

**2017**

**FINANCIAL STATEMENT**

**SHEEP CREEK WATER COMPANY**

**FOR THE YEAR ENDING  
DECEMBER 31, 2017**

CECELIA J. CUMMINGS, CPA

6074 PARK DRIVE, STE 1  
P. O. BOX 1960  
WRIGHTWOOD, CA 92397

April 10, 2018

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, 2017 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 10, 2018

# SHEEP CREEK WATER COMPANY

## Balance Sheet

December 31, 2017

### ASSETS

#### CURRENT ASSETS

Cash on hand		\$	390.00
Cash in DCB - Assessment			229,195.82
Cash in DCB - Capital Improvement			19,584.76
Cash in DCB - Checking			63,937.17
Cash in DCB - Savings			57,163.37
Cash in DCB - System Upgrade			37,680.94
Cash in DCB - Wells			<u>184,062.51</u>
Total Cash			592,014.57

#### Accounts receivable:

Employee	\$	350.00	
Water sales		145,225.06	
Assessments		<u>4,365.02</u>	
			149,940.08

#### Inventory

99,531.21

#### Prepaid expenses:

Dues		1,089.00	
Insurance		7,777.63	
Property tax		6,858.59	
Software		<u>6,202.05</u>	
			<u>21,927.27</u>

#### Total Current Assets

\$ 863,413.13

#### 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>10,317,475.21</u>	
		10,651,004.51	
Less Accumulated Depreciation		<u>(5,525,772.77)</u>	
Net Property and Equipment			5,125,231.74

#### Total Assets

\$ 5,988,644.87

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**SHEEP CREEK WATER COMPANY**

**Balance Sheet**

**December 31, 2017**

**LIABILITIES AND STOCKHOLDERS EQUITY**

**CURRENT LIABILITIES**

Accounts payable	23,237.76	
Payroll taxes payable	\$ <u>4,225.30</u>	
Total Current Liabilities		\$ 27,463.06

**LONG-TERM LIABILITIES**

CNH Industrial Capital	53,163.92	
Vehicle loans	28,851.12	
Shareholder Loans	306,063.37	
Total Long Term Liabilities		<u>388,078.41</u>
Total Liabilities		\$ 415,541.47

**STOCKHOLDERS' EQUITY**

Common Stock	10,000.00	
Treasury Stock	<u>1,236.85</u>	
	11,236.85	
Surplus - Assessments	4,310,716.65	
Surplus - Meter Installations	3,788,497.71	
Surplus - Wild Horse Canyon	57,029.39	
Replacement Well Funds	<u>1,067,501.50</u>	
	9,223,745.25	
Retained Earnings	(3,484,811.53)	
Net Income (Loss)	<u>(177,067.17)</u>	
Total Stockholders' Equity		<u>5,573,103.40</u>
Total Liabilities and Stockholders' Equity		\$ <u><u>5,988,644.87</u></u>

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**SHEEP CREEK WATER COMPANY**  
**Statement of Income and Expense**  
**For the period ending December 31, 2017**

	Amount	
<b>INCOME</b>		
Water sales	\$ 885,708.59	
Penalties - water service	5,577.86	
Electrical Surcharge	38,157.05	
Stock transfer fees	2,646.00	
Reinstall/reconnect fees	1,680.00	
Construction meter use charges	5,190.90	
Inspection fee	0.00	
Water service adjustments	(6,150.05)	
Total income		\$ 932,810.35
 <b>OPERATING EXPENSES</b>		
Advertising	75.00	
Auto and truck	14,776.64	
Bank service charges	198.39	
Conferences and meetings	38.55	
Contract services	6,794.78	
Credit card charges	10,034.58	
Depreciation	255,927.57	
Diesel fuel	5,973.28	
Donations	689.52	
Dues and subscriptions	1,051.73	
Employee benefits	3,785.72	
Employee retirement	24,957.35	
Employee training	400.00	
Insurance - bond	100.00	
Insurance - board health	28,665.26	
Insurance - commercial package	31,062.00	
Insurance - staff health	83,517.50	
Insurance - workmans' comp	16,387.00	
Interest	21,060.71	
Internet access fee	48.25	
Materials	1,579.97	
Lab tests and inspections	3,896.00	
Lease payments - pagers	302.65	
Lease payments - copier	2,776.59	
Lease payments - credit card machine	294.44	
Licenses and permits	1,052.63	
Maintenance fees - SEP/IRA	450.00	
Miscellaneous	10.00	
Office expense and supplies	13,038.36	
Outside services	185.00	
Postage	9,731.27	
Printing	486.10	

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**SHEEP CREEK WATER COMPANY**  
**Statement of Income and Expense**  
**For the period ending December 31, 2017**

