

**2018**

**FINANCIAL STATEMENT**

**SHEEP CREEK WATER COMPANY**

**FOR THE YEAR ENDING  
DECEMBER 31, 2018**

CECELIA J. CUMMINGS, CPA

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

April 1, 2019

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, 2018 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 1, 2019

# SHEEP CREEK WATER COMPANY

## Balance Sheet

December 31, 2018

### ASSETS

#### CURRENT ASSETS

|                                   |  |    |                   |
|-----------------------------------|--|----|-------------------|
| Cash on hand                      |  | \$ | 390.00            |
| Cash in DCB - Assessment          |  |    | 231,667.85        |
| Cash in DCB - Capital Improvement |  |    | 22,584.54         |
| Cash in DCB - Checking            |  |    | 47,936.29         |
| Cash in DCB - Savings             |  |    | 56,758.46         |
| Cash in DCB - System Upgrade      |  |    | 19,614.70         |
| Cash in DCB - Wells               |  |    | 70,418.95         |
| Total Cash                        |  |    | <u>449,370.79</u> |

#### Accounts receivable:

|             |    |                  |           |
|-------------|----|------------------|-----------|
| Employee    | \$ | 7,455.00         |           |
| Water sales |    | 4,616.88         |           |
| Assessments |    | <u>13,890.29</u> |           |
|             |    |                  | 25,962.17 |

Inventory 116,972.10

#### Prepaid expenses:

|              |  |                  |                  |
|--------------|--|------------------|------------------|
| Dues         |  | 1,089.00         |                  |
| Insurance    |  | 7,777.63         |                  |
| Property tax |  | 6,858.59         |                  |
| Software     |  | <u>12,126.18</u> |                  |
|              |  |                  | <u>27,851.40</u> |

Total Current Assets \$ 620,156.46

#### 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>11,446,174.84</u>  |              |
|                                |  | <u>11,779,704.14</u>  |              |
| Less Accumulated Depreciation  |  | <u>(5,681,815.74)</u> |              |
| Net Property and Equipment     |  |                       | 6,097,888.40 |

Total Assets \$ 6,718,044.86

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# SHEEP CREEK WATER COMPANY

## Balance Sheet

December 31, 2018

### LIABILITIES AND STOCKHOLDERS EQUITY

#### CURRENT LIABILITIES

|                           |                    |              |
|---------------------------|--------------------|--------------|
| Accounts payable          | 12,967.19          |              |
| Payroll taxes payable     | \$ <u>7,538.43</u> |              |
| Total Current Liabilities |                    | \$ 20,505.62 |

#### LONG-TERM LIABILITIES

|                             |            |                   |
|-----------------------------|------------|-------------------|
| CNH Industrial Capital      | 37,956.65  |                   |
| Vehicle loans               | 66,371.31  |                   |
| Shareholder Loans           | 509,802.30 |                   |
| Total Long Term Liabilities |            | <u>614,130.26</u> |
| Total Liabilities           |            | \$ 634,635.88     |

#### STOCKHOLDERS' EQUITY

|   |                     |                               |
|---|---------------------|-------------------------------|
| Common Stock                                  | 10,000.00           |                               |
| Treasury Stock                                | <u>1,236.85</u>     |                               |
|   | 11,236.85           |                               |
| Surplus - Assessments                         | 4,808,673.34        |                               |
| Surplus - Meter Installations                 | 3,786,702.71        |                               |
| Surplus - Wild Horse Canyon                   | 57,029.39           |                               |
| Replacement Well Funds                        | <u>1,067,501.50</u> |                               |
|   | 9,719,906.94        |                               |
| Retained Earnings                             | (3,524,557.61)      |                               |
| Net Income (Loss)                             | <u>(123,177.20)</u> |                               |
| Total Stockholders' Equity                    |                     | <u>6,083,408.98</u>           |
| Total Liabilities and<br>Stockholders' Equity |                     | \$ <u><u>6,718,044.86</u></u> |

