

2021

FINANCIAL STATEMENT

SHEEP CREEK WATER COMPANY

**FOR THE YEAR ENDING
DECEMBER 31, 2021**

CECELIA J. CUMMINGS, CPA

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

March 23, 2022

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

The Financial Report for the year ending December 31, 2021 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 23, 2022

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ASSETS

CURRENT ASSETS

Cash on hand		\$ 390.00
Cash in DCB - Assessment		104,564.45
Cash in DCB - Capital Improvement		227,876.11
Cash in DCB - Checking		37,802.90
Cash in DCB - Savings		32,061.31
Cash in DCB - System Upgrade		53,775.62
Cash in DCB - Wells		<u>254,610.56</u>
Total Cash		711,080.95

Accounts receivable:

Water sales	\$ <u>193,603.90</u>	
		193,603.90
Inventory		140,942.69
Prepays		8,189.24
Returned Checks		<u>503.61</u>

Total Current Assets \$ 1,054,320.39

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	
.	<u>11,976,760.14</u>	
	12,382,517.94	
Less Accumulated Depreciation	<u>(6,503,512.49)</u>	
Net Property and Equipment		5,879,005.45

Total Assets \$ 6,933,325.84

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LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES

Accounts payable	45,366.75	
Other current liabilities	800.00	
Payroll taxes payable	\$ <u>7,493.97</u>	
Total Current Liabilities		\$ 53,660.72

LONG-TERM LIABILITIES

Vehicle loans	10,339.53	
CoBank Note Payable	258,868.94	
Total Long Term Liabilities		<u>269,208.47</u>
Total Liabilities		\$ 322,869.19

STOCKHOLDERS' EQUITY

Common Stock	10,000.00	
Treasury Stock	<u>1,416.85</u>	
	11,416.85	
Surplus - Assessments	4,804,765.61	
Surplus - Meter Installations	3,833,952.71	
Surplus - Wild Horse Canyon	57,029.39	
Replacement Well Funds	<u>1,067,501.50</u>	
	9,763,249.21	
Retained Earnings	(3,341,687.96)	
Net Income (Loss)	<u>177,478.55</u>	
Total Stockholders' Equity		<u>6,610,456.65</u>
Total Liabilities and Stockholders' Equity		\$ <u><u>6,933,325.84</u></u>

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		Amount
INCOME		
Water sales	\$	1,454,773.95
Stock transfer fees		1,872.00
Reinstall/reconnect fees		360.00
Construction meter use charges		4,463.33
Water service adjustments		(70,856.18)
Total income		\$ 1,390,613.10
 OPERATING EXPENSES		
Advertising		564.45
Auto and truck		15,684.21
Bank service charges		279.46
Bonus		2,100.00
Conferences and meetings		575.38
Contract services		2,343.15
Corporate filing fee		30.00
Credit card charges		15,177.19
Depreciation		277,104.66
Diesel fuel		8,844.34
Dues and subscriptions		2,306.79
Employee benefits		640.73
Employee retirement		26,015.53
Employee training		250.00
Insurance - board health		13,096.55
Insurance - commercial package		24,635.01
Insurance - liability		6,317.00
Insurance - staff health		87,856.54
Insurance - vehicle		3,029.00
Insurance - workmans' comp		11,165.00
Interest		8,894.89
Lab tests and inspections		7,348.00
Lease payments - copier		2,531.80
Lease payments - credit card machine		694.97
Licenses and permits		1,196.64
Medical & safety supplies		695.63
Notary service		114.00
Office expense and supplies		17,602.79
Outside services		2,680.73
Postage		8,475.29
Printing		196.86
Professional - accounting		7,500.00
Professional - engineering		3,566.14

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Professional - legal	24,779.50	
Repairs and maint - auto	8,990.87	
Repairs and maint - equipment	21,358.50	
Repairs and maint - general	452.71	
Repairs and maint - lines/meters, system	53,529.85	
Salaries - maintenance	186,491.59	
Salaries - management	90,566.35	
Salaries - office	104,593.00	
Salaries - phone stipend	2,344.68	
Small tools and supplies	647.53	
Staff meals	836.57	
State water fees	14,526.00	
Stock purchase	15.00	
Taxes - payroll	31,042.11	
Taxes - property	19,268.80	
Telephone	2,900.75	
Uniforms	1,680.83	
Utilities - operating	5,934.03	
Utilities - wells	88,922.62	
Water quality treatment	8,235.20	
Total Operating Expenses	1,226,629.22	1,226,629.22
		163,983.88
 OTHER INCOME & EXPENSE		
Dividends	1,795.19	
Interest income - Assessment	48.47	
Interest income - Capital improvement	116.62	
Interest income - Checking	22.82	
Interest income - Savings	31.33	
Interest income - System upgrade	35.29	
Interest income - Wells	112.25	
Refunds		
Miscellaneous	2,555.86	
Insurance	6,987.38	
Payroll	2,347.90	
Lost certificates	293.00	
NSF service charges	20.00	
Service fees	(71.44)	
Total Other Income & Expense	14,294.67	14,294.67
 INCOME (LOSS) BEFORE TAXES		 178,278.55
Provision for State Income Tax		(800.00)
 NET INCOME (LOSS)		 \$ 177,478.55

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Financial resources, provided by operations:	
Net income (loss)	\$ 177,478.55
Items which did not require the outlay of working capital:	
Depreciation - current year	277,104.66
Accumulated depreciation - assets disposed	<u>(8,463.00)</u>
	446,120.21
Working capital provided by project funds:	
Increase (decrease) in paid-in capital:	
Assessments	118.00
Meter installation funds	<u>10,750.00</u>
Other changes to working capital:	
Decrease in Note Payable	<u>(99,223.04)</u>
	357,765.17
Financial resources applied to:	
Acquisition/completion of property and equipment	(124,498.78)
Company labor/equip applied to acquisitions	51,095.70
Increase in work-in-progress	10,190.13
Decrease in long-term vehicle loan	<u>(28,711.09)</u>
	<u>(91,924.04)</u>
Increase (Decrease) In Working Capital	<u><u>\$ 265,841.13</u></u>
Summary of Changes In Working Capital By Components:	
Current Assets	
Cash	\$ 276,405.02
Accounts receivable	(16,884.17)
Inventory	4,674.10
Prepaid expenses	1,362.24
Current Liabilities	
Accounts payable	(2,445.27)
Payroll taxes payable	<u>2,729.21</u>
Increase (Decrease) In Working Capital	<u><u>\$ 265,841.13</u></u>

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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	28,042.11
Equipment - heavy	91,387.56
Furniture and fixtures	26,051.51
Vehicles	181,727.77
Lines	1,829,931.48
Line replacement	94,780.33
Meters	2,420,250.33
Tanks	2,225,067.87
Wells	3,043,938.56
Hydrants	574,256.39
Wild Horse Canyon	62,111.36
Master Plan	95,700.00
	<u>10,848,967.70</u>
Prior year work in progress	<u>1,127,792.44</u>
Total Property and Equipment	<u><u>\$ 11,976,760.14</u></u>

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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	20

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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2. NATURE OF BUSINESS:

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

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 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%.