



One Hundred Twenty Sixth  
Annual Report



1040 El Campo Drive  
Pasadena, California 91107-5506

FOR YEAR ENDED DECEMBER 31, 2020



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## BOARD OF DIRECTORS

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



March 2021

Dear Sunny Slope Shareholder:

The past year has been challenging for most of us. I hope this message finds you well and safe.

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 2020 Annual Report, which provides more details on our finances, can be downloaded from our website at: [sunnyslopedwatercompany.com](https://sunnyslopedwatercompany.com).

The Company is continuing to implement the Master Plan that was developed in 2014. In 2021 the Company will begin to rehabilitate Reservoir #1 to ensure uninterrupted water delivery to our shareholders. Reservoir #1 was built in 1919 and last renovated in 1997. Cracks have developed on the floor and the roof is in disrepair.

Other infrastructure and office improvement projects are currently in process. Our main office building is being remodeled. Modifications to the office building are necessary to bring the office up to current building codes to better support our staff and shareholders.

The Fixed Rate (6% Service Charge) and \$6.00 Reservoir Surcharge increase approved by the Board was to be implemented last year. However, due to the Covid-19 situation, the Board deferred the increase until 2021. **Our seasonal rates remain unchanged.**

California continues to face severe drought conditions which have resulted in state regulatory measures. These measures necessitate future rate increases if conservation requirements are not met. As a customer and shareholder, you can assist in this conservation effort by minimizing water usage to the extent possible. Please utilize our web portal (<https://sunnyslope.watersmart.com>) to monitor your water usage. The web portal also has historical and weekly water usage, which also includes tips on water conservation and your monthly billing statement.

Your Sunny Slope Board of Directors and staff appreciate our shareholders for the continuing support. We always make every effort to provide high quality and reliable water at reasonable cost as well as maintaining the Company's financial strength.

Respectfully submitted,

Peter C. Jeong  
Board President

1040 El Campo Drive, Pasadena, CA 91107

Phone: 626-287-5238 E-mail: [sswc@sunnyslopedwatercompany.com](mailto:sswc@sunnyslopedwatercompany.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 7<sup>th</sup> 1895 to provide water at cost to the shareholders in the service area. This area encompasses a large portion of the City of Temple City, smaller portions of San Marino, San Gabriel, Arcadia and unincorporated territory of Los Angeles County.

## **Source of Supply**

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

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

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

## **Water System**

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

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

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

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

# SUNNY SLOPE WATER COMPANY

## RAINFALL 8 YEAR PERIOD

IN INCHES

MONTH	2013	2014	2015	2016	2017	2018	2019	2020	AVERAGE INCHES
JAN	1.59	0.12	0.76	5.64	11.23	1.77	8.18	0.46	3.80
FEB	0.48	2.09	1.38	0.66	4.42	0.03	6.44	0.36	2.50
MAR	1.34	1.83	0.04	2.32	0.34	2.69	3.26	4.96	1.88
APR	0.13	0.41	0.37	1.03	0.05	0.02	0.04	2.57	0.66
MAY	1.06	0.00	1.16	0.53	0.89	0.09	2.02	0.12	0.77
JUN	0.00	0.00	0.03	0.00	0.00	0.00	0.01	0.00	0.01
JUL	0.00	0.00	0.61	0.00	0.00	0.00	0.00	0.00	0.08
AUG	0.00	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.02
SEP	0.00	0.06	1.83	0.00	0.12	0.00	0.05	0.00	0.26
OCT	0.21	0.00	0.29	0.24	0.14	0.57	0.00	0.00	0.26
NOV	0.77	1.15	0.13	1.12	0.03	1.58	1.93	0.02	0.98
DEC	0.06	4.76	0.90	4.81	0.00	2.11	5.27	1.93	2.69
<b>TOTALS</b>	<b>5.64</b>	<b>10.44</b>	<b>7.50</b>	<b>16.35</b>	<b>17.22</b>	<b>8.86</b>	<b>27.20</b>	<b>10.42</b>	<b>13.91</b>

**SUNNY SLOPE WATER COMPANY  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
For the Year Ended  
December 31, 2020  
(With Comparative Amounts as of December 31, 2019)**

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

**SUNNY SLOPE WATER COMPANY**  
*For the Year Ended December 31, 2020*  
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***Financial Section***

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## 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, 2020, 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, 2020, 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 relate 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, 2019, from which such partial information was derived.