See Accountant's Compilation Report

**SHEEP CREEK WATER COMPANY**  
**Statement of Income and Expense**  
**For the period ending December 31, 2018**

|                                      | Amount          |                 |
|--------------------------------------|-----------------|-----------------|
| <b>INCOME</b>                        |                 |                 |
| Water sales                          | \$ 1,021,347.40 |                 |
| Penalties - water service            | 2,228.59        |                 |
| Electrical Surcharge                 | 33,645.61       |                 |
| Stock transfer fees                  | 3,582.00        |                 |
| Reinstall/reconnect fees             | 1,740.00        |                 |
| Construction meter use charges       | 1,417.54        |                 |
| Inspection fee                       | 126.30          |                 |
| Water service adjustments            | (9,495.85)      |                 |
| Total income                         |                 | \$ 1,054,591.59 |
| <br><b>OPERATING EXPENSES</b>        |                 |                 |
| Advertising                          | 200.00          |                 |
| Auto and truck                       | 13,812.49       |                 |
| Bank service charges                 | 803.33          |                 |
| Conferences and meetings             | 246.28          |                 |
| Contract services                    | 3,538.65        |                 |
| Credit card charges                  | 18,278.62       |                 |
| Depreciation                         | 245,840.50      |                 |
| Diesel fuel                          | 8,360.19        |                 |
| Donations                            | 1,114.55        |                 |
| Dues and subscriptions               | 3,502.20        |                 |
| Employee benefits                    | 5,751.59        |                 |
| Employee retirement                  | 26,278.23       |                 |
| Employee training                    | 2,018.90        |                 |
| Insurance - bond                     | 100.00          |                 |
| Insurance - board health             | 28,142.31       |                 |
| Insurance - commercial package       | 27,002.00       |                 |
| Insurance - liability                | 4,933.80        |                 |
| Insurance - staff health             | 73,687.75       |                 |
| Insurance - workmans' comp           | 10,199.00       |                 |
| Interest                             | 26,140.00       |                 |
| Internet access fee                  | 369.05          |                 |
| Materials                            | 967.00          |                 |
| Lab tests and inspections            | 4,893.00        |                 |
| Lease payments - pagers              | 358.25          |                 |
| Lease payments - copier              | 3,764.69        |                 |
| Lease payments - credit card machine | 723.53          |                 |
| Licenses and permits                 | 2,023.33        |                 |
| Maintenance fees - SEP/IRA           | 450.00          |                 |
| Office expense and supplies          | 14,327.22       |                 |
| Outside services                     | 1,328.25        |                 |
| Postage                              | 11,006.08       |                 |
| Printing                             | 1,971.38        |                 |
| Professional - accounting            | 7,050.00        |                 |
| Professional - engineering           | 16,146.25       |                 |

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**SHEEP CREEK WATER COMPANY**  
**Statement of Income and Expense**  
**For the period ending December 31, 2018**

|  |              |                 |
|--|--------------|-----------------|
| Professional - legal                     | 47,999.05    |                 |
| Rental - equipment                       | 2,836.81     |                 |
| Repairs and maint - inspections          | 844.76       |                 |
| Repairs and maint - auto                 | 8,288.29     |                 |
| Repairs and maint - equipment            | 1,379.57     |                 |
| Repairs and maint - general              | 12,466.59    |                 |
| Repairs and maint - lines/meters, system | 37,866.98    |                 |
| Salaries - maintenance                   | 171,944.66   |                 |
| Salaries - management                    | 85,036.41    |                 |
| Salaries - office                        | 98,431.41    |                 |
| Salaries - phone stipend                 | 2,369.01     |                 |
| Small tools and supplies                 | 374.83       |                 |
| State water fees                         | 8,071.16     |                 |
| Stock purchase                           | (2,859.13)   |                 |
| Taxes - payroll                          | 44,004.51    |                 |
| Taxes - property                         | 7,489.85     |                 |
| Telephone                                | 5,348.03     |                 |
| Uniforms                                 | 1,840.16     |                 |
| Utilities - operating                    | 5,480.63     |                 |
| Utilities - wells                        | 58,832.55    |                 |
| Water transfer costs                     | 17,416.81    |                 |
| Water quality treatment                  | 11,011.24    |                 |
| Total Operating Expenses                 | 1,191,802.60 | 1,191,802.60    |
|  |              | (137,211.01)    |
| <br>OTHER INCOME & EXPENSE               |              |                 |
| Gain on Sale                             | 10,500.00    |                 |
| Interest income - Assessment             | 426.21       |                 |
| Interest income - Capital improvement    | 34.00        |                 |
| Interest income - Checking               | 73.89        |                 |
| Interest income - Savings                | 166.27       |                 |
| Interest income - System upgrade         | 31.47        |                 |
| Interest income - Wells                  | 174.26       |                 |
| Refunds                                  |              |                 |
| Miscellaneous                            | 1,540.27     |                 |
| Insurance                                | 783.00       |                 |
| Payroll                                  | 599.83       |                 |
| Lost certificates                        | 462.00       |                 |
| NSF service charges                      | 64.00        |                 |
| Service fees                             | (21.39)      |                 |
| Total Other Income & Expense             | 14,833.81    | 14,833.81       |
| INCOME (LOSS) BEFORE TAXES               |              | (122,377.20)    |
| Provision for State Income Tax           |              | (800.00)        |
| NET INCOME (LOSS)                        |              | \$ (123,177.20) |

