

2016

FINANCIAL STATEMENT

SHEEP CREEK WATER COMPANY

**FOR THE YEAR ENDING
DECEMBER 31, 2016**

CECELIA J. CUMMINGS, CPA

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

April 3, 2017

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, 2016 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 3, 2017

SHEEP CREEK WATER COMPANY

Balance Sheet

December 31, 2016

ASSETS

CURRENT ASSETS

Cash on hand		\$	270.00
Cash in DCB - Assessment			978.25
Cash in DCB - Capital Improvement			9,561.48
Cash in DCB - Checking			40,199.80
Cash in DCB - Savings			42,420.82
Cash in DCB - System Upgrade			18,054.45
Cash in DCB - Wells			<u>185,144.39</u>
Total Cash			296,629.19

Accounts receivable:

Water sales	\$	44,513.40	
Return checks		<u>350.28</u>	
			44,863.68

Inventory 90,736.94

Prepaid expenses:

Dues		1,089.00	
Insurance		7,777.63	
Property tax		6,858.59	
Software		<u>4,063.19</u>	
			<u>19,788.41</u>

Total Current Assets \$ 452,018.22

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>10,157,705.26</u>	
		<u>10,491,234.56</u>	
Less Accumulated Depreciation		<u>(5,287,175.20)</u>	
Net Property and Equipment			5,204,059.36

Total Assets \$ 5,656,077.58

See Accountant's Compilation Report

SHEEP CREEK WATER COMPANY

Balance Sheet

December 31, 2016

LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES

Accounts payable	14,853.18	
Payroll taxes payable	\$ <u>4,107.18</u>	
Total Current Liabilities		\$ 18,960.36

LONG-TERM LIABILITIES

CNH Industrial Capital	67,922.26	
Vehicle loans	11,013.20	
Shareholder Loans	331,820.48	
Total Long Term Liabilities		<u>410,755.94</u>
Total Liabilities		\$ 429,716.30

STOCKHOLDERS' EQUITY

Common Stock	10,000.00	
Treasury Stock	<u>(497.00)</u>	
	9,503.00	
Surplus - Assessments	4,089,568.65	
Surplus - Meter Installations	3,788,497.71	
Surplus - Wild Horse Canyon	57,029.39	
Replacement Well Funds	<u>1,067,501.50</u>	
	9,002,597.25	
Retained Earnings	(3,614,640.74)	
Net Income (Loss)	<u>(171,098.23)</u>	
Total Stockholders' Equity		<u>5,226,361.28</u>
Total Liabilities and Stockholders' Equity		\$ <u><u>5,656,077.58</u></u>

See Accountant's Compilation Report

SHEEP CREEK WATER COMPANY
Statement of Income and Expense
For the period ending December 31, 2016

	<u>Amount</u>	
INCOME		
Water sales	\$ 850,641.00	
Penalties - water service	4,096.57	
Electrical Surcharge	23,633.84	
Stock transfer fees	2,448.00	
Reinstall/reconnect fees	1,740.00	
Construction meter use charges	1,000.00	
Inspection fee	2,855.00	
Water service adjustments	<u>(8,955.86)</u>	
Total income		\$ 877,458.55
 OPERATING EXPENSES		
Advertising	45.00	
Auto and truck	9,656.92	
Bank service charges	60.00	
Conferences and meetings	440.00	
Contract services	3,659.80	
Credit card charges	6,238.35	
Depreciation	262,154.65	
Diesel fuel	3,273.54	
Donations	1,228.12	
Dues and subscriptions	2,768.62	
Employee benefits	3,503.65	
Employee retirement	23,432.90	
Employee training	788.03	
Engineering	2,810.00	
Insurance - bond	2,462.70	
Insurance - board health	28,083.13	
Insurance - commercial package	21,904.68	
Insurance - director liability	3,400.85	
Insurance - staff health	75,577.82	
Insurance - workmans' comp	19,670.19	
Interest	18,617.88	
Internet access fee	98.75	
Materials	311.19	
Lab tests and inspections	4,923.00	
Lease payments - pagers	330.63	
Lease payments - copier	2,911.96	
Licenses and permits	7,361.78	
Maintenance fees - SEP/IRA	450.00	
Medical supplies		
Miscellaneous	10.00	
Office expense and supplies	10,991.81	
Outside services	2,641.51	
Postage	9,454.76	
Printing	1,547.56	

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SHEEP CREEK WATER COMPANY
Statement of Income and Expense
For the period ending December 31, 2016

