

**2022**

**FINANCIAL STATEMENT**

**SHEEP CREEK WATER COMPANY**

**FOR THE YEAR ENDING  
DECEMBER 31, 2022**

CECELIA J. CUMMINGS, CPA

6074 PARK DRIVE, STE 1  
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April 8, 2023

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

The Financial Report for the year ending December 31, 2022 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  
April 8, 2023

**SHEEP CREEK WATER COMPANY**  
**Financial Statements**  
**December 31, 2022**

**ASSETS**

**CURRENT ASSETS**

Cash on hand		\$ 590.00
Cash in DCB - Assessment		173,173.57
Cash in DCB - Capital Improvement		241,115.31
Cash in DCB - Checking		90,206.71
Cash in DCB - Savings		21,098.55
Cash in DCB - System Upgrade		75,048.58
Cash in DCB - Wells		<u>225,186.09</u>
Total Cash		826,418.81

Accounts receivable:

Water sales	\$ <u>172,313.89</u>	
		172,313.89
Inventory		157,923.07
Prepays		8,530.97
Returned Checks		<u>12.09</u>
Total Current Assets		\$ 1,165,198.83

**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>12,410,546.02</u>	
	12,816,303.82	
Less Accumulated Depreciation	<u>(6,772,204.68)</u>	
Net Property and Equipment		6,044,099.14

		\$ <u><u>7,209,297.97</u></u>
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**SHEEP CREEK WATER COMPANY**  
**Financial Statements**  
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**LIABILITIES AND STOCKHOLDERS EQUITY**

**CURRENT LIABILITIES**

Accounts payable	152,867.10	
Other current liabilities	<u>(263.71)</u>	
Total Current Liabilities		\$ 152,603.39

**LONG-TERM LIABILITIES**

CoBank Note Payable	294,649.38	
Total Long Term Liabilities		<u>294,649.38</u>
Total Liabilities		\$ 447,252.77

**STOCKHOLDERS' EQUITY**

Common Stock	10,000.00	
Treasury Stock	<u>8,216.85</u>	
	18,216.85	
Surplus - Assessments	4,804,525.61	
Surplus - Meter Installations	3,882,802.71	
Surplus - Wild Horse Canyon	57,029.39	
Replacement Well Funds	<u>1,067,501.50</u>	
	9,811,859.21	
Retained Earnings	(3,100,503.86)	
Net Income (Loss)	<u>32,473.00</u>	
Total Stockholders' Equity		<u>6,762,045.20</u>
Total Liabilities and Stockholders' Equity		<u>\$ 7,209,297.97</u>

**SHEEP CREEK WATER COMPANY**  
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		<u>Amount</u>	
INCOME			
	Water sales	\$ 1,443,915.25	
	Stock transfer fees	1,828.00	
	Reinstall/reconnect fees	1,362.52	
	Coronavirus Recovery Funds	27,625.44	
	Water service adjustments	(26,616.68)	
	Total income		\$ 1,448,114.53
OPERATING EXPENSES			
	Advertising	225.00	
	Auto and truck	18,260.81	
	Bank service charges	44.00	
	Bee Removal	50.00	
	Board Stipend	10,814.88	
	Conferences and meetings	317.78	
	Contract services	1,819.91	
	Credit card charges	20,030.03	
	Depreciation	271,384.19	
	Diesel fuel	13,814.58	
	Donations	612.29	
	Dues and subscriptions	3,089.87	
	Employee benefits	913.90	
	Employee retirement	10,096.03	
	Employee training	4,635.11	
	Insurance - board health	6,936.21	
	Insurance - commercial package	25,079.76	
	Insurance - liability	8,997.01	
	Insurance - staff health	65,525.91	
	Insurance - vehicle	3,050.00	
	Insurance - workmans' comp	10,399.00	
	Interest	5,453.09	
	Inventory supplies	149.22	
	Lab tests and inspections	13,914.25	
	Lease payments - copier	2,857.84	
	Lease payments - credit card machine	1,293.38	
	Licenses and permits	2,487.67	
	Medical & safety supplies	620.62	
	Office expense and supplies	30,606.85	
	Outside services	10,879.50	
	Postage	7,187.21	
	Printing	234.38	
	Professional - accounting	10,600.00	
	Professional - audit	5,250.00	
	Professional - engineering	13,891.25	

