

2014

FINANCIAL STATEMENT

SHEEP CREEK WATER COMPANY

**FOR THE YEAR ENDING
DECEMBER 31, 2014**

CECELIA J. CUMMINGS, CPA

1245 APPLE AVENUE
P. O. BOX 1960
WRIGHTWOOD, CA 92397

March 30, 2015

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, 2014 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.

An independent audit has been completed on the financial statements for the year ending December 31, 2013. This audit included procedures to obtain evidence about the amounts and disclosures in the financial statements, the internal controls of the Company and those controls relevant to the Company's preparation and fair presentation of the financial statements. Copies of the Audit Report for the year ending December 31, 2013 are available at the Sheep Creek office.

Cummings CPA

Cummings CPA

Wrightwood, CA
March 30, 2015

SHEEP CREEK WATER COMPANY

Balance Sheet

December 31, 2014

ASSETS

CURRENT ASSETS

| | | | |
|-----------------------------------|--|----|-------------------|
| Cash on hand | | \$ | 270.00 |
| Cash in DCB - Assessment | | | 985.29 |
| Cash in DCB - Capital Improvement | | | 6,037.37 |
| Cash in DCB - Checking | | | 26,234.37 |
| Cash in DCB - Savings | | | 67,073.80 |
| Cash in DCB - System Upgrade | | | 52,745.64 |
| Cash in DCB - Wells | | | <u>103,301.34</u> |
| Total Cash | | | 256,647.81 |

Accounts receivable:

| | | | |
|---------------|----|---------------|------------|
| Water sales | \$ | 105,291.72 | |
| Return checks | | <u>297.70</u> | |
| | | | 105,589.42 |

| | | | |
|-----------|--|--|-----------|
| Inventory | | | 84,133.90 |
|-----------|--|--|-----------|

Prepaid expenses:

| | | | |
|---------------|--|-----------------|-----------------|
| Insurance | | 468.40 | |
| Property tax | | 6,435.25 | |
| Subscriptions | | <u>2,378.25</u> | |
| | | | <u>9,281.90</u> |

| | | | |
|----------------------|--|----|------------|
| Total Current Assets | | \$ | 455,653.03 |
|----------------------|--|----|------------|

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>9,762,013.13</u> | |
| | | 10,095,542.43 | |
| Less Accumulated Depreciation | | <u>(4,759,577.23)</u> | |
| Net Property and Equipment | | | 5,335,965.20 |

| | | | |
|--------------|--|----|---------------------|
| Total Assets | | \$ | <u>5,791,618.23</u> |
|--------------|--|----|---------------------|

See Accountant's Compilation Report

SHEEP CREEK WATER COMPANY

Balance Sheet

December 31, 2014

LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES

| | | |
|----------------------------|--------------------|---------------|
| Accounts payable | 119,472.31 | |
| Construction meter deposit | 1,000.00 | |
| Payroll taxes payable | \$ <u>2,186.68</u> | |
| Total Current Liabilities | | \$ 122,658.99 |

LONG-TERM LIABILITIES

| | | |
|-----------------------------|------------|-------------------|
| Vehicle loans | 34,140.92 | |
| Shareholder Loans | 349,807.52 | |
| Total Long Term Liabilities | | <u>383,948.44</u> |
| Total Liabilities | | \$ 506,607.43 |

STOCKHOLDERS' EQUITY

| | | |
|---|---------------------|-------------------------------|
| Common Stock | 10,000.00 | |
| Treasury Stock | <u>(577.00)</u> | |
| | 9,423.00 | |
| Surplus - Assessments | 3,953,283.23 | |
| Surplus - Meter Installations | 3,754,747.71 | |
| Surplus - Wild Horse Canyon | 57,029.39 | |
| Replacement Well Funds | <u>1,067,501.50</u> | |
| | 8,832,561.83 | |
| Retained Earnings | (3,384,378.63) | |
| Net Income (Loss) | <u>(172,595.40)</u> | |
| Total Stockholders' Equity | | <u>5,285,010.80</u> |
| Total Liabilities and Stockholders' Equity | | \$ <u><u>5,791,618.23</u></u> |

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SHEEP CREEK WATER COMPANY
Statement of Income and Expense
For the period ending December 31, 2014

| | Amount | |
|-----------------------------------|---------------|---------------|
| INCOME | | |
| Water sales | \$ 748,664.96 | |
| Penalties - water service | 5,247.60 | |
| Stock transfer fees | 2,034.00 | |
| Reinstall/reconnect fees | 1,950.00 | |
| Construction meter use charges | 16,961.50 | |
| Inspection fee | 60.00 | |
| Water service adjustments | (3,430.89) | |
| Total income | | \$ 771,487.17 |
| OPERATING EXPENSES | | |
| Advertising | 85.00 | |
| Auto and truck | 16,690.00 | |
| Bank service charges | 88.00 | |
| Conferences and meetings | 536.97 | |
| Contract services | 3,889.90 | |
| Credit card charges | 4,025.55 | |
| Depreciation | 243,025.51 | |
| Diesel fuel | 3,009.90 | |
| Donations | 495.83 | |
| Dues and subscriptions | 1,620.86 | |
| Employee benefits | 23,484.74 | |
| Employee training | 510.00 | |
| Insurance - bond | 100.00 | |
| Insurance - board health | 21,724.27 | |
| Insurance - commercial package | 26,228.93 | |
| Insurance - staff health | 60,796.27 | |
| Insurance - workmans' comp | 15,891.71 | |
| Interest | 18,634.83 | |
| Internet access fee | 936.83 | |
| Materials | 1,060.80 | |
| Lab tests and inspections | 1,918.00 | |
| Legal and accounting - accounting | 15,040.00 | |
| Legal and accounting - legal | 10,535.02 | |
| Lease payments - pagers | 328.50 | |
| Lease payments - copier | 3,880.10 | |
| Licenses and permits | 3,559.54 | |
| Maintenance fees - SEP/IRA | 375.00 | |
| Medical supplies | 463.42 | |
| Miscellaneous | 1,960.26 | |
| Office expense and supplies | 7,989.10 | |
| Postage | 9,499.00 | |
| Printing | 1,204.35 | |
| Repairs and maint - auto | 3,842.23 | |
| Repairs and maint - equipment | 182.16 | |