Professional - accounting	6,870.00	
Professional - engineering	9,931.00	
Professional - legal	4,587.25	
Rental - equipment	0.00	
Repairs and maint - auto	10,631.29	
Repairs and maint - CLA-VAL	1,447.20	
Repairs and maint - equipment	928.47	
Repairs and maint - general	3,576.17	
Repairs and maint - lines/meters, system	29,556.25	
Salaries - maintenance	143,080.53	
Salaries - management	80,999.86	
Salaries - office	108,314.11	
Salaries - phone stipend	2,358.63	
Small tools and supplies	203.60	
Subcontract labor	2,188.20	
Taxes - federal	2,460.00	
Taxes - payroll	28,141.66	
Taxes - property	7,768.63	
Telephone	5,219.01	
Uniforms	1,088.20	
Utilities - operating	11,316.95	
Utilities - wells	52,198.70	
Water quality treatment	8,914.14	
Total Operating Expenses	1,052,589.63	1,052,589.63
		(175,131.08)
 OTHER INCOME & EXPENSE		
Interest income - Assessment	1.48	
Interest income - Capital improvement	18.92	
Interest income - Checking	37.61	
Interest income - Savings	47.57	
Interest income - System upgrade	26.73	
Interest income - Wells	149.47	
Refunds		
Miscellaneous	724.57	
Insurance	1,113.81	
Tax	2,092.69	
Lost certificates	510.00	
NSF service charges	110.00	
Total Other Income & Expense	4,832.85	4,832.85
 INCOME (LOSS) BEFORE TAXES		 (170,298.23)
Provision for State Income Tax		(800.00)
 NET INCOME (LOSS)		 \$ (171,098.23)

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SHEEP CREEK WATER COMPANY
Statement of Changes in Financial Position
For The Year Ended December 31, 2016

Financial resources, provided by operations:	
Net income (loss)	\$ (171,098.23)
Items which did not require the outlay of working capital:	
Depreciation	262,154.65
Adjustment - prior year retained earnings	98,602.07
	189,658.49
Working capital provided by operations:	
Increase in paid-in capital:	
Meter installation funds	23,000.00
	212,658.49
Other reductions to working capital:	
Increase in shareholder loans	80,451.06
Adjustments	
	293,109.55
Financial resources applied to:	
Acquisition/completion of property and equipment	169,259.88
Company labor/equip applied to acquisitions	38,367.12
Prepaid costs of work in progress	18,615.38
Increase in long-term loan	(56,105.58)
	170,136.80
Increase (Decrease) In Working Capital	\$ 122,972.75
Summary of Changes In Working Capital By Components:	
Current Assets	
Cash	\$ 207,617.57
Accounts receivable	(69,829.02)
Inventory	6,721.61
Prepaid expenses	(3,849.68)
Current Liabilities	
Accounts payable	(15,933.73)
Payroll taxes payable	(1,754.00)
	(17,687.73)
Increase (Decrease) In Working Capital	\$ 122,972.75

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SHEEP CREEK WATER COMPANY
Supporting Schedules
For Balance Sheet
December 31, 2016

PROPERTY AND EQUIPMENT

Office buildings	\$ 112,772.77
Building improvements	21,215.19
Building storage	17,059.29
Computer and software	20,039.67
Equipment - shop	30,502.28
Equipment - heavy	154,027.09
Furniture and fixtures	22,935.84
Vehicles	135,452.87
Lines	1,636,471.15
Meters	2,203,060.14
Tanks	2,220,172.87
Wells	1,903,911.25
Hydrants	462,502.59
Wild Horse Canyon	62,111.36
Master Plan	<u>46,000.00</u>
	9,048,234.36
Prior year work in progress	<u>1,109,470.90</u>
Total Property and Equipment	<u>\$ 10,157,705.26</u>

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SHEEP CREEK WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2016
(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, 2016
(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.

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.

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.

4. COMMENTS:

The completion of construction, improvements and upgrades of Well 2 and Well 5 have been completed in 2014 and 2015. These two assets improvements have been removed from the current year Work in Progress and added to the Distribution System fixed assets. The total of these two wells total \$628,219.

The Board of Directors approved the replacement of 3,000 feet of 10" water main in the canyon. Two sections of line were in need of replacement due to the unsafe depth of the existing line. With the continuous repair expenses associated with these two sections of line and the property owners plans to pave the road, the Board approved the line replacement to avoid the continuous high repairs cost annually in this area.

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 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 2018.