

**2015**

**FINANCIAL STATEMENT**

**SHEEP CREEK WATER COMPANY**

**FOR THE YEAR ENDING  
DECEMBER 31, 2015**

CECELIA J. CUMMINGS, CPA

6074 PARK DRIVE  
P. O. BOX 1960  
WRIGHTWOOD, CA 92397

April 4, 2016

Board of Directors  
Sheep Creek Water Company  
P.O. Box 291820  
Phelan, CA 92329-1820

The accompanying Balance Sheet and Profit and Loss Statement for Sheep Creek Water Company as of December 31, 2015 and for the twelve months ending have been compiled by us on an accrual basis. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting principles general accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statement on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accounting. The objective of a compilation is to assist management in presenting financial information in the form of financial statement without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Cummings CPA

*Cummings CPA*

Wrightwood, CA  
April 4, 2016

# SHEEP CREEK WATER COMPANY

## Balance Sheet

December 31, 2015

### ASSETS

#### CURRENT ASSETS

Cash on hand		\$	270.00
Cash in DCB - Assessment			986.77
Cash in DCB - Capital Improvement			4,542.56
Cash in DCB - Checking			7,365.47
Cash in DCB - Savings			21,176.93
Cash in DCB - System Upgrade			27,551.59
Cash in DCB - Wells			<u>27,118.30</u>
Total Cash			89,011.62

#### Accounts receivable:

Water sales	\$	113,342.42	
Return checks		<u>350.28</u>	
			113,692.70

Inventory			84,015.33
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#### Prepaid expenses:

Dues		1,089.00	
Equipment deposits		5,000.00	
Insurance		7,777.63	
Property tax		6,858.59	
Software		<u>1,851.21</u>	
			<u>22,576.43</u>

Total Current Assets		\$	309,296.08
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#### PROPERTY AND EQUIPMENT

Land - Phelan		161,093.99	
Land - LA County		85,261.18	
Land - Remove reservoir		87,174.13	
Equipment and Fixtures (Sch 2)		<u>9,931,462.88</u>	
		10,264,992.18	
Less Accumulated Depreciation		<u>(5,025,020.55)</u>	
Net Property and Equipment			5,239,971.63

Total Assets		\$	<u><u>5,549,267.71</u></u>
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See Accountant's Compilation Report

**SHEEP CREEK WATER COMPANY**

**Balance Sheet**

**December 31, 2015**

**LIABILITIES AND STOCKHOLDERS EQUITY**

**CURRENT LIABILITIES**

Accounts payable	30,786.91	
Construction meter deposit	1,000.00	
Payroll taxes payable	\$ <u>5,861.18</u>	
Total Current Liabilities		\$ 37,648.09

**LONG-TERM LIABILITIES**

Vehicle loans	22,829.88	
Shareholder Loans	251,369.42	
Total Long Term Liabilities		<u>274,199.30</u>
Total Liabilities		\$ 311,847.39

**STOCKHOLDERS' EQUITY**

Common Stock	10,000.00	
Treasury Stock	<u>(577.00)</u>	
	9,423.00	
Surplus - Assessments	4,089,578.65	
Surplus - Meter Installations	3,765,497.71	
Surplus - Wild Horse Canyon	57,029.39	
Replacement Well Funds	<u>1,067,501.50</u>	
	8,979,607.25	
Retained Earnings	(3,533,406.82)	
Net Income (Loss)	<u>(218,203.11)</u>	
Total Stockholders' Equity		<u>5,237,420.32</u>
Total Liabilities and Stockholders' Equity		\$ <u><u>5,549,267.71</u></u>

**See Accountant's Compilation Report**

**SHEEP CREEK WATER COMPANY**  
**Statement of Income and Expense**  
**For the period ending December 31, 2015**

INCOME	Amount	
Water sales	\$ 765,868.95	
Penalties - water service	3,751.57	
Stock transfer fees	2,214.00	
Reinstall/reconnect fees	2,220.00	
Construction meter use charges	47.00	
Inspection fee	0.00	
Water service adjustments	(6,874.05)	
Total income		\$ 767,227.47