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SHEEP CREEK WATER COMPANY
Statement of Income and Expense
For the period ending December 31, 2014

| | | |
|--|------------|----------------------------|
| Repairs and maint - general | 5,172.04 | |
| Repairs and maint - lines/meters, system | 38,743.89 | |
| Salaries - maintenance | 113,960.84 | |
| Salaries - management | 77,111.93 | |
| Salaries - office | 104,517.24 | |
| Small tools and supplies | 408.84 | |
| Subcontract labor | 1,400.00 | |
| Taxes - payroll | 25,823.32 | |
| Taxes - property | 7,241.24 | |
| Telephone | 6,542.30 | |
| Uniforms | 1,218.02 | |
| Utilities - operating | 4,137.49 | |
| Utilities - wells | 47,416.11 | |
| Water quality treatment | 8,953.64 | |
| Total Operating Expenses | 946,259.48 | 946,259.48 |
| | | (174,772.31) |
| OTHER INCOME & EXPENSE | | |
| Gain on sale of assets | 90.69 | |
| Interest income - Assessment | 1.47 | |
| Interest income - Capital improvement | 10.77 | |
| Interest income - Checking | 43.13 | |
| Interest income - Savings | 208.31 | |
| Interest income - System upgrade | 69.60 | |
| Interest income - Wells | 48.94 | |
| Refunds | | |
| Miscellaneous | 56.19 | |
| Insurance | 1,635.70 | |
| Lost certificates | 405.00 | |
| NSF service charges | 196.00 | |
| Miscellaneous | 226.52 | |
| Fees | (15.41) | |
| Total Other Income & Expense | 2,976.91 | 2,976.91 |
| INCOME (LOSS) BEFORE TAXES | | (171,795.40) |
| Provision for State Income Tax | | (800.00) |
| NET INCOME (LOSS) | | \$ (172,595.40) |

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SHEEP CREEK WATER COMPANY
Supporting Schedules
For Balance Sheet
December 31, 2014

PROPERTY AND EQUIPMENT

| | |
|-------------------------------|------------------------|
| Office buildings | \$ 112,772.77 |
| Building improvements | 18,735.19 |
| Building storage | 17,059.29 |
| Computer and software | 20,039.67 |
| Equipment - shop | 27,377.26 |
| Equipment - heavy | 62,639.53 |
| Furniture and fixtures | 22,935.84 |
| Vehicles | 135,452.87 |
| Lines | 1,602,637.07 |
| Meters | 2,144,276.80 |
| Tanks | 2,220,172.87 |
| Wells | 1,269,631.73 |
| Hydrants | 421,703.36 |
| Wild Horse Canyon | 62,111.36 |
| Master Plan | 46,000.00 |
| | <u>8,183,545.61</u> |
| Prior year work in progress | 1,030,855.52 |
| Current year work in progress | <u>547,612.00</u> |
| | <u>9,762,013.13</u> |
| Total Property and Equipment | <u>\$ 9,762,013.13</u> |

See Accountant's Compilation Report

SHEEP CREEK WATER COMPANY
Statement of Changes in Financial Position
For The Year Ended December 31, 2014

| | |
|--|-------------------------------|
| Financial resources, provided by operations: | |
| Net income (loss) | \$ (172,595.40) |
| Items which did not require the outlay of working capital: | |
| Depreciation | <u>243,025.51</u> |
| | 70,430.11 |
| Working capital provided by operations: | |
| Increase in paid-in capital: | 70,430.11 |
| Other additions to working capital: | |
| Increase in shareholder loans | 14,583.91 |
| Adjustments | <u>(1,224.30)</u> |
| | 83,789.72 |
| Financial resources applied to: | |
| Acquisition/completion of property and equipment | 247,219.67 |
| Company labor/equip applied to acquisitions | 36,576.02 |
| Prepaid costs of work in progress | 162,789.37 |
| Decrease in work-in-progress | (59,529.38) |
| Decrease in long-term loan | <u>10,827.41</u> |
| | 397,883.09 |
| Increase (Decrease) In Working Capital | <u><u>\$ (314,093.37)</u></u> |
| Summary of Changes In Working Capital By Components: | |
| Current Assets | |
| Cash | \$ 123,301.49 |
| Accounts receivable | (280,567.40) |
| Inventory | (42,655.54) |
| Prepaid expenses | (4,065.37) |
| Current Liabilities | |
| Accounts payable | 111,672.31 |
| Payroll taxes payable | <u>(1,565.76)</u> |
| Increase (Decrease) In Working Capital | <u><u>\$ (314,093.37)</u></u> |

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SHEEP CREEK WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2014
(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 |

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.

Estimated allowance for indirect expenses attributable to taxable income is one (1) percent of taxable income or \$100 - whichever is greater.

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, 2014
(See Accountant's Compilation Report)

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 March 2012 for a loan to the Company in the amount of \$25,000 at 6% 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) and third (3rd) anniversaries of the date of the Note.

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.