

DIAMOND A MUTUAL WATER COMPANY

REVIEWED FINANCIAL STATEMENTS
(Unaudited)

December 31, 2017 and December 31, 2016

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JUDD & BOONE CPA's, LLP

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

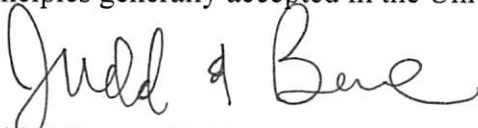
To Management
Diamond A Mutual Water Company
El Verano, California

I have reviewed the accompanying balance sheets of Diamond A Mutual Water Company (a corporation) as of December 31, 2017 and December 31, 2016, and the related statements of income and retained earnings and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

My responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me to perform procedures to obtain limited assurance as a basis for reporting whether I am aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I believe that the results of my procedures provide a reasonable basis for my conclusion.

Based on my review, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.



Judd & Boone CPA's, LLP
March 12, 2018

DIAMOND A MUTUAL WATER COMPANY
BALANCE SHEETS
December 31, 201 and December 31, 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Current Assets:		
Westamerica Bank - Checking	\$25,003	\$80,926
Westamerica Bank - Money Market	<u>296,699</u>	<u>96,558</u>
Total Cash	321,702	177,484
Accounts Receivable	862	2,111
Undeposited Funds	3,060	5,345
Prepaid Taxes - State	<u>800</u>	<u>800</u>
Total Current Assets	\$326,424	\$185,740
Operating Property & Equipment - At Cost		
Capital Improvements	\$1,125,066	\$972,035
Water Equipment	<u>482,031</u>	<u>482,031</u>
	1,607,097	1,454,066
Less Accumulated Depreