

2023

FINANCIAL STATEMENT

SHEEP CREEK WATER COMPANY

**FOR THE YEAR ENDING
DECEMBER 31, 2023**

CECELIA J. CUMMINGS, CPA

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

April 4, 2024

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

The Financial Report for the year ending December 31, 2023, 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 generally 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 Accountants. 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 4, 2024

SHEEP CREEK WATER COMPANY
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ASSETS

CURRENT ASSETS

Cash on hand	\$	590.00
Cash in DCB - Assessment		71,084.89
Cash in DCB - Capital Improvement		176,715.84
Cash in DCB - Checking		33,279.37
Cash in DCB - Savings		10,118.22
Cash in DCB - System Upgrade		74,783.76
Cash in DCB - Wells		99,749.43
Total Cash		466,321.51

Accounts receivable:

Water sales	\$	296,201.32
		296,201.32
Inventory		177,494.52
Prepays		11,662.28
Returned Checks		(737.67)

Total Current Assets \$ 950,941.96

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	
.	14,585,117.92	
	14,990,875.72	
Less Accumulated Depreciation	(7,043,501.29)	
Net Property and Equipment		7,947,374.43

Total Assets \$ 8,898,316.39

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LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES

Accounts payable	56,772.44	
Other current liabilities	<u>2,299.26</u>	
Total Current Liabilities		\$ 59,071.70

LONG-TERM LIABILITIES

CoBank Note Payable	2,317,839.20	
Total Long Term Liabilities		<u>2,317,839.20</u>
Total Liabilities		\$ 2,376,910.90

STOCKHOLDERS' EQUITY

Common Stock	10,000.00	
Treasury Stock	<u>9,241.85</u>	
	19,241.85	
Surplus - Assessments	4,804,525.61	
Surplus - Meter Installations	4,012,302.71	
Surplus - Wild Horse Canyon	57,029.39	
Replacement Well Funds	<u>1,067,501.50</u>	
	9,941,359.21	
Retained Earnings	(3,044,350.19)	
Net Income (Loss)	<u>(394,845.38)</u>	
Total Stockholders' Equity		<u>6,521,405.49</u>
Total Liabilities and Stockholders' Equity		<u>\$ 8,898,316.39</u>

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		<u>Amount</u>	
INCOME			
	Water sales	\$ 1,585,903.06	
	Stock transfer fees	1,608.00	
	Reinstall/reconnect fees	1,560.00	
	Construction meter use charges	2,544.50	
	Water service adjustments	<u>(5,144.56)</u>	
	Total income		\$ 1,586,471.00
OPERATING EXPENSES			
	Advertising	50.00	
	Auto and truck	17,697.08	
	Bank service charges	268.44	
	Board Stipend	21,600.00	
	Conferences and meetings	1,137.62	
	Contract services	8,561.81	
	Charge card fees	18,944.89	
	Depreciation	271,296.61	
	Diesel fuel	12,472.73	
	Donations	9,560.00	
	Dues and subscriptions	5,441.87	
	Employee benefits	3,600.00	
	Employee retirement	14,254.15	
	Employee training	1,133.67	
	Insurance - board health	4,738.87	
	Insurance - commercial package	39,270.19	
	Insurance - liability	6,032.00	
	Insurance - staff health	75,449.08	
	Insurance - vehicle	3,072.00	
	Insurance - workmans' comp	12,455.00	
	Interest	67,272.27	
	Lab tests and inspections	13,374.00	
	Lease payments - copier	3,748.44	
	Lease payments - credit card machine	697.30	
	Licenses and permits	1,001.11	
	Medical & safety supplies	1,355.70	
	Miscellaneous	1,785.00	
	Office expense and supplies	33,573.83	
	Outside services	8,684.10	
	Postage	9,107.28	
	Printing	937.21	
	Professional - accounting	8,000.00	
	Professional - engineering	12,502.50	
	Professional - legal	165,755.78	

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Repairs and maint - auto	22,816.33	
Repairs and maint - CLA-VAL	311.92	
Repairs and maint - equipment	3,658.40	
Repairs and maint - general	7,174.62	
Repairs and maint - lines/meters, system	92,863.05	
Retirement	6,005.45	
Salaries - hourly	73,349.03	
Salaries - maintenance	254,947.25	
Salaries - management	0.00	
Salaries - office	155,787.72	
Salaries - phone stipend	2,553.48	
Security	659.40	
Small tools and supplies	765.35	
Staff meals	1,841.26	
State water fees	33,789.46	
Stock water shares	1,025.00	
Subcontract labor	9,109.45	
Taxes - payroll	54,366.95	
Taxes - property	18,885.67	
Telephone	3,111.10	
Uniforms	1,929.07	
Utilities - operating	8,306.55	
Utilities - wells	90,588.95	
Water quality treatment	13,834.99	
Total Operating Expenses	1,712,510.98	<u>1,712,510.98</u>
		(126,039.98)
 OTHER INCOME & EXPENSE		
Gain on sale of Asset	0.00	
Interest income - Assessment	153.86	
Interest income - Capital improvement	312.89	
Interest income - Checking	20.06	
Interest income - Savings	19.67	
Interest income - System upgrade	38.42	
Interest income - Wells	154.80	
Refunds		
Miscellaneous	3,083.36	
Insurance	1,265.33	
Payroll	558.01	
Lost certificates	375.00	
NSF service charges	140.00	
Loss on Assets - Work in Progress	(274,126.80)	
Service fees, penalties	0.00	
Total Other Income & Expense	(268,005.40)	<u>(268,005.40)</u>
 INCOME (LOSS) BEFORE TAXES		 (394,045.38)
Provision for State Income Tax		<u>(800.00)</u>
 NET INCOME (LOSS)		 \$ <u><u>(394,845.38)</u></u>

