



One Hundred Twenty Fourth
Annual Report



1040 El Campo Drive
Pasadena, California 91107-5506

FOR YEAR ENDED DECEMBER 31, 2018

TABLE OF CONTENTS

PG 4. BOARD OF DIRECTORS

PG 5. PRESIDENT'S LETTER

PG 6. SUNNY SLOPE WATER COMPANY

PG 7. RAINFALL 8 YEARS 2011-2018

AUDITED FINANCIAL STATEMENTS

PG 8. AUDITOR'S REPORT

PG 10. BALANCE SHEETS

PG 11. STATEMENTS OF INCOME

PG 12. STATEMENTS OF SHAREHOLDERS EQUITY

PG 13. STATEMENTS OF CASH FLOWS

PG 14-22. NOTES TO FINANCIAL STATEMENTS

PG 23-25. SUPPLEMENTARY SCHEDULES



BOARD OF DIRECTORS

Lap T. Ng

President

Mark J. Sedlacek

1st Vice President

Peter C. Jeong

Secretary

John W. Shaw

Treasurer

Steven R. Seiler

Assist Sec/Treas



March 2019

Dear Sunny Slope Shareholder:

On behalf of the Board of Directors. I am pleased to report that our company remains financially strong and water quality remains excellent. The 2018 Annual Report, which provides more details on our finances, can be downloaded beginning March 1, 2019 from our website at:

<http://www.sunnyslopewatercompany.com/#/newslink> or call our office to request a copy.

We are continuing to assess and implement Sunny Slope's 2014 Master plan to replace and upgrade some of our aging infrastructure to deliver reliable water to our customers and shareholders. For year 2018, we have completed main replacement projects under Doris, Bion, and a segment of Hermosa (from Burton to Rosemead Blvd).

In November of 2018, Sunny Slope has rolled out our Web Base Customer Portal Project. Each shareholder will receive notification and instructions to register and setup their account in the web portal. Some features of the web portal include weekly reports on water consumption, access to your bi-monthly bill, credit card/debit card payment through the portal, and much more. Additional forms of online payment to be rolled out later this year. I highly encourage every shareholder to register and start using our web portal upon your notification or call the office for instructions.

For year 2018, the State of California has passed several laws to mandate water conservation including limiting our personal daily usage. Some of these will take effect beginning the year 2020. This may impact Sunny Slope financially to comply with the new water conservation mandates. We are asking our customers and shareholders to continue to conserve and to act responsibly when using this precious resource. You can find information on water conservation in our new web portal. We will monitor and update our customers and shareholders to any new development regarding these new requirements.

In closing, I would like to thank our staff and especially to our general manager Ken Tchong for leading Sunny Slope to where we are today. Your Sunny Slope Water Company Board of Directors and staff thank you for your continuing support. We will take every measure needed to maintain the Company's financial strength and provide high quality reliable water at a reasonable cost.

Respectfully Submitted,

Lap T. Ng
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	2011	2012	2013	2014	2015	2016	2017	2018	AVERAGE INCHES
JAN	0.81	1.05	1.59	0.12	0.76	5.64	11.23	1.77	2.88
FEB	4.86	4.48	0.48	2.09	1.38	0.66	4.42	0.03	2.30
MAR	4.15	3.17	1.34	1.83	0.04	2.32	0.34	2.69	1.99
APR	4.15	3.18	0.13	0.41	0.37	1.03	0.05	0.02	1.17
MAY	0.42	0.38	1.06	0.00	1.16	0.53	0.89	0.09	0.57
JUN	0.15	0.00	0.00	0.00	0.03	0.00	0.00	0.00	0.03
JUL	0.00	0.02	0.00	0.00	0.61	0.00	0.00	0.00	0.07
AUG	0.00	0.08	0.00	0.02	0.00	0.00	0.00	0.00	0.01
SEP	0.05	0.00	0.00	0.06	1.83	0.00	0.12	0.00	0.24
OCT	0.00	0.58	0.21	0.00	0.29	0.24	0.14	0.57	0.26
NOV	1.45	1.09	0.77	1.15	0.13	1.12	0.03	1.58	0.92
DEC	0.85	3.59	0.06	4.76	0.90	4.81	0.00	2.11	2.14
TOTALS	16.89	17.62	5.64	10.44	7.50	16.35	17.22	8.86	12.58

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Sunny Slope Water Company

We have audited the accompanying balance sheets of the Sunny Slope Water Company (a California corporation) as of December 31, 2018 and 2017 and the related statements of income, shareholders' equity, and cash flows for the years 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.

