial rate – stock	132,691	144,262
Residential rate – non-stock	1,488,933	1,731,126
Residential rate – stock	1,257,188	1,302,227
Other charges and revenues	60,965	77,837
Total operating revenues	<u>5,282,589</u>	<u>5,572,337</u>
Operating expenses:		
Operating variable costs:		
Source of supply	932,626	772,625
Pumping and power	505,355	491,760
Purification	245,722	205,710
Transmission and distribution	267,896	301,123
Total operating variable costs	<u>1,951,599</u>	<u>1,771,218</u>
Administrative costs:		
Customer collections	223,109	192,543
General and administrative	1,326,500	1,251,783
Other expenses	208,260	189,954
Total administrative costs	<u>1,757,869</u>	<u>1,634,280</u>
Total operating expenses	<u>3,709,468</u>	<u>3,405,498</u>
Operating income before depreciation expense	1,573,121	2,166,839
Depreciation expense	<u>(766,681)</u>	<u>(1,500,610)</u>
Operating income	<u>806,440</u>	<u>666,229</u>
Non-operating revenues(expenses):		
Capital contributions in aid of construction from members	220,666	209,896
Investment earnings	115,604	77,827
Change in fair-value and accrued interest of investments	337,741	(161,730)
Rental revenue	27,750	37,200
Rental expenses	<u>(3,793)</u>	<u>(6,901)</u>
Total non-operating revenues, net	<u>697,968</u>	<u>156,292</u>
Income before provision for income tax	1,504,408	822,521
Provision for income tax – current year	<u>(15,736)</u>	<u>(8,972)</u>
Net income	<u>\$ 1,488,672</u>	<u>\$ 813,549</u>

See accompanying notes and auditors' report.

SUNNY SLOPE WATER COMPANY

Statements of Changes in Stockholders' Equity

For the Year Ended December 31, 2019

(With Comparative Information for the Year Ended December 31, 2018)

	Common Stock Issued and Outstanding	Retained Earnings	Total Member's Equity
Balance at January 1, 2018	\$ 130,000	\$ 20,994,567	\$ 21,124,567
Net income	-	813,549	813,549
Balance at December 31, 2018	130,000	21,808,116	21,938,116
Net income	-	1,488,672	1,488,672
Balance at December 31, 2019	<u>\$ 130,000</u>	<u>\$ 23,296,788</u>	<u>\$ 23,426,788</u>

See accompanying notes and auditors' report.

SUNNY SLOPE WATER COMPANY*Statements of Cash Flows**For the Year Ended December 31, 2019**(With Comparative Information for the Year Ended December 31, 2018)*

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Operating income	\$ 806,440	\$ 666,229
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	766,681	1,500,610
Provision for income tax	(15,736)	(8,972)
(Increase)decrease in operating assets:		
Accounts receivable – water customers	81,771	14,795
Accounts receivable – other	-	11,366
Materials and supplies inventory	(2,563)	19,598
Prepaid expenses and deposits	4,130	(15,108)
Raymond Basin water storage	6,191	63,903
Cyclical water storage	520,375	(22,470)
Increase(decrease) in operating liabilities:		
Accounts payable and accrued expenses	113,888	(1,898)
Unearned revenue – customer deposits	13,377	(21,965)
Deferred compensation	4,000	4,000
Total adjustments	<u>1,492,114</u>	<u>1,543,859</u>
Net cash provided by operating activities	<u>2,298,554</u>	<u>2,210,088</u>
Cash flows from investing activities:		
Purchases of utility plant and equipment	(2,288,223)	(1,152,701)
Proceeds from capital contributions for aid in construction	220,666	209,896
Purchases of certificates-of-deposit	-	(140,795)
Purchases of investments	(1,150,000)	(250,000)
Investment earnings – cash and cash equivalents	1,056	1,216
Rental revenue	27,750	37,200
Rental expenses	(3,793)	(6,901)
Net cash used in investing activities	<u>(3,192,544)</u>	<u>(1,302,085)</u>
Net increase(decrease) in cash and cash equivalents	(893,990)	908,003
Cash and cash equivalents:		
Beginning of year	2,284,899	1,376,896
End of year	<u>\$ 1,390,909</u>	<u>\$ 2,284,899</u>

See accompanying notes and auditors' report.