Murrieta, California  
February 15, 2021

**SUNNY SLOPE WATER COMPANY***Balance Sheets**December 31, 2020 (With Comparative Information as of December 31, 2019)*

<b>ASSETS</b>	<b>2020</b>	<b>2019</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,346,673	\$ 1,390,909
Accrued interest receivable	40,602	34,136
Accounts receivable – water customers	655,178	682,272
Materials and supplies inventory	127,331	126,570
Prepaid expenses and deposits	106,209	96,020
<b>Total current assets</b>	<b>2,275,993</b>	<b>2,329,907</b>
<b>Non-current assets:</b>		
Investments (note 2)	6,015,420	4,251,752
Raymond Basin water storage (note 3)	606,798	612,924
Cyclical water storage (note 3)	2,234,630	1,902,441
Intangible assets – water rights	33,080	33,080
Utility plant and equipment, net (note 4)	14,529,024	14,979,308
<b>Total non-current assets</b>	<b>23,418,952</b>	<b>21,779,505</b>
<b>Total assets</b>	<b>\$ 25,694,945</b>	<b>\$ 24,109,412</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 546,240	\$ 496,036
Unearned revenue – customer deposits	32,472	13,377
Deferred compensation (note 5)	8,000	8,000
<b>Total current liabilities</b>	<b>586,712</b>	<b>517,413</b>
<b>Non-current liabilities:</b>		
Deferred compensation (note 5)	169,211	165,211
<b>Total liabilities</b>	<b>755,923</b>	<b>682,624</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	24,809,022	23,296,788
<b>Total members' equity</b>	<b>24,939,022</b>	<b>23,426,788</b>
<b>Total liabilities and members' equity</b>	<b>\$ 25,694,945</b>	<b>\$ 24,109,412</b>

**SUNNY SLOPE WATER COMPANY***Statements of Income**For the Year Ended December 31, 2020**(With Comparative Information for the Year Ended December 31, 2019)*

	<u>2020</u>	<u>2019</u>
<b>Operating revenues:</b>		
Minimum rate	\$ 1,903,594	\$ 1,873,259
Commercial rate – non-stock	375,881	469,553
Commercial rate – stock	136,532	132,691
Residential rate – non-stock	1,803,017	1,488,933
Residential rate – stock	1,321,028	1,257,188
Other charges and revenues	32,586	60,965
<b>Total operating revenues</b>	<u>5,572,638</u>	<u>5,282,589</u>
<b>Operating expenses:</b>		
<b>Operating variable costs:</b>		
Source of supply	1,064,200	932,626
Pumping and power	573,055	505,355
Purification	204,030	245,722
Transmission and distribution	336,003	267,896
<b>Total operating variable costs</b>	<u>2,177,288</u>	<u>1,951,599</u>
<b>Administrative costs:</b>		
Customer collections	210,809	223,109
General and administrative	1,337,186	1,326,500
Other expenses	189,400	208,260
<b>Total administrative costs</b>	<u>1,737,395</u>	<u>1,757,869</u>
<b>Total operating expenses</b>	<u>3,914,683</u>	<u>3,709,468</u>
<b>Operating income before depreciation expense</b>	1,657,955	1,573,121
Depreciation expense	<u>(814,040)</u>	<u>(766,681)</u>
<b>Operating income</b>	<u>843,915</u>	<u>806,440</u>
<b>Non-operating revenues(expenses):</b>		
Capital contributions in aid of construction from members	202,282	220,666
Investment earnings	150,813	115,604
Change in fair-value and accrued interest of investments	311,232	337,741
Rental revenue	27,500	27,750
Rental expenses	<u>(2,331)</u>	<u>(3,793)</u>
<b>Total non-operating revenues, net</b>	<u>689,496</u>	<u>697,968</u>
<b>Income before provision for income tax</b>	1,533,411	1,504,408
Provision for income tax – current year	<u>(21,177)</u>	<u>(15,736)</u>
<b>Net income</b>	<u>\$ 1,512,234</u>	<u>\$ 1,488,672</u>

**SUNNY SLOPE WATER COMPANY**

*Statements of Changes in Stockholders' Equity*

*For the Year Ended December 31, 2020*

*(With Comparative Information for the Year Ended December 31, 2019)*

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	<u>Common Stock Issued and Outstanding</u>	<u>Retained Earnings</u>	<u>Total Member's Equity</u>
<b>Balance at January 1, 2019</b>	\$ 130,000	\$ 21,808,116	\$ 21,938,116
Net income	-	1,488,672	1,488,672
<b>Balance at December 31, 2019</b>	130,000	23,296,788	23,426,788
Net income	-	1,512,234	1,512,234
<b>Balance at December 31, 2020</b>	<u>\$ 130,000</u>	<u>\$ 24,809,022</u>	<u>\$ 24,939,022</u>