**SHEEP CREEK WATER COMPANY**  
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Professional - legal	52,157.30	
Repairs and maint - auto	16,771.19	
Repairs and maint - equipment	24,593.78	
Repairs and maint - general	1,953.67	
Repairs and maint - lines/meters, system	82,531.40	
Retirement	20,589.32	
Salaries - hourly	33,889.50	
Salaries - maintenance	235,068.74	
Salaries - management	25,365.21	
Salaries - office	137,073.79	
Salaries - phone stipend	1,800.63	
Security	1,049.40	
Small tools and supplies	1,842.32	
Staff meals	1,001.17	
State water fees	24,338.98	
Stock water shares	6,362.37	
Subcontract labor	2,695.00	
Taxes - payroll	40,162.67	
Taxes - property	17,737.41	
Telephone	3,117.47	
Uniforms	1,660.90	
Utilities - operating	6,144.75	
Utilities - wells	100,909.35	
Water quality treatment	16,699.94	
Total Operating Expenses		1,437,037.79
		11,076.74
 OTHER INCOME & EXPENSE		
Gain on sale of Asset	2,090.92	
Interest income - Assessment	101.59	
Interest income - Capital improvement	189.48	
Interest income - Checking	24.84	
Interest income - Savings	48.89	
Interest income - System upgrade	30.56	
Interest income - Wells	266.37	
Refunds		
Miscellaneous	7,948.99	
Insurance	8,832.31	
Payroll	6,128.62	
Lost certificates	480.00	
NSF service charges	65.00	
Service fees, penalties	(4,011.31)	
Total Other Income & Expense		22,196.26
 INCOME (LOSS) BEFORE TAXES		 33,273.00
Provision for State Income Tax		(800.00)
 NET INCOME (LOSS)		 \$ 32,473.00

**SHEEP CREEK WATER COMPANY**  
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Financial resources, provided by operations:	
Net income (loss)	\$ 32,473.00
Items which did not require the outlay of working capital:	
Depreciation - current year	271,384.19
Accumulated depreciation - assets disposed	<u>(2,692.00)</u>
	301,165.19
Working capital provided by project funds:	
Increase (decrease) in paid-in capital:	
Assessments	(240.00)
Meter installation funds	<u>48,850.00</u>
Other changes to working capital:	
Increase in Note Payable	<u>(25,440.91)</u>
	324,334.28
Financial resources applied to:	
Acquisition/completion of property and equipment	(316,537.34)
Company labor/equip applied to acquisitions	(45,424.53)
Increase in work-in-progress	250,390.00
Increase in treasury stock	<u>6,800.00</u>
	<u>(104,771.87)</u>
Increase (Decrease) In Working Capital	<u>\$ 219,562.41</u>
Summary of Changes In Working Capital By Components:	
Current Assets	
Cash	\$ 101,403.84
Accounts receivable	(2,885.34)
Inventory	16,980.38
Prepaid expenses	(149.79)
Current Liabilities	
Accounts payable	107,500.35
Other current liabilities	<u>(3,287.03)</u>
Increase (Decrease) In Working Capital	<u>\$ 219,562.41</u>

**SHEEP CREEK WATER COMPANY**  
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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	26,633.35
Vehicles	179,035.77
Lines	1,850,898.90
Line replacement	94,780.33
Meters	2,444,707.44
Tanks	2,225,067.87
Wells	3,184,020.07
Hydrants	574,256.39
Wild Horse Canyon	62,111.36
Master Plan	<u>95,700.00</u>
	11,032,363.58
Prior year work in progress	<u>1,378,182.44</u>
Total Property and Equipment	<u>\$ 12,410,546.02</u>



**SHEEP CREEK WATER COMPANY**  
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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.

**SHEEP CREEK WATER COMPANY**  
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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

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%.

On November 27, 2022, a draw request was made in the amount of \$137,500 on the Multiple Advance Term Commitment with CoBank with the interest rate of 5.830%. The Multiple Advance Term Commitment has an aggregate principal amount not to exceed \$4,000,000 in total with the term due date of June 20, 2024.

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5. NEW WELL SITES

In 2022, two well sites have the CEQA documentation that was completed for Sheep Creek Water Company (SCWC). SCWC is working with the San Bernardino County Environmental Health Department on obtaining permits that will comply with the California Department of Fish and Wildlife which is working to put the Western Joshua Tree on the endangered species list. In obtaining the permits from the San Bernardino County Environmental Health Department, SCWC will work to drill a well more than forty feet from these Joshua trees. SCWC will not be impacting any one site and the second site is pending the final determination from the CA Department of Fish and Wildlife.

A test well was drilled at the office site. Granite and bedrock was discovered at 440' to 520' at which time the geologist and well-driller contractor recommended that this would not be a viable location to continue to search for water.