Auditor's 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 from 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 auditor's 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 financial position of the Sunny Slope Water Company as of December 31, 2018 and 2017 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Sunny Slope Water Company's basic financial statements. Schedule 1 and Schedule 2 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Schedule 1 and Schedule 2 are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedule 1 and Schedule 2 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Davis Farr LLP

Irvine, California
February 27, 2019

SUNNY SLOPE WATER COMPANY

Balance Sheets

December 31, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 2,284,899	\$ 1,812,982
Accounts receivable	764,043	778,838
Other receivables	15,396	24,536
Materials and supplies	124,007	143,605
Prepaid expenses	100,146	85,038
Cyclical water storage	2,422,816	2,400,346
Total current assets	5,711,307	5,245,345
Noncurrent		
Investments	2,668,205	1,928,670
Utility plant and equipment, net	13,457,766	13,805,674
Raymond Basin water storage	619,115	683,018
Water rights	33,080	33,080
Total assets	\$ 22,489,473	\$ 21,695,787

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities		
Accounts payable and accrued liabilities	\$ 382,146	\$ 384,044
Current portion of deferred compensation	8,000	8,000
Total current liabilities	390,146	392,044
Long-term liabilities		
Consumer deposits	-	21,965
Deferred compensation	161,211	157,211
Total long-term liabilities	161,211	179,176
Total liabilities	551,357	571,220
Stockholders' equity		
Common stock, Class I	58,300	58,300
Common stock, Class II	71,700	71,700
Retained earnings	21,808,116	20,994,567
Total stockholder's equity	21,938,116	21,124,567
Total liabilities and stockholder's equity	\$ 22,489,473	\$ 21,695,787

The accompanying notes are an integral part of the financial statements.

SUNNY SLOPE WATER COMPANY

Statements of Income

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues		
Minimum rate	\$ 1,848,651	\$ 1,917,632
Commercial rate, non-stock	468,234	477,469
Commercial rate, stock	144,262	140,219
Residential rate, non-stock	1,731,126	1,704,837
Residential rate, stock	1,302,227	1,280,082
Total operating revenues	5,494,500	5,520,239
Operating expenses		
Source of supply	772,625	589,105
Pumping	491,759	491,079
Purification	205,711	145,290
Transmission and distribution	287,864	435,806
Customer collections	192,543	167,114
General and administrative	1,257,610	1,322,137
Repairs and maintenance	125,354	127,271
Vehicles	52,164	55,174
Property taxes	13,509	27,738
Depreciation	1,500,609	746,125
Total operating expenses	4,899,748	4,106,839
Income from operations	594,752	1,413,400
Non-operating revenues (expenses)		
Contributions in aid of construction	209,896	264,752
Investment income (loss)	(83,903)	152,280
Interest expense	-	(3,744)
Other revenue	101,776	165,305
California franchise tax	(8,972)	(9,505)
Net non-operating revenues (expenses)	218,797	569,088
Net income	\$ 813,549	\$ 1,982,488

The accompanying notes are an integral part of these financial statements.

SUNNY SLOPE WATER COMPANY
Statements of Stockholder's Equity
Years ended December 31, 2018 and 2017

	COMMON STOCK				<u>Retained Earnings</u>
	Class I, \$10 par value <u>Authorized 13,500 shares</u>		Class II, \$10 par value <u>Authorized 20,000 shares</u>		
	<u>Shares Outstanding</u>	<u>Amount</u>	<u>Shares Outstanding</u>	<u>Amount</u>	
At January 1, 2017	5,830	\$ 58,300	7,170	\$ 71,700	\$ 19,012,079
Net Income	-	-	-	-	<u>1,982,488</u>
Balance, December 31, 2017	5,830	58,300	7,170	71,700	20,994,567
Net Income	-	-	-	-	<u>813,549</u>
Balance, December 31, 2018	<u>5,830</u>	<u>\$ 58,300</u>	<u>7,170</u>	<u>\$ 71,700</u>	<u>\$ 21,808,116</u>

The accompanying notes are an integral part of these financial statements.