**SUNNY SLOPE WATER COMPANY***Statements of Cash Flows**For the Year Ended December 31, 2020**(With Comparative Information for the Year Ended December 31, 2019)*

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities:</b>		
Operating income	\$ 843,915	\$ 806,440
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	814,040	766,681
Provision for income tax	(21,177)	(15,736)
(Increase)decrease in operating assets:		
Accounts receivable – water customers	27,094	81,771
Materials and supplies inventory	(761)	(2,563)
Prepaid expenses and deposits	(10,189)	4,130
Raymond Basin water storage	6,126	6,191
Cyclical water storage	(332,189)	520,375
Increase(decrease) in operating liabilities:		
Accounts payable and accrued expenses	50,204	113,888
Unearned revenue – customer deposits	19,095	13,377
Deferred compensation	4,000	4,000
<b>Total adjustments</b>	<u>556,243</u>	<u>1,492,114</u>
<b>Net cash provided by operating activities</b>	<u>1,400,158</u>	<u>2,298,554</u>
<b>Cash flows from investing activities:</b>		
Purchases of utility plant and equipment	(363,756)	(2,288,223)
Proceeds from capital contributions for aid in construction	202,282	220,666
Sale of certificates-of-deposit	141,402	-
Purchases of investments	(1,450,000)	(1,150,000)
Investment earnings – cash and cash equivalents	509	1,056
Rental revenue	27,500	27,750
Rental expenses	(2,331)	(3,793)
<b>Net cash used in investing activities</b>	<u>(1,444,394)</u>	<u>(3,192,544)</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(44,236)</u>	<u>(893,990)</u>
<b>Cash and cash equivalents:</b>		
Beginning of year	1,390,909	2,284,899
End of year	<u>\$ 1,346,673</u>	<u>\$ 1,390,909</u>

## SUNNY SLOPE WATER COMPANY

### *Notes to Financial Statements*

*December 31, 2020*

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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, 2020, 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, 2020

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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, 2020

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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	\$ 150,813
Investment – realized gains/(losses)	63,575
Rental revenue	27,500
Rental expenses	<u>(2,331)</u>
Total taxable earnings	<u>\$ 239,557</u>
CA state corporate tax rate – 8.84%	<u>\$ 21,177</u>

## SUNNY SLOPE WATER COMPANY

### Notes to Financial Statements

December 31, 2020

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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>
Certificates-of-deposit	\$ 830,000	\$ 831,289
Corporate bonds	3,227,738	3,427,050
Exchange traded ETFs	978,428	1,224,417
Money-market funds	109,385	109,385
Mutual funds	351,318	423,279
<b>Total</b>	<b>\$ 5,496,869</b>	<b>\$ 6,015,420</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 2,403.6 acre-feet as of the beginning of the year. The basin's water loss factor for the year was 1.0% or 24.0 acre-feet, which reduced the Company's storage factor to 2,379.6 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, 2020</u>	<u>Purchases</u>	<u>Usage</u>	<u>Balance, Dec. 31, 2020</u>
Raymond Basin	\$ 612,924	\$ -	\$ (6,126)	\$ 606,798

##### 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, 2020</u>	<u>Purchases</u>	<u>Usage</u>	<u>Balance, Dec. 31, 2020</u>
Cyclic storage	\$ 1,902,441	\$ 858,000	\$ (525,811)	\$ 2,234,630

