

2020

FINANCIAL STATEMENT

SHEEP CREEK WATER COMPANY

**FOR THE YEAR ENDING
DECEMBER 31, 2020**

CECELIA J. CUMMINGS, CPA

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

March 27, 2021

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

The Financial Report for the year ending December 31, 2020 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
March 27, 2021

SHEEP CREEK WATER COMPANY
Balance Sheet
December 31, 2020

ASSETS

CURRENT ASSETS

Cash on hand		\$ 390.00
Cash in DCB - Assessment		81,911.42
Cash in DCB - Capital Improvement		154,611.88
Cash in DCB - Checking		33,829.89
Cash in DCB - Savings		28,234.70
Cash in DCB - System Upgrade		38,153.60
Cash in DCB - Wells		99,459.77
Total Cash		436,591.26

Accounts receivable:

Water sales	\$ 210,488.07	
Assessments	0.00	
		210,488.07

Inventory 136,268.59

Prepays 6,827.00

Returned Checks 503.61

Total Current Assets \$ 790,678.53

PROPERTY AND EQUIPMENT

Land - Phelan	161,093.99	
Land - LA County	85,261.18	
Land - Remove reservoir	87,174.13	
Land - Source Capacity	72,228.50	
.	11,861,883.61	
	12,267,641.41	
Less Accumulated Depreciation	(6,234,870.83)	
Net Property and Equipment		6,032,770.58

Total Assets \$ 6,823,449.11

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SHEEP CREEK WATER COMPANY
Balance Sheet
December 31, 2020

LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES

Accounts payable	47,812.02	
Other current liabilities	1,010.00	
Payroll taxes payable	\$ <u>6,470.09</u>	
Total Current Liabilities		\$ 55,292.11

LONG-TERM LIABILITIES

CNH Industrial Capital	2,722.34	
Vehicle loans	36,328.28	
CoBank Note Payable	358,091.98	
Total Long Term Liabilities		<u>397,142.60</u>
Total Liabilities		\$ 452,434.71

STOCKHOLDERS' EQUITY

Common Stock	10,000.00	
Treasury Stock	<u>1,416.85</u>	
	11,416.85	
Surplus - Assessments	4,804,647.61	
Surplus - Meter Installations	3,823,202.71	
Surplus - Wild Horse Canyon	57,029.39	
Replacement Well Funds	<u>1,067,501.50</u>	
	9,752,381.21	
Retained Earnings	(3,519,711.20)	
Net Income (Loss)	<u>126,927.54</u>	
Total Stockholders' Equity		<u>6,371,014.40</u>
Total Liabilities and Stockholders' Equity		\$ <u><u>6,823,449.11</u></u>

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SHEEP CREEK WATER COMPANY
Statement of Income and Expense
December 31, 2020

	Amount	
INCOME		
Water sales	\$ 1,383,758.26	
Penalties - water service	0.00	
Electrical Surcharge	0.00	
Stock transfer fees	1,944.00	
Reinstall/reconnect fees	600.00	
Construction meter use charges	101.72	
Inspection fee	0.00	
Water service adjustments	(40,440.64)	
Total income		\$ 1,345,963.34
 OPERATING EXPENSES		
Advertising	40.00	
Auto and truck	12,425.13	
Bank service charges	136.04	
Bee removal	300.00	
Bonus	2,050.00	
Conferences and meetings	1,450.70	
Contract services	2,341.68	
Credit card charges	12,919.09	
Depreciation	278,694.32	
Diesel fuel	6,829.24	
Dues and subscriptions	5,622.31	
Employee benefits	486.90	
Employee retirement	24,769.45	
Employee training	448.89	
Insurance - bond	0.00	
Insurance - board health	24,784.66	
Insurance - commercial package	22,691.00	
Insurance - liability	0.00	
Insurance - staff health	83,816.49	
Insurance - workmans' comp	10,846.00	
Interest	17,135.53	
Internet access fee	0.00	
Lab tests and inspections	14,104.00	
Lease payments - pagers	110.44	
Lease payments - copier	2,514.13	
Lease payments - credit card machine	729.72	
Licenses and permits	2,175.66	
Loan fees	6,633.45	
Medical & safety supplies	937.98	
Notary service	50.00	
Office expense and supplies	21,301.44	
Outside services	0.00	
Postage	9,382.90	
Printing	147.83	
Professional - accounting	11,100.00	
Professional - engineering	17,221.75	

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SHEEP CREEK WATER COMPANY
Statement of Income and Expense
December 31, 2020