SUNNY SLOPE WATER COMPANY

Statements of Cash Flows

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Income from operations	\$ 594,752	\$ 1,413,400
Adjustments to reconcile change in equity to net cash provided by operating activities		
Depreciation	1,500,609	746,125
Investment income	80,052	86,414
Other revenue	101,776	164,805
California franchise tax	(8,972)	(9,505)
(Increase) Decrease in Accounts receivables	14,795	(109,565)
(Increase) Decrease in Other receivables	9,140	92,920
(Increase) Decrease in Materials and supplies	19,598	(6,221)
(Increase) Decrease Raymond Basin water storage	63,903	22,082
(Increase) Decrease Prepaid expenses	(15,108)	5,827
(Increase) Decrease Cyclical water storage	(22,470)	(1,208,802)
Increase (Decrease) in Accounts payable and accrued liabilities	(1,898)	101,368
Increase (Decrease) in Consumer deposits	(21,965)	(3,351)
Increase (Decrease) Deferred compensation	4,000	12,000
Total adjustments	<u>1,723,460</u>	<u>(105,903)</u>
Net cash provided by operating activities	<u>2,318,212</u>	<u>1,307,497</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of utility plant and equipment	(1,152,701)	(584,415)
Proceeds from sale of utility plant and equipment	-	500
Purchase of investments	(1,322,015)	(400,000)
Sale of investments	418,525	1,102,589
Net cash provided by (used in) investing activities	<u>(2,056,191)</u>	<u>118,674</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Payments on notes payable	-	(353,571)
Interest paid on note payable	-	(3,744)
Contributions in aid of construction	209,896	264,752
Net cash provided by (used in) financing activities	<u>209,896</u>	<u>(92,563)</u>
Net increase in cash	471,917	1,333,608
CASH, beginning of year	1,812,982	479,374
CASH, end of year	\$ <u>2,284,899</u>	\$ <u>1,812,982</u>

Interest paid was \$0 and \$3,744 for the years ended December 31, 2018 and 2017, respectively. Unrealized losses in the amount of \$163,955 was recognized on investments for the year ended December 31, 2018 and an unrealized gain of \$65,866 was recognized for the year ended December 31, 2017.

The accompanying notes are an integral part of these financial statements.

SUNNY SLOPE WATER COMPANY

Notes to Financial Statements

Years ended December 31, 2018 and 2017

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations

The Sunny Slope Water Company (“the Company”) is a California non-profit mutual benefit corporation operating a mutual water company. The Company was incorporated in 1895 to provide 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 shareholders are the recipients of water from its distribution system.

(b) Cash and Cash Equivalents

The Company considers cash on hand and demand deposits with banks or other financial institutions to be cash and cash equivalents. The Company has combined balances in checking, savings and certificate of deposit accounts maintained in financial institutions. As of December 31, 2018, the Company has \$1,686,162 on deposit in excess of the Federal Deposit Insurance Corporate (FDIC) limit. There was \$638,579 on deposit in excess as of December 31, 2017. The Board of Directors and Management do not believe that the amounts on deposit are at risk.

(c) Accounts Receivable

Management has determined that no allowance for bad debts is required at December 31, 2018 and 2017.

(d) Materials and Supplies

Materials and supplies are used for the maintenance of pipes and pumping equipment and are stated at the lower of cost or market, using the first-in, first-out method. Materials and supplies include pipes, supplies and meters.

(e) Depreciation

Depreciation is calculated over estimated useful lives using the straight-line method as follows:

Furniture and Fixtures	5-10
Vehicles and equipment	3-10
Wells, tunnels and reservoirs	30-50
Building and improvements	7-40

Utility plant and equipment is recorded at cost or fair value when contributed by others. The cost of additions and betterments, which benefit future periods, are capitalized. The cost of repairs and maintenance are expensed as incurred.

SUNNY SLOPE WATER COMPANY

Notes to Financial Statements

Years ended December 31, 2018 and 2017

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The company reviews the carrying value of utility plant and equipment 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.

(f) Provision for Income Taxes

The Company is exempt from Federal income under section 501 (c) (12) of the Internal Revenue Code. Therefore, no provision for federal income taxes is reflected in the financial statements.

State franchise tax is computed at the current corporate rate. For the fiscal year ended December 31, 2018 and 2017 state franchise taxes were \$8,972 and \$9,505 respectively.

(g) Use of Estimates

The preparation of financial statements in conformity with 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(h) Revenues

Water sales are billed on a bi-monthly cyclical basis. Estimated unbilled water revenue through December 31, 2018 and 2017 has been accrued at year-end.

(i) Water rights

Water rights are capitalized at cost.

(j) Fair value of financial instruments

The accounting standards regarding financial instruments and related fair value measurements define fair value, establish a three-level valuation hierarchy for disclosures of fair value measurement, and enhance disclosure requirements for fair value measures.

