

2024

FINANCIAL STATEMENT

SHEEP CREEK WATER COMPANY

**FOR THE YEAR ENDING
DECEMBER 31, 2024**

CECELIA J. CUMMINGS, CPA

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

April 2, 2025

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

The Financial Report for the year ending December 31, 2024 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 2, 2025

SHEEP CREEK WATER COMPANY
Financial Statements
December 31, 2024

ASSETS

CURRENT ASSETS

Cash on hand	\$ 610.00
Cash in DCB - Assessment	162,194.87
Cash in DCB - Capital Improvement	233,053.55
Cash in DCB - Checking	11,481.78
Cash in DCB - Savings	10,130.86
Cash in DCB - System Upgrade	61,696.09
Cash in DCB - Wells	114,389.48
Total Cash	<u>593,556.63</u>

Accounts receivable:

Water sales	\$ <u>248,185.56</u>	248,185.56
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Inventory	209,295.54
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Prepays	<u>11,717.03</u>
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Total Current Assets	\$ 1,062,754.76
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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>15,966,204.91</u>	
	16,371,962.71	
Less Accumulated Depreciation	<u>(7,284,120.44)</u>	
Net Property and Equipment		9,087,842.27

Total Assets	\$ <u><u>10,150,597.03</u></u>
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SHEEP CREEK WATER COMPANY
Financial Statements
December 31, 2024

LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES

Accounts payable	43,979.31	
Other current liabilities	<u>1,666.38</u>	
Total Current Liabilities		\$ 45,645.69

LONG-TERM LIABILITIES

CoBank Note Payable	3,296,801.00	
Total Long Term Liabilities		<u>3,296,801.00</u>
Total Liabilities		\$ 3,342,446.69

STOCKHOLDERS' EQUITY

Common Stock	10,000.00	
Treasury Stock	<u>10,191.85</u>	
	20,191.85	
Surplus - Assessments	4,804,585.61	
Surplus - Meter Installations	4,307,495.71	
Surplus - Wild Horse Canyon	57,029.39	
Replacement Well Funds	<u>1,067,501.50</u>	
	10,236,612.21	
Retained Earnings	(3,197,865.87)	
Net Income (Loss)	<u>(250,787.85)</u>	
Total Stockholders' Equity		<u>6,808,150.34</u>
Total Liabilities and Stockholders' Equity		\$ <u><u>10,150,597.03</u></u>

SHEEP CREEK WATER COMPANY
Financial Statements
December 31, 2024

	<u>Amount</u>	
INCOME		
Water sales	\$ 1,772,098.75	
Stock transfer fees	2,222.00	
Reinstall/reconnect fees	8,700.00	
Construction meter use charges	3,199.62	
Water service adjustments	<u>(79,543.95)</u>	
Total income		\$ 1,706,676.42
OPERATING EXPENSES		
Advertising	50.00	
Auto and truck	15,364.03	
Bank service charges	280.00	
Board Stipend	23,400.00	
Conferences and meetings	2,337.20	
Contract services	7,952.25	
Charge card fees	30,054.92	
Depreciation	278,642.12	
Diesel fuel	18,483.94	
Donations	11,890.00	
Dues and subscriptions	3,904.81	
Employee benefits	6,767.91	
Employee retirement	15,600.18	
Employee training	969.00	
Insurance - board health	3,102.17	
Insurance - commercial package	55,409.94	
Insurance - liability	6,770.00	
Insurance - staff health	76,434.71	
Insurance - vehicle	3,918.25	
Insurance - workmans' comp	12,669.00	
Interest	196,499.42	
Lab tests and inspections	6,799.91	
Lease payments - copier	3,300.00	
Lease payments - credit card machine	377.02	
Licenses and permits	4,491.81	
Office expense and supplies	42,231.15	
Outside services	5,932.00	
Postage	9,446.82	
Printing	2,659.83	
Professional - accounting	8,620.00	
Professional - engineering	25,324.77	
Professional - legal	196,555.62	