SUNNY SLOPE WATER COMPANY

Notes to Financial Statements

December 31, 2019

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, 2019, 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, 2019

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, 2019

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 31st 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	\$ 115,604
Investment – realized gains/(losses)	38,449
Rental revenue	27,750
Rental expenses	<u>(3,793)</u>
Total taxable earnings	<u>\$ 178,010</u>
CA state corporate tax rate – 8.84%	<u>\$ 15,736</u>

SUNNY SLOPE WATER COMPANY

Notes to Financial Statements

December 31, 2019

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>
Certificates-of-deposit	\$ 491,373	\$ 491,509
Corporate bonds	2,443,479	2,520,765
Exchange traded ETFs	740,327	856,514
Money-market funds	2,399	2,399
Mutual funds	331,952	380,565
Total	\$ 4,009,530	\$ 4,251,752

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 2,427.9 acre-feet as of the beginning of the year. The basin's water loss factor for the year was 1.0% or 24.3 acre-feet which reduced the Company's storage factor to 2,403.6 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, 2019</u>	<u>Purchases</u>	<u>Usage</u>	<u>Balance, Dec. 31, 2019</u>
Raymond Basin	\$ 619,115	\$ -	\$ (6,191)	\$ 612,924

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, 2019</u>	<u>Purchases</u>	<u>Usage</u>	<u>Balance, Dec. 31, 2019</u>
Cyclic storage	\$ 2,422,816	\$ -	\$ (520,375)	\$ 1,902,441

SUNNY SLOPE WATER COMPANY
Notes to Financial Statements
 December 31, 2019

NOTE 4 – UTILITY PLANT AND EQUIPMENT, NET

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

	Balance, Jan. 1, 2019	Additions	Dispositions/ Transfers	Balance, Dec. 31, 2019
Utility assets not being depreciated:				
Land	\$ 261,176	\$ 28,600	\$ -	\$ 289,776
Construction-in-progress	127,689	1,670,383	(1,675,951)	122,121
Total utility assets not being depreciated	<u>388,865</u>	<u>1,698,983</u>	<u>(1,675,951)</u>	<u>411,897</u>
Utility assets being depreciated:				
Transmission and distribution system	7,126,611	1,961,566	-	9,088,177
Purification system	4,767,034	-	-	4,767,034
Reservoirs, wells and tanks	3,646,637	-	-	3,646,637
Meter system	3,726,037	220,666	-	3,946,703
Buildings and improvements	294,074	-	-	294,074
Equipment	1,041,605	8,535	-	1,050,140
Vehicles	372,079	74,424	-	446,503
Total utility assets being depreciated	<u>20,974,077</u>	<u>2,265,191</u>	<u>-</u>	<u>23,239,268</u>
Accumulated depreciation	<u>(7,905,176)</u>	<u>(766,681)</u>	<u>-</u>	<u>(8,671,857)</u>
Total utility assets being depreciated, net	<u>13,068,901</u>	<u>1,498,510</u>	<u>-</u>	<u>14,567,411</u>
Total utility assets, net	<u>\$ 13,457,766</u>	<u>\$ 3,197,493</u>	<u>\$ (1,675,951)</u>	<u>\$ 14,979,308</u>

NOTE 5 – DEFERRED COMPENSATION

The Company has deferred compensation agreements with two employees which provide 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, 2019 was \$173,211.

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 4.263%. 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.