SUNNY SLOPE WATER COMPANY

Notes to Financial Statements

Years ended December 31, 2018 and 2017

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Determining where an asset or liability falls within that hierarchy depends on the lowest level input that is significant to the fair value measurement as a whole. An adjustment to the pricing method used within either Level 1 or Level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy. The hierarchy consists of three broad levels as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 - Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

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) Concentration of credit risk

The 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

Years ended December 31, 2018 and 2017

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

(m) Subsequent events

The Company has evaluated subsequent events through the date at which the financial statements were available to be issued. No material subsequent events required disclosure.

NOTE 2 - INVESTMENTS

For the years ended December 31, 2018 and 2017, the Company considers the investments as trading securities which requires the recognition of changes in value as a component of its net income. Debt securities are carried at fair value based on quoted market prices within active markets. Mutual funds are valued at the net asset value using quoted prices of active markets. These valuation methods are considered Level 1 investments under accounting standards valuation hierarchy.

SUNNY SLOPE WATER COMPANY

Notes to Financial Statements

Years ended December 31, 2018 and 2017

NOTE 2 - INVESTMENT (continued)

Investments at Fair Value as of December 31, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 859,056	-	-	\$ 859,056
Municipal Securities	-	51,181	-	51,181
Certificate of Deposit	141,018	-	-	141,018
Corporate Bonds	-	<u>1,128,828</u>	-	<u>1,128,828</u>
Total at Fair Value	<u>\$1,000,074</u>	<u>1,180,009</u>	-	<u>\$2,180,083</u>
Not subject to fair value				
Money Market				<u>488,122</u>
Total Investments	<u>\$1,000,074</u>	<u>1,180,009</u>	<u>-</u>	<u>\$2,668,205</u>

Investments at Fair Value as of December 31, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 880,612	-	-	\$ 880,612
Municipal Securities	-	52,948	-	52,948
Corporate Bonds	-	<u>995,110</u>	-	<u>995,110</u>
Total	<u>\$ 880,612</u>	<u>1,048,058</u>	<u>-</u>	<u>\$1,928,670</u>

SUNNY SLOPE WATER COMPANY

Notes to Financial Statements

Years ended December 31, 2018 and 2017

NOTE 2 - INVESTMENT (continued)

<u>December 31, 2018</u>	<u>Amortized Costs or Cost</u>	<u>Gross Unrealized</u>		<u>Fair Value</u>
		<u>Gains</u>	<u>Losses</u>	
Money Market	\$ 488,122	-	-	\$ 488,122
ETF's	530,605	-	(35,583)	495,022
Mutual Funds	360,174	5,368	(1,508)	364,034
Other Debt Securities	1,158,378	-	(29,550)	1,128,828
Municipal Securities	50,490	691	-	51,181
Certificate of Deposit	<u>140,795</u>	<u>223</u>	<u>-</u>	<u>141,018</u>
	<u>\$ 2,728,564</u>	<u>6,282</u>	<u>(66,641)</u>	<u>\$ 2,668,205</u>

<u>December 31, 2017</u>	<u>Amortized Costs or Cost</u>	<u>Gross Unrealized</u>		<u>Fair Value</u>
		<u>Gains</u>	<u>Losses</u>	
Mutual Funds	\$ 811,820	73,379	(4,588)	\$ 880,611
Municipal Securities	51,125	1,822	-	52,947
Corporate Bonds	<u>973,684</u>	<u>25,169</u>	<u>(3,741)</u>	<u>995,112</u>
	<u>\$ 1,836,629</u>	<u>100,370</u>	<u>(8,329)</u>	<u>\$ 1,928,670</u>

SUNNY SLOPE WATER COMPANY

Notes to Financial Statements

Years ended December 31, 2018 and 2017

NOTE 3 - UTILITY PLANT AND EQUIPMENT

Utility plant and equipment consists of:

	<u>2018</u>	<u>2017</u>
Land and land improvements	\$ 261,177	\$ 261,177
Buildings and improvements	294,074	294,074
Transmission and distribution	7,126,612	6,278,553
Reservoirs, wells and tanks	3,646,637	3,618,192
Utility equipment	524,408	513,878
Meters	3,726,036	3,521,859
Purification	4,767,032	4,767,032
Automobiles and trucks	372,081	381,933
Furniture, fixtures and equipment	517,196	707,336
Construction in progress	<u>127,689</u>	<u>99,760</u>
Total property, plant and equipment	21,362,942	20,443,794
Less: accumulated depreciation	<u>(7,905,176)</u>	<u>(6,638,120)</u>
Utility plant and equipment, net	<u>\$ 13,457,766</u>	<u>\$ 13,805,674</u>

“Construction in progress” includes pipeline projects, well project, and office remodel.