**OPERATING EXPENSES**

Advertising	85.00
Auto and truck	15,178.77
Bank service charges	14.92
Conferences and meetings	1,111.67
Contract services	2,670.60
Credit card charges	4,783.21
Depreciation	265,443.32
Diesel fuel	2,225.87
Donations	400.00
Dues and subscriptions	1,597.93
Employee benefits	1,800.00
Employee retirement	23,147.60
Employee training	170.00
Insurance - bond	4,531.15
Insurance - board health	22,285.96
Insurance - commercial package	17,050.41
Insurance - director liability	6,119.22
Insurance - staff health	78,016.21
Insurance - workmans' comp	15,491.95
Interest	19,378.45
Internet access fee	413.58
Materials	2,562.29
Lab tests and inspections	2,023.00
Lease payments - pagers	329.70
Lease payments - copier	2,747.52
Licenses and permits	17,474.84
Maintenance fees - SEP/IRA	450.00
Medical supplies	202.93
Office expense and supplies	8,520.60
Outside services	1,470.00
Postage	8,413.47
Printing	884.09
Professional - accounting	8,550.00
Professional - engineering	155.00

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**SHEEP CREEK WATER COMPANY**  
**Statement of Income and Expense**  
**For the period ending December 31, 2015**

Professional - legal	1,063.37	
Rental - equipment	5,467.26	
Repairs and maint - auto	5,142.62	
Repairs and maint - CLA-VAL	7,465.39	
Repairs and maint - equipment	21,523.30	
Repairs and maint - general	2,863.97	
Repairs and maint - lines/meters, system	25,321.79	
Salaries - maintenance	87,104.46	
Salaries - management	78,340.16	
Salaries - office	123,304.59	
Small tools and supplies	233.48	
Subcontract labor	620.00	
Taxes - payroll	26,508.62	
Taxes - property	7,605.49	
Telephone	4,913.23	
Uniforms	1,281.35	
Utilities - operating	4,202.26	
Utilities - wells	44,454.56	
Water quality treatment	8,899.63	
Total Operating Expenses	992,014.79	992,014.79

(224,787.32)

OTHER INCOME & EXPENSE

Interest income - Assessment	1.48	
Interest income - Capital improvement	5.19	
Interest income - Checking	38.03	
Interest income - Savings	102.42	
Interest income - System upgrade	38.23	
Interest income - Wells	46.58	
Refunds		
Insurance	5,745.71	
Project	755.00	
Tax	58.57	
Lost certificates	465.00	
NSF service charges	128.00	
Scrap pipe	0.00	
Miscellaneous	0.00	
Fees	0.00	
Total Other Income & Expense	7,384.21	7,384.21

INCOME (LOSS) BEFORE TAXES (217,403.11)

Provision for State Income Tax (800.00)

NET INCOME (LOSS) \$ (218,203.11)

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**SHEEP CREEK WATER COMPANY**  
**Supporting Schedules**  
**For Balance Sheet**  
**December 31, 2015**

**PROPERTY AND EQUIPMENT**

Office buildings	\$ 112,772.77
Building improvements	21,215.19
Building storage	17,059.29
Computer and software	20,039.67
Equipment - shop	29,176.26
Equipment - heavy	62,639.53
Furniture and fixtures	22,935.84
Vehicles	135,452.87
Lines	1,602,637.07
Meters	2,162,780.03
Tanks	2,220,172.87
Wells	1,903,911.25
Hydrants	421,703.36
Wild Horse Canyon	62,111.36
Master Plan	46,000.00
	<u>8,840,607.36</u>
Prior year work in progress	1,090,855.52
Current year work in progress	<u>0.00</u>
Total Property and Equipment	<u><u>\$ 9,931,462.88</u></u>

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**SHEEP CREEK WATER COMPANY**  
**Statement of Changes in Financial Position**  
**For The Year Ended December 31, 2015**