SUNNY SLOPE WATER COMPANY

Notes to Financial Statements

December 31, 2019

NOTE 7 – WATER TREATMENT SERVICES AGREEMENT (continued)

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 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 participant's compensation and matches the employee's contribution up to 4% of the amount deferred. For the year ended December 31, 2019 the Company's total expense was \$75,674.

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, 2019, there was \$778,637 in cash that was exposed to custodial deposit risk.

NOTE 11 – 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.

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 2019 there are no known claims or incidents that may result in the assertion of material claims arising from potential losses.

SUNNY SLOPE WATER COMPANY

Notes to Financial Statements

December 31, 2019

NOTE 12 – COMMITMENTS AND CONTINGENCIES (continued)

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 – SUBSEQUENT EVENTS

Events subsequent to December 31, 2019 have been evaluated through January 31, 2020, 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, 2019**(With Comparative Information for the Year Ended December 31, 2018)*

	<u>2019</u>	<u>2018</u>
Operating variable costs:		
Source of supply:		
Cyclic storage usage	\$ 520,375	\$ 376,530
Raymond Basin assessment	37,273	94,934
Watermaster assessments	374,978	301,161
Total source of supply	<u>932,626</u>	<u>772,625</u>
Pumping and power:		
Purchased power	411,288	410,541
Repairs and maintenance	94,067	81,219
Total pumping and power	<u>505,355</u>	<u>491,760</u>
Purification:		
Purification operations	26,181	75,693
Operations labor	61,036	19,544
Materials and services	158,505	110,473
Total purification	<u>245,722</u>	<u>205,710</u>
Transmission and distribution:		
Operations labor	145,985	142,239
Materials and services	121,911	158,884
Total pumping and power	<u>267,896</u>	<u>301,123</u>
Total operating variable costs	<u>\$ 1,951,599</u>	<u>\$ 1,771,218</u>

SUNNY SLOPE WATER COMPANY*Schedules of Administrative Costs**For the Year Ended December 31, 2019**(With Comparative Information for the Year Ended December 31, 2018)*

	<u>2019</u>	<u>2018</u>
Administrative costs:		
Customer collections:		
Clerical labor	\$ 124,504	\$ 98,485
Meter reading labor	50,484	41,057
Postage and printing	28,813	26,352
Information technology	19,308	26,649
Total customer collections	<u>223,109</u>	<u>192,543</u>
General and administrative:		
Management and administrative labor	458,757	469,957
Vacation and holiday labor costs	143,298	130,101
Deferred compensation and bonuses	12,000	12,000
Retirement	75,674	77,270
Payroll taxes	87,212	84,344
Employee benefits	141,612	127,038
Overhead absorption	(13,800)	(12,108)
Sub-total – labor and benefit costs	904,753	888,602
Director's fees	45,300	50,200
Contributions	3,860	4,254
Dues and subscriptions	40,092	26,382
Information technology	62,590	37,337
Insurance	73,398	77,383
Legal	15,000	15,000
Office remodel	49,044	-
Other	28,218	30,036
Penalties and fines	-	19,153
Professional services	30,223	40,547
Services and supplies	19,555	20,148
Telephone and utilities	43,755	36,140
Travel and education	10,712	6,601
Total general and administrative	<u>1,326,500</u>	<u>1,251,783</u>
Other expenses:		
Grounds labor	90,853	80,291
Materials and services	44,919	45,063
Sub-total – repairs and maintenance	<u>135,772</u>	<u>125,354</u>
Vehicles labor	10,002	9,221
Fuel costs	21,811	18,538
Materials and services	26,217	24,406
Sub-total – vehicles expense	<u>58,030</u>	<u>52,165</u>
Property taxes	14,458	12,435
Total other expenses	<u>208,260</u>	<u>189,954</u>
Total administrative costs	<u>\$ 1,757,869</u>	<u>\$ 1,634,280</u>
Total operating expenses	<u>\$ 3,709,468</u>	<u>\$ 3,405,498</u>
