

2019

FINANCIAL STATEMENT

SHEEP CREEK WATER COMPANY

**FOR THE YEAR ENDING
DECEMBER 31, 2019**

CECELIA J. CUMMINGS, CPA

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

June 8, 2020

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

The Financial Report for the year ending December 31, 2019 which includes the Balance Sheet, Statement of Income and Expenses, Statement of Changes in Financial Position and accompanying footnotes for Sheep Creek Water Company has 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
June 8, 2020

SHEEP CREEK WATER COMPANY
Balance Sheet
December 31, 2019

ASSETS

CURRENT ASSETS

Cash on hand		\$ 390.00
Cash in DCB - Assessment		93,276.39
Cash in DCB - Capital Improvement		98,738.72
Cash in DCB - Checking		5,090.99
Cash in DCB - Savings		13,194.61
Cash in DCB - System Upgrade		37,003.83
Cash in DCB - Wells		<u>34,481.16</u>
Total Cash		282,175.70

Accounts receivable:

Employee	\$ 3,465.00	
Water sales	227,258.74	
Assessments	<u>0.00</u>	
		230,723.74

Inventory		121,509.09
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Returned Checks		<u>222.55</u>
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Total Current Assets		\$ 634,631.08
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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>11,686,591.23</u>	
	12,020,120.53	
Less Accumulated Depreciation	<u>(5,963,006.59)</u>	
Net Property and Equipment		6,057,113.94

Total Assets		\$ <u><u>6,691,745.02</u></u>
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SHEEP CREEK WATER COMPANY
Balance Sheet
December 31, 2019

LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES

Accounts payable	26,718.35	
Payroll taxes payable	\$ <u>30.14</u>	
Total Current Liabilities		\$ 26,748.49

LONG-TERM LIABILITIES

CNH Industrial Capital	19,145.20	
Vehicle loans	52,050.40	
Shareholder Loans	405,219.99	
Total Long Term Liabilities		<u>476,415.59</u>
Total Liabilities		\$ 503,164.08

STOCKHOLDERS' EQUITY

Common Stock	10,000.00	
Treasury Stock	<u>1,416.85</u>	
	11,416.85	
Surplus - Assessments	4,804,587.61	
Surplus - Meter Installations	3,823,202.71	
Surplus - Wild Horse Canyon	57,029.39	
Replacement Well Funds	<u>1,067,501.50</u>	
	9,752,321.21	
Retained Earnings	(3,466,559.89)	
Net Income (Loss)	<u>(108,597.23)</u>	
Total Stockholders' Equity		<u>6,188,580.94</u>
Total Liabilities and Stockholders' Equity		\$ <u><u>6,691,745.02</u></u>

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SHEEP CREEK WATER COMPANY
Statement of Income and Expense
December 31, 2019

	Amount	
INCOME		
Water sales	\$ 1,285,312.71	
Penalties - water service	0.00	
Electrical Surcharge	1.25	
Stock transfer fees	1,764.00	
Reinstall/reconnect fees	960.00	
Construction meter use charges	81.35	
Inspection fee	0.00	
Water service adjustments	(4,300.61)	
Total income		\$ 1,283,818.70
 OPERATING EXPENSES		
Advertising	695.20	
Auto and truck	13,994.09	
Bank service charges	560.10	
Bee removal	75.00	
Conferences and meetings	1,077.70	
Contract services	12,634.74	
Credit card charges	9,731.73	
Depreciation	283,506.11	
Diesel fuel	17,780.42	
Donations	100.00	
Dues and subscriptions	3,562.08	
Employee benefits	4,274.36	
Employee retirement	24,904.56	
Employee training	2,678.72	
Insurance - bond	100.00	
Insurance - board health	26,621.41	
Insurance - commercial package	23,149.00	
Insurance - liability	4,900.00	
Insurance - staff health	81,801.80	
Insurance - workmans' comp	10,537.65	
Interest	30,967.26	
Internet access fee	0.00	
Materials	34.44	
Lab tests and inspections	6,923.00	
Lease payments - pagers	331.53	
Lease payments - copier	2,229.15	
Lease payments - credit card machine	785.53	
Licenses and permits	2,817.45	
Medical & safety supplies	562.39	
Office expense and supplies	17,699.41	
Outside services	1,825.50	
Postage	8,145.29	
Printing	450.96	
Professional - accounting	7,200.00	
Professional - engineering	15,720.25	
Professional - legal	142,411.51	

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SHEEP CREEK WATER COMPANY
Statement of Income and Expense
December 31, 2019