Professional - legal	43,116.25	
Rental - equipment	0.00	
Repairs and maint - inspections	0.00	
Repairs and maint - auto	4,678.41	
Repairs and maint - equipment	14,047.25	
Repairs and maint - general	38.17	
Repairs and maint - lines/meters, system	50,528.39	
Salaries - maintenance	191,398.80	
Salaries - management	90,468.30	
Salaries - office	102,453.92	
Salaries - phone stipend	2,389.77	
Small tools and supplies	439.13	
State water fees	1,326.00	
Stock purchase	929.00	
Taxes - payroll	31,939.48	
Taxes - property	16,832.17	
Telephone	4,242.27	
Uniforms	1,673.42	
Utilities - operating	5,837.41	
Utilities - wells	68,789.03	
Water transfer costs	0.00	
Water quality treatment	3,934.86	
Total Operating Expenses	1,229,258.76	1,229,258.76
		116,704.58
 OTHER INCOME & EXPENSE		
Interest income - Assessment	51.73	
Interest income - Capital improvement	58.88	
Interest income - Checking	25.68	
Interest income - Savings	26.60	
Interest income - System upgrade	24.39	
Interest income - Wells	30.02	
Refunds		
Miscellaneous	398.26	
Insurance	1,140.00	
Payroll	8,665.44	
Lost certificates	569.96	
NSF service charges	32.00	
Service fees	0.00	
Total Other Income & Expense	11,022.96	11,022.96
 INCOME (LOSS) BEFORE TAXES		 127,727.54
Provision for State Income Tax		(800.00)
 NET INCOME (LOSS)		 \$ <u>126,927.54</u>

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SHEEP CREEK WATER COMPANY
Statement of Changes in Financial Position
December 31, 2020

Financial resources, provided by operations:	
Net income (loss)	\$ 126,927.54
Items which did not require the outlay of working capital:	
Depreciation - current year	278,694.32
Accumulated depreciation - assets disposed	<u>(4,575.44)</u>
	401,046.42
Working capital provided by project funds:	
Increase (decrease) in paid-in capital:	
Assessments	60.00
Meter installation funds	<u>0.00</u>
Other changes to working capital:	
Decrease in shareholder loans	(405,219.99)
Increase in Note Payable	<u>358,091.98</u>
	353,978.41
Financial resources applied to:	
Acquisition/completion of property and equipment	(219,378.88)
Company labor/equip applied to acquisitions	55,445.92
Increase in work-in-progress	28,142.00
Decrease in long-term vehicle loan	<u>(32,164.98)</u>
	(167,955.94)
Increase (Decrease) In Working Capital	<u><u>\$ 186,022.47</u></u>
Summary of Changes In Working Capital By Components:	
Current Assets	
Cash	\$ 155,131.26
Accounts receivable	(20,235.67)
Inventory	14,759.50
Prepaid expenses	7,108.06
Current Liabilities	
Accounts payable	21,093.67
Payroll taxes payable	<u>8,165.65</u>
Increase (Decrease) In Working Capital	<u><u>\$ 186,022.47</u></u>

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SHEEP CREEK WATER COMPANY
Supporting Schedule
For Balance Sheet
December 31, 2020

PROPERTY AND EQUIPMENT

Office buildings	\$ 112,772.77
Building improvements	25,014.41
Building storage	17,059.29
Computer and software	20,875.96
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	2,376,117.19
Tanks	2,225,067.87
Wells	3,043,938.56
Hydrants	530,516.91
Wild Horse Canyon	62,111.36
Master Plan	<u>95,700.00</u>
	10,744,281.30
Prior year work in progress	<u>1,117,602.31</u>
Total Property and Equipment	<u><u>\$ 11,861,883.61</u></u>

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SHEEP CREEK WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2020

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.

2. NATURE OF BUSINESS:

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

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SHEEP CREEK WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2020

3. PROPERTY PURCHASE

Source Capacity Project was approved by the Shareholders in August 2019. The Company purchased three parcels of land for new wells for a cost of \$60,500. One parcel for Well 13 is located on Mescalero Rd and two parcels located on Johnson Rd & Yucca Terrace Dr for Well 14.

4. 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%.

NOTES PAYABLE

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. On June 2, 2020, the balance of \$342,320 was refinanced with a Single Advance Term Promissory Note with CoBank and the loan with this shareholder is paid in full.

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. On June 2, 2020, the balance of \$342,320 was refinanced with a Single Advance Term Promissory Note with CoBank and the loan with this shareholder is paid in full.

On January 27, 2020, the Company entered into a Single Advance Term Promissory Note with CoBank for a single advance loan in the amount of \$410,000 to refinance the Company's indebtedness at that time for the two shareholder loans and associated closing costs. The term of the loan is 48 months to expire on June 20, 2024 at a rate adjusted for reserves of the One-Month LIBOR (London Interbank Offered Rate) Index Rate plus 1.75%.

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