**SUNNY SLOPE WATER COMPANY**  
*Notes to Financial Statements*  
 December 31, 2020

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

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

	Balance, Jan. 1, 2020	Additions	Dispositions/ Transfers	Balance, Dec. 31, 2020
<b>Utility assets not being depreciated:</b>				
Land	\$ 289,776	\$ -	\$ -	\$ 289,776
Construction-in-progress	122,121	115,766	-	237,887
Total utility assets not being depreciated	411,897	115,766	-	527,663
<b>Utility assets being depreciated:</b>				
Transmission and distribution system	9,088,177	38,459	-	9,126,636
Purification system	4,767,034	-	-	4,767,034
Reservoirs, wells and tanks	3,646,637	-	-	3,646,637
Meter system	3,946,703	202,282	-	4,148,985
Buildings and improvements	294,074	-	-	294,074
Equipment	1,050,140	7,249	-	1,057,389
Vehicles	446,503	-	-	446,503
Total utility assets being depreciated	23,239,268	247,990	-	23,487,258
<b>Accumulated depreciation</b>	<b>(8,671,857)</b>	<b>(814,040)</b>	<b>-</b>	<b>(9,485,897)</b>
Total utility assets being depreciated, net	14,567,411	(566,050)	-	14,001,361
<b>Total utility assets, net</b>	<b>\$ 14,979,308</b>	<b>\$ (450,284)</b>	<b>\$ -</b>	<b>\$ 14,529,024</b>

**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, 2020 was \$177,211.

**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 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.

## **SUNNY SLOPE WATER COMPANY**

*Notes to Financial Statements*

*December 31, 2020*

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### **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 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, 2020 the Company's total expense was \$75,034.

### **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, 2020, there was \$640,928 in cash that was exposed to custodial deposit risk.

### **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 2020 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, 2020*

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**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, 2020 have been evaluated through February 15, 2021, 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, 2020**(With Comparative Information for the Year Ended December 31, 2019)*

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	<u>2020</u>	<u>2019</u>
<b>Operating variable costs:</b>		
Source of supply:		
Cyclic storage usage	\$ 525,811	\$ 520,375
Raymond Basin assessment	37,207	37,273
Watermaster assessments	501,182	374,978
<b>Total source of supply</b>	<u>1,064,200</u>	<u>932,626</u>
Pumping and power:		
Purchased power	480,322	411,288
Repairs and maintenance	92,733	94,067
<b>Total pumping and power</b>	<u>573,055</u>	<u>505,355</u>
Purification:		
Purification labor	26,003	26,181
Purification operations	60,502	61,036
Materials and services	117,525	158,505
<b>Total purification</b>	<u>204,030</u>	<u>245,722</u>
Transmission and distribution:		
Operations labor	145,476	145,985
Materials and services	190,527	121,911
<b>Total transmission and distribution</b>	<u>336,003</u>	<u>267,896</u>
<b>Total operating variable costs</b>	<u>\$ 2,177,288</u>	<u>\$ 1,951,599</u>

**SUNNY SLOPE WATER COMPANY***Schedules of Administrative Costs**For the Year Ended December 31, 2020**(With Comparative Information for the Year Ended December 31, 2019)*

	<u>2020</u>	<u>2019</u>
<b>Administrative costs:</b>		
Customer collections:		
Clerical labor	\$ 125,111	\$ 124,504
Meter reading labor	39,745	50,484
Postage and printing	34,056	28,813
Information technology	11,897	19,308
<b>Total customer collections</b>	<u>210,809</u>	<u>223,109</u>
General and administrative:		
Management and administrative labor	541,207	458,757
Vacation and holiday labor costs	129,264	143,298
Deferred compensation and bonuses	12,000	12,000
Retirement	75,034	75,674
Payroll taxes	89,183	87,212
Employee benefits	166,799	141,612
Overhead absorption	(13,787)	(13,800)
Sub-total – labor and benefit costs	999,700	904,753
Director's fees	48,450	45,300
Contributions	-	3,860
Dues and subscriptions	6,015	40,092
Information technology	69,118	62,590
Insurance	78,899	73,398
Legal	15,020	15,000
Office remodel	15,202	49,044
Other	22,765	28,218
Professional services	25,600	30,223
Services and supplies	15,932	19,555
Telephone and utilities	38,030	43,755
Travel and education	2,455	10,712
<b>Total general and administrative</b>	<u>1,337,186</u>	<u>1,326,500</u>
Other expenses:		
Grounds labor	70,974	90,853
Materials and services	39,043	44,919
Sub-total – repairs and maintenance	<u>110,017</u>	<u>135,772</u>
Vehicles labor	10,343	10,002
Fuel costs	21,636	21,811
Materials and services	29,613	26,217
Sub-total – vehicles expense	<u>61,592</u>	<u>58,030</u>
Property taxes	17,791	14,458
<b>Total other expenses</b>	<u>189,400</u>	<u>208,260</u>
<b>Total administrative costs</b>	<u>\$ 1,737,395</u>	<u>\$ 1,757,869</u>
<b>Total operating expenses</b>	<u>\$ 3,914,683</u>	<u>\$ 3,709,468</u>