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**SHEEP CREEK WATER COMPANY**  
**Statement of Changes in Financial Position**  
**For the year ended December 31, 2018**

|  |                 |
|--|-----------------|
| Financial resources, provided by operations:               |                 |
| Net income (loss)  | \$ (123,177.20) |
| Items which did not require the outlay of working capital: |                 |
| Depreciation   | 245,840.50      |
| Prior years adjustments cumulative                         | 1,989.61        |
|  | 124,652.91      |
| Working capital provided by project funds:                 |                 |
| Increase (decrease) in paid-in capital:                    |                 |
| Assessments  | 497,956.69      |
| Meter installation funds                                   | (1,795.00)      |
|  | 620,814.60      |
| Other changes to working capital:                          |                 |
| Increase in shareholder loans                              | 203,738.93      |
|  | 824,553.53      |
| Financial resources applied to:                            |                 |
| Acquisition/completion of property and equipment           | (1,189,770.12)  |
| Company labor/equip applied to acquisitions                | 137,346.08      |
| Increase in work-in-progress                               | 6,355.29        |
| Increase in long-term loan                                 | (22,312.92)     |
|  | (1,068,381.67)  |
| Increase (Decrease) In Working Capital                     | \$ (243,828.14) |
| Summary of Changes In Working Capital By Components:       |                 |
| Current Assets   |                 |
| Cash   | \$ (145,616.99) |
| Accounts receivable  | (121,004.70)    |
| Inventory  | 17,440.89       |
| Prepaid expenses   | 5,924.13        |
| Current Liabilities  |                 |
| Accounts payable   | 2,741.67        |
| Payroll taxes payable                                      | (3,313.14)      |
|  | (243,828.14)    |
| Increase (Decrease) In Working Capital                     | \$ (243,828.14) |

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**SHEEP CREEK WATER COMPANY**  
**Supporting Schedule**  
**For Balance Sheet**  
**December 31, 2018**

**PROPERTY AND EQUIPMENT**

|                              |                                |
|------------------------------|--------------------------------|
| Office buildings             | \$ 112,772.77                  |
| Building improvements        | 25,014.41                      |
| Building storage             | 17,059.29                      |
| Computer and software        | 29,322.95                      |
| Equipment - shop             | 30,502.28                      |
| Equipment - heavy            | 91,387.56                      |
| Furniture and fixtures       | 29,831.80                      |
| Vehicles                     | 181,727.77                     |
| Lines                        | 1,807,570.72                   |
| Line replacement             | 94,780.33                      |
| Meters                       | 2,268,911.15                   |
| Tanks                        | 2,220,172.87                   |
| Wells                        | 2,860,394.24                   |
| Hydrants                     | 493,303.03                     |
| Wild Horse Canyon            | 62,111.36                      |
| Master Plan                  | 46,000.00                      |
|                              | <u>10,370,862.53</u>           |
| <br>                         |                                |
| Prior year work in progress  | <u>1,075,312.31</u>            |
| <br>                         |                                |
| Total Property and Equipment | <u><u>\$ 11,446,174.84</u></u> |

**See Accountant's Compilation Report**



**SHEEP CREEK WATER COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended December 31, 2018**  
**(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, 2018**  
(See Accountant's Compilation Report)

3. LONG TERM LIABILITIES

EQUIPMENT

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%.

The Company purchased a Ford F150 work truck from Sunrise Ford for \$32,094 and entered into an agreement in July 2017 for a five year payment plan with \$548 per month with an interest rate of 4.85%.

The Company purchased a Chevrolet Silverado work truck from Performance Chevrolet for \$58,669 and entered into an agreement in June 2018 for a five year payment plan with \$913 per month with an interest rate of 4.69%.

LOANS

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 was retired in July 2018.

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. The balance of \$127,899.78 was refinanced in September 2018 with an additional shareholder loan of \$300,000. The new balance of \$427,899.78 was approved at 6.50% over five years. The payments will be interest only for five years along with five annual principal payments each end of period of September. The liability is scheduled to be retired in September 2023.

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 continued the electrical surcharge during 2018 at a rate of \$ .15 per HCF

**SHEEP CREEK WATER COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended December 31, 2018**  
**(See Accountant's Compilation Report)**

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 interseptions 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 were scheduled for January and June of 2018.