Accountant's Compilation Report

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Financial resources, provided by operations:	
Net income (loss)	\$ (394,845.38)
Items which did not require the outlay of working capital:	
Depreciation - current year	271,296.61
Accumulated depreciation - assets disposed	0.00
	(123,548.77)
Working capital provided by project funds:	
Increase (decrease) in paid-in capital:	
Assessments	0.00
Meter installation funds	(129,500.00)
Other changes to working capital:	
Increase in Loan - CoBank Advance	(2,127,351.00)
Decrease in Loan - CoBank Loan	104,161.18
	(2,276,238.59)
Financial resources applied to:	
Acquisition/completion of property and equipment	334,086.44
Company labor/equip applied to acquisitions	(63,695.15)
Increase in work-in-progress	1,887,623.06
Increase in treasury stock	1,025.00
	2,159,039.35
Increase (Decrease) In Working Capital	\$ (117,199.24)
Summary of Changes In Working Capital By Components:	
Current Assets	
Cash	\$ (366,077.92)
Accounts receivable	129,868.05
Inventory	19,571.45
Other current assets	2,381.55
Current Liabilities	
Accounts payable	96,094.66
Other current liabilities	962.97
Increase (Decrease) In Working Capital	\$ (117,199.24)

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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	21,460.62
Equipment - shop	28,042.11
Equipment - heavy	91,387.56
Furniture and fixtures	26,633.35
Vehicles	257,935.77
Lines	1,880,870.24
Line replacement	94,780.33
Meters	2,478,431.25
Tanks	2,225,067.87
Wells	3,309,476.60
Hydrants	574,256.39
Wild Horse Canyon	62,111.36
Master Plan	114,012.50
	<u>11,319,312.42</u>
Prior year work in progress	<u>3,265,805.50</u>
Total Property and Equipment	<u><u>\$ 14,585,117.92</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. EQUIPMENT PURCHASE

The Company purchased a Chevrolet Silverado 2500 work truck from Bonwin Chevrolet for \$78,900 and entered into an agreement in July 2023 for a six year payment plan with \$1,339 per month with an interest rate of 9.89%. Loan was paid in full in September 2023

5. LONG TERM LIABILITIES

NOTES PAYABLE

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%. The balance of the Single Advance Term Promissory Note as of December 31, 2023 is \$53,038.

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.

During 2023, seven draws were made in the amount totaling \$2,127,351 on the Multiple Advance Term Commitment with CoBank with an accruing interest rate of 7.15% with a maturity date of June 20, 2044. The funds drawn on the Multiple Advance Loan have been used for the Production Well #13 on Mescalero Road.

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6. NEW WELL SITES

In 2022, two well sites have the CEQA documentation that was completed for Sheep Creek Water Company (SCWC) SCWC followed the Amended Compliance Plan submitted to the SWRCB on August 26, 2022 and approved by the SWRCB on September 12, 2022.

Well #12 was scheduled to begin drilling in January 2023 and be completed by December 2023. Due to the CA Department of Fish and Wildlife for the Western Joshua Trees, the negotiations from September 2022 to August 2023 restricted SCWC from drilling Well #12 or any well at this site on Johnson Road. Work on the Production Well #12 was stopped by September 2023.

SCWC began drilling Well #16 at 4200 Sunnyslope Road in November 2022. The well was drilled to 520 feet when hitting granite and bed rock. Upon recommendation of the hydrologists and well-drillers not to continue drilling as there would not be sufficient water to continue to make this a viable site for a well at which time all work stopped on this well in January 2023.

The costs of these production wells - Well #12 and Well #16 have been expensed out of Work in Process totaling \$274,126.

Production Well #13 on Mescalero Road began drilling work in May 2023. The Well was drilled to a depth of 1,935 feet. Due to the well depth and static water level, a special pump and motor was installed On October 6, 2023 and testing began for the well. A permanent pump was being built during this testing time and was installed in December 2023. Well design plans initial Title 22 sampling were completed and sent to the SWRCB on December 7, 2023. An agreement with Southern California Edison has been signed and approved for Well #13. So. Cal Edison's engineering has approved the design and work between So Cal Edison and SCWC is pending to be completed. Current costs in Work in Process is \$2,138,013. for Well #13.