Professional - accounting	7,000.00	
Professional - engineering	2,977.00	
Professional - legal	31,822.13	
Repairs and maint - auto	10,101.99	
Repairs and maint - equipment	2,858.53	
Repairs and maint - general	6,660.56	
Repairs and maint - lines/meters, system	43,661.40	
Salaries - maintenance	159,241.78	
Salaries - management	81,772.54	
Salaries - office	111,252.81	
Salaries - phone stipend	2,344.68	
Small tools and supplies	254.67	
State water fees	7,396.60	
Stock purchase	750.00	
Subcontract labor	1,750.90	
Taxes - payroll	34,701.90	
Taxes - property	7,674.56	
Telephone	5,277.80	
Uniforms	1,336.28	
Utilities - operating	4,486.14	
Utilities - wells	46,200.39	
Water quality treatment	7,512.54	
Total Operating Expenses	1,116,382.04	1,116,382.04
		(183,571.69)
 <b>OTHER INCOME &amp; EXPENSE</b>		
Gain on Sale	2,700.00	
Interest income - Assessment	107.39	
Interest income - Capital improvement	23.28	
Interest income - Checking	52.76	
Interest income - Savings	118.91	
Interest income - System upgrade	30.30	
Interest income - Wells	191.48	
Refunds		
Miscellaneous	50.00	
Insurance	2,219.42	
Payroll	1,078.48	
Tax	106.64	
Lost certificates	495.00	
NSF service charges	200.00	
Service fees	(69.14)	
Total Other Income & Expense	7,304.52	7,304.52
 <b>INCOME (LOSS) BEFORE TAXES</b>		 (176,267.17)
Provision for State Income Tax		(800.00)
 <b>NET INCOME (LOSS)</b>		 <b>\$ (177,067.17)</b>

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**SHEEP CREEK WATER COMPANY**  
**Statement of Changes in Financial Position**  
**For The Year Ended December 31, 2017**

Financial resources, provided by operations:	
Net income (loss)	\$ (177,067.17)
Items which did not require the outlay of working capital:	
Depreciation	255,927.57
Prior years adjustments cumulative	<u>(102,821.46)</u>
	(23,961.06)
Working capital provided by project funds:	
Increase in paid-in capital:	
Assessments	221,148.00
Meter installation funds	<u>10,750.00</u>
	207,936.94
Other reductions to working capital:	
Decrease in shareholder loans	<u>(25,757.11)</u>
	182,179.83
Financial resources applied to:	
Acquisition/completion of property and equipment	298,409.18
Company labor/equip applied to acquisitions	(45,592.63)
Prepaid costs of work in progress	12,979.50
Decrease in work-in-progress	(44,598.44)
Increase in long-term loan	<u>(1,869.56)</u>
	<u>219,328.05</u>
Increase (Decrease) In Working Capital	<u>\$ 401,507.88</u>
Summary of Changes In Working Capital By Components:	
Current Assets	
Cash	\$ 294,002.53
Accounts receivable	105,076.40
Inventory	8,794.27
Prepaid expenses	2,138.86
Current Liabilities	
Accounts payable	(8,384.58)
Payroll taxes payable	<u>(119.60)</u>
Increase (Decrease) In Working Capital	<u>\$ 401,507.88</u>

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**SHEEP CREEK WATER COMPANY**  
**Supporting Schedules**  
**For Balance Sheet**  
**December 31, 2017**

**PROPERTY AND EQUIPMENT**

Office buildings	\$ 112,772.77
Building improvements	25,014.41
Building storage	17,059.29
Computer and software	20,039.67
Equipment - shop	30,502.28
Equipment - heavy	154,027.09
Furniture and fixtures	29,831.80
Vehicles	150,216.87
Lines	1,657,233.32
Line replacement	94,780.33
Meters	2,226,755.60
Tanks	2,220,172.87
Wells	1,903,911.25
Hydrants	489,194.34
Wild Horse Canyon	62,111.36
Master Plan	<u>46,000.00</u>
	9,239,623.25
Prior year work in progress	<u>1,077,851.96</u>
Total Property and Equipment	<u><u>\$ 10,317,475.21</u></u>

**See Accountant's Compilation Report**



**SHEEP CREEK WATER COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For The Year Ended December 31, 2017**  
(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	20 - 45
Master Plan	

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.

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.

2. NATURE OF BUSINESS:

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

**SHEEP CREEK WATER COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For The Year Ended December 31, 2017**  
(See Accountant's Compilation Report)

3. LONG TERM LIABILITY

The Company purchased a skid loader from CNH Industrial Capital for \$91,387.56 and entered into an agreement in February 2016 for a five year payment plan with \$1,382.85 per month with an interest rate of 3%.

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. This liability is scheduled to be retired by July 2018.

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. This liability was retired a year early and paid in full in October 2017.

A shareholder and the Company have entered into an agreement in September 2016 for a loan to the Company in the amount of \$170,000 at 6% over five years with the first year's payments to be interest only and the principal to be paid over the remaining four years.

A shareholder and the Company have entered into an agreement in December 2017 for a loan to the Company in the amount of \$100,000 at 5% over five 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) through the fifth (5th) anniversaries of the date of the Note.

4. COMMENTS:

Due to the drop in production during the summer of 2016, the Board of Directors approved the implementation of an Electric - Drought Surcharge. The surcharge of \$ .30 per HCF was implemented to recover the additional electrical charges for the additional pumping. With the expectation of lower than normal production, the Board approved to maintain the surcharge at a lower rate of \$ .15 per HCF through 2017 to cover the additional electrical pumping costs.

The Board has approved continuing the electrical surcharge during 2018 at a rate of \$ .15 per HCF.

The Company has been in the process of a gate valve and fire hydrant replacement program throughout the system. As the system ages, a number of gate valves have become inoperable. Several interconnections have been upgraded with the new gate valves and fire hydrants. This replacement program is planned to continue through 2019.

The Shareholders approved a three part assessment for the Phase 1 of 2 construction and implementation of Well 11. The first part of this approved assessment was set at \$30 per share as of August 15, 2017. The second and third assessments are scheduled for January and June of 2018.