NOTE 4 - SOURCE OF SUPPLY

The Company has a decreed right to 1,691.55 acre feet of water per year from 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 remaining water supply is pumped from the San Gabriel Basin from the Company’s wells 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 Company’s water must meet Federal and State drinking water standards. In 2018, the Company purchased for cyclic storage 500 AF of water at \$798 per AF and had an over production expense of 559.48 AF at \$673 per AF. In 2017, the Company purchased for cyclic storage 2000 AF of water at \$769 per AF and had an over production expense of 489.15 AF at \$673 per AF.

SUNNY SLOPE WATER COMPANY

Notes to Financial Statements

Years ended December 31, 2018 and 2017

NOTE 5 - 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 5.003%. The Company's investments secure borrowings under the line. There were no amounts outstanding for the years ended December 31, 2018 and 2017.

NOTE 6 - Water Treatment Services Agreement

During fiscal year 2012-2013, the Company entered into an agreement for financing a new treatment plant and water treatment services treatment of well water. The terms of the agreement include monthly payments dependent on the amount of water treated. At the expiration of the lease, title to the treatment plant will be transferred to the Company however the assets and technology contained within the plant will not be transferred. The asset is not yet fully operational and Sunny Slope is only paying for the water treated. Once fully operational, future minimum lease payments are as follows:

<u>Year Ending December 31, 2018</u>	
2019	\$ 195,996
2020	195,996
2021	195,996
2222	195,996
2223	195,996
2024-2027	<u>783,984</u>
Total	<u>\$ 1,763,964</u>

NOTE 7 - 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 8 - 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 years ended December 31, 2018 and 2017 the Company's total expenses were \$77,270 and \$72,431, respectively.

SUNNY SLOPE WATER COMPANY

Notes to Financial Statements

Years ended December 31, 2018 and 2017

NOTE 9 - 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 as of December 31, 2018 and 2017 was \$169,211 and \$165,211, respectively.

SUPPLEMENTARY SCHEDULES

SUNNY SLOPE WATER COMPANY
SOURCE OF SUPPLY, PUMPING, PURIFICATION, AND TRANSMISSION
AND DISTRIBUTION EXPENSES
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
SOURCE OF SUPPLY		
Water assessments	\$ 301,161	\$ 206,884
Water purchases	376,530	329,198
Raymond Basin water master	<u>94,934</u>	<u>53,023</u>
	<u>\$ 772,625</u>	<u>\$ 589,105</u>
 PUMPING		
Operating labor	\$ 60,722	\$ 56,266
Repairs and maintenance	20,496	33,820
Power	<u>410,541</u>	<u>400,993</u>
	<u>\$ 491,759</u>	<u>\$ 491,079</u>
 PURIFICATION		
Operating labor	\$ 19,544	\$ 17,584
Purification operations	75,694	21,703
Repairs and maintenance	<u>110,473</u>	<u>106,003</u>
	<u>\$ 205,711</u>	<u>\$ 145,290</u>
 TRANSMISSION AND DISTRIBUTION		
Operating labor	\$ 142,239	\$ 190,448
Repairs and maintenance	<u>145,625</u>	<u>245,358</u>
	<u>\$ 287,864</u>	<u>\$ 435,806</u>

SUNNY SLOPE WATER COMPANY
CUSTOMER COLLECTIONS AND GENERAL AND ADMINISTRATIVE EXPENSES
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CUSTOMER COLLECTIONS		
Clerical salaries	\$ 98,484	\$ 87,937
Meter readers' labor	41,057	22,253
Postage and printing	26,352	30,358
Programming maintenance	<u>26,650</u>	<u>26,566</u>
	<u>\$ 192,543</u>	<u>\$ 167,114</u>
GENERAL AND ADMINISTRATIVE		
Supervision & clerical salaries	\$ 469,957	\$ 440,875
Vacation and holidays, all employees	130,101	127,601
Deferred compensation and bonuses	<u>12,000</u>	<u>12,171</u>
Subtotal	<u>612,058</u>	<u>580,647</u>
Less amounts transferred to asset accounts	<u>(12,108)</u>	<u>(14,799)</u>
Subtotal	<u>599,950</u>	<u>565,848</u>
Directors' fees	50,200	50,200
Professional services	72,957	148,906
Supplies and postage	6,737	3,328
Dues and subscriptions	26,382	77,160
Insurance	204,421	189,768
Retirement plan	77,270	72,431
Utilities and telephone	41,967	42,104
Payroll taxes	103,497	92,809
Information technology	34,324	31,828
Travel	4,063	13,519
Sundry	<u>35,842</u>	<u>34,236</u>
	<u>\$ 1,257,610</u>	<u>\$ 1,322,137</u>