SHEEP CREEK WATER COMPANY
Financial Statements
December 31, 2024

Repairs and maint - auto	17,784.89	
Repairs and maint - equipment	2,737.47	
Repairs and maint - general	1,520.93	
Repairs and maint - lines/meters, system	77,571.25	
Salaries - hourly	54,957.84	
Salaries - maintenance	226,400.84	
Salaries - management	111,299.99	
Salaries - office	176,509.93	
Salaries - phone stipend	2,698.80	
Security	659.40	
Small tools and supplies	241.72	
Staff meals	2,331.86	
State water fees	12,083.26	
Stock water shares	8,025.76	
Subcontract labor	11,500.00	
Taxes - payroll	45,492.23	
Taxes - property	19,312.45	
Telephone	3,600.38	
Uniforms	3,106.57	
Utilities - operating	8,367.52	
Utilities - wells	88,661.14	
Waste fees	335.00	
Water quality treatment	17,950.84	
Total Operating Expenses		<u>1,969,388.85</u>
		(262,712.43)
OTHER INCOME & EXPENSE		
CoBank Dividend	10,771.28	
Interest income - Assessment	11.77	
Interest income - Capital improvement	41.24	
Interest income - Checking	5.49	
Interest income - Savings	12.64	
Interest income - System upgrade	12.35	
Interest income - Wells	15.07	
Refunds		
Miscellaneous	1,050.82	
Insurance	739.73	
Lost certificates	422.00	
Penalty fees	(411.91)	
Service fees	79.10	
Total Other Income & Expense		<u>12,749.58</u>
INCOME (LOSS) BEFORE TAXES		(249,962.85)
Provision for State Income Tax		<u>(825.00)</u>
NET INCOME (LOSS)		<u>\$ (250,787.85)</u>

SHEEP CREEK WATER COMPANY
Financial Statements
December 31, 2024

Financial resources, provided by operations:	
Net income (loss)	\$ (250,787.85)
Items which did not require the outlay of working capital:	
Depreciation - current year	278,642.12
Accumulated depreciation - assets disposed	(38,022.97)
	<u>(10,168.70)</u>
Working capital provided by project funds:	
Increase (decrease) in paid-in capital:	
Assessments	60.00
Meter installation funds	295,193.00
Other changes to working capital:	
Increase in Loan - CoBank Advance	(1,032,000.00)
Decrease in Loan - CoBank Loan	53,038.20
	<u>(693,877.50)</u>
Financial resources applied to:	
Acquisition/completion of property and equipment	3,181,471.37
Company labor/equip applied to acquisitions	(240,529.70)
Decrease in work-in-progress	(2,123,575.36)
Increase in treasury stock	950.00
	<u>818,316.31</u>
Increase (Decrease) In Working Capital	<u><u>\$ 124,438.81</u></u>

Summary of Changes In Working Capital By Components:	
Current Assets	
Cash	\$ 127,235.12
Accounts receivable	(48,015.76)
Inventory	31,801.02
Other current assets	792.42
Current Liabilities	
Accounts payable	12,793.13
Other current liabilities	(167.12)
Increase (Decrease) In Working Capital	<u><u>\$ 124,438.81</u></u>

SHEEP CREEK WATER COMPANY
Financial Statements
December 31, 2024

PROPERTY AND EQUIPMENT

Office buildings	\$ 112,772.77
Building improvements	25,014.41
Building storage	17,059.29
Computer and software	22,914.05
Equipment - shop	28,042.11
Equipment - heavy	131,387.56
Furniture and fixtures	26,633.35
Vehicles	219,912.80
Lines	2,063,785.76
Line replacement	108,424.52
Meters	2,562,202.48
Tanks	2,225,067.87
Wells	6,462,952.33
Hydrants	581,381.13
Wild Horse Canyon	62,111.36
Master Plan	<u>174,312.98</u>
	14,823,974.77
 Prior year work in progress	 <u>1,142,230.14</u>
 Total Property and Equipment	 \$ <u><u>15,966,204.91</u></u>

SHEEP CREEK WATER COMPANY
Financial Statements
December 31, 2024

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:

	Years
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
Financial Statements
December 31, 2024

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 dump trailer from M. H. Yousef for \$40,000 in September 2024. Trailer was paid in full by October 31, 2024.

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 Single Advance Term Promissory Note has been paid in full as of June 30, 2024.

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.

Six additional draws were made in the amount totaling \$1,032,000 during 2024 for the completion of Well #13. The balance of the Multiple Advance Loan with CoBank as of December 31, 2024 is \$3,296,801.

SHEEP CREEK WATER COMPANY
Financial Statements
December 31, 2024

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. Final compliance plans have been submitted to the State Water Resource Control Board (SWRCB) and So Cal Edison to be approved and have the permit issued for Well #13. The block building, Edison panel and Transfer Switch have been completed and the SBC building permit was received on December 5, 2024.

Total costs for Well #13 of \$2,912,017 were transferred from Work in Progress to a Well asset