Rental - equipment	1,896.40	
Repairs and maint - inspections	0.00	
Repairs and maint - auto	6,398.00	
Repairs and maint - equipment	14,568.79	
Repairs and maint - general	334.51	
Repairs and maint - lines/meters, system	40,143.31	
Salaries - maintenance	174,879.27	
Salaries - management	86,187.73	
Salaries - office	96,242.67	
Salaries - phone stipend	2,344.68	
Small tools and supplies	243.36	
State water fees	10,302.90	
Stock purchase	580.00	
Taxes - payroll	29,454.46	
Taxes - property	15,313.02	
Telephone	6,942.13	
Uniforms	1,805.66	
Utilities - operating	6,207.02	
Utilities - wells	126,704.43	
Water transfer costs	0.00	
Water quality treatment	20,020.84	
Total Operating Expenses	1,401,357.52	1,401,357.52
		(117,538.82)
 OTHER INCOME & EXPENSE		
Gain on Sale	0.00	
Interest income - Assessment	261.19	
Interest income - Capital improvement	105.59	
Interest income - Checking	50.52	
Interest income - Savings	88.80	
Interest income - System upgrade	42.30	
Interest income - Wells	144.48	
Refunds		
Miscellaneous	6,460.00	
Insurance	264.59	
Payroll	2,810.63	
Lost certificates	390.00	
NSF service charges	54.00	
Service fees	(130.51)	
Total Other Income & Expense	10,541.59	10,541.59
 INCOME (LOSS) BEFORE TAXES		 (106,997.23)
Provision for State Income Tax		(1,600.00)
 NET INCOME (LOSS)		 \$ (108,597.23)

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SHEEP CREEK WATER COMPANY
Statement of Changes in Financial Position
December 31, 2019

Financial resources, provided by operations:	
Net income (loss)	\$ (108,597.23)
Items which did not require the outlay of working capital:	
Depreciation	283,506.11
Prior years adjustments cumulative	<u>(20,637.88)</u>
	154,271.00
 Working capital provided by project funds:	
Increase (decrease) in paid-in capital:	
Assessments	(4,095.73)
Meter installation funds	<u>36,500.00</u>
	186,675.27
Other changes to working capital:	
Decrease in shareholder loans	<u>(104,582.31)</u>
	82,092.96
 Financial resources applied to:	
Acquisition/completion of property and equipment	(224,842.47)
Company labor/equip applied to acquisitions	45,073.12
Increase in work-in-progress	35,528.93
Decrease in long-term loan	<u>33,132.36</u>
	<u>(111,108.06)</u>
 Increase (Decrease) In Working Capital	 \$ <u><u>(29,015.10)</u></u>
 Summary of Changes In Working Capital By Components:	
Current Assets	
Cash	\$ (216,958.26)
Accounts receivable	204,761.57
Inventory	4,536.99
Prepaid expenses	(27,628.85)
Current Liabilities	
Accounts payable	13,781.74
Payroll taxes payable	<u>(7,508.29)</u>
 Increase (Decrease) In Working Capital	 \$ <u><u>(29,015.10)</u></u>

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SHEEP CREEK WATER COMPANY
Supporting Schedule
For Balance Sheet
December 31, 2019

PROPERTY AND EQUIPMENT

Office buildings	\$ 112,772.77
Building improvements	25,014.41
Building storage	17,059.29
Computer and software	26,732.37
Equipment - shop	32,341.80
Equipment - heavy	91,387.56
Furniture and fixtures	27,208.80
Vehicles	181,727.77
Lines	1,807,660.72
Line replacement	94,780.33
Meters	2,335,375.31
Tanks	2,220,172.87
Wells	3,016,933.03
Hydrants	493,303.03
Wild Horse Canyon	62,111.36
Master Plan	<u>46,000.00</u>
	10,590,581.42
Prior year work in progress	<u>1,096,009.81</u>
Total Property and Equipment	<u><u>\$ 11,686,591.23</u></u>

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SHEEP CREEK WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

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.

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.

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SHEEP CREEK WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

2. NATURE OF BUSINESS:

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

3. LONG TERM LIABILITIES

EQUIPMENT

The Company purchased a skiploader 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 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.

The liability is scheduled to be retired December 2022.

4. COMMENTS:

The Board removed the electrical surcharge for 2019 due to the implementation of the Tiered Water Rate Structure

In August 2019 at a Special Meeting of the Shareholders, the Shareholders approved a \$5.00 base rate increase per month per meter service for the repayment of the Well #11 loan. In addition to the base rate increase, Tier 3 funds will be used for the loan repayment.

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