Financial resources, provided by operations:	
Net income (loss)	\$ (218,203.11)
Items which did not require the outlay of working capital:	
Depreciation	265,443.32
	<u>47,240.21</u>
Working capital provided by operations:	
Increase in paid-in capital:	
Meter installation funds	10,750.00
Meter installations	0.00
Replacement Well funds	0.00
	<u>0.00</u>
	57,990.21
Other reductions to working capital:	
Decrease in shareholder loans	(104,790.85)
Adjustments	(475.52)
	<u>(47,276.16)</u>
Financial resources applied to:	
Acquisition/completion of property and equipment	657,061.75
Company labor/equip applied to acquisitions	29,919.96
Prepaid costs of work in progress	60,000.00
Decrease in work-in-progress	(547,612.00)
Decrease in long-term loan	11,311.04
	<u>210,680.75</u>
Increase (Decrease) In Working Capital	<u><u>\$ (257,956.91)</u></u>
Summary of Changes In Working Capital By Components:	
Current Assets	
Cash	\$ (167,636.19)
Accounts receivable	8,103.28
Inventory	(118.57)
Prepaid expenses	(13,294.53)
Current Liabilities	
Accounts payable	(88,685.40)
Payroll taxes payable	3,674.50
State income tax payable	<u>0.00</u>
Increase (Decrease) In Working Capital	<u><u>\$ (257,956.91)</u></u>

**See Accountant's Compilation Report**



**SHEEP CREEK WATER COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For The Year Ended December 31, 2015**  
(See Accountant's Compilation Report)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Inventories:

Inventories consist primarily of pipe and related parts necessary for line and meter installation and are stated at the lower of cost or market using the first-in, first-out method.

Property and Equipment:

Property and equipment are stated at cost. Depreciation is computed using the straight-line method for financial reporting purposes based on the following estimated useful lives of the assets:

	<u>Years</u>
Buildings	20 - 25
Equipment	3 - 7
Furniture and Fixtures	3 - 10
Vehicles	3 - 7
Water System	15 - 75
Wild Horse Canyon Master Plan	20 - 45

Prepaid Assets:

Prepaid items are those expenses that are paid in the current accounting period, but which the individual asset will not be consumed or recognized until the future year. As the asset is used, it is charged to an expense account.

The Company recognizes prepaid assets for expense items as software, dues and subscriptions, insurance, property tax and equipment deposits.

Equipment deposit prepaid asset is a deposit that has been placed on a tentative purchase of heavy equipment. As of December 31, the Company had not committed to the purchase of any new equipment.

Income Taxes:

Federal Tax

No provision has been made for Federal Income Taxes as the Company is a non-profit organization exempt from Federal Income Tax.

State Tax

Bank and Corporation tax code, Section 24405, states that for mutual or cooperative associations all member income and any income from nonmembers received on a non-profit basis is exempt. Section 24425, provided that expenses associated with exempt income are not deductible. Section 24437 allows expenses related to member services only to the extent of member income. Necessary adjustments are made to eliminate this income and expense. Interest income is deemed to be taxable income and does not fall under the exempt code.

**SHEEP CREEK WATER COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For The Year Ended December 31, 2015**  
(See Accountant's Compilation Report)

2. NATURE OF BUSINESS:

The Company engages in the business of providing the service of water to its' shareholders at cost.

3. LONG TERM LIABILITY

A shareholder and the Company have entered into an agreement in July 2011 for a loan to the Company in the amount of \$400,000 at 6% over seven years with the first year's payments to be interest only and the principal to be paid over the remaining six years.

A shareholder and the Company have entered into an agreement in October 2014 for a loan to the Company in the amount of \$80,000 at 5% over three years with the first year's payments commencing on the first anniversary of the date of the loan and continuing thereafter on the second (2nd), third (3rd) and fourth (4th) anniversaries of the date of the Note.

4. COMMENTS:

The Company entered into an agreement with property owners in the area known as Wild Horse Canyon (WHC) to provide for extension of the existing water system to this area.

As provided by the agreement, property owners advanced a substantial portion of the cost of completion of the main water line extension, the balance of which is to be recovered by individual charges for connection to the system. The project was completed during the 1982 year, and at December 31, 2010.

Caltrans has been working on widening Highway 138. Within this project, a portion of Sheep Creek Water Company's (SCWC) water main had to be relocated. Caltrans is funding a majority of the project which was completed in 2014.

The completion of construction, improvements and upgrades of Well 2 and Well 5 have been completed in 2014 and 2015. These two assets improvements have been removed from the current year Work in Progress and added to the Distribution System fixed assets. The total of these two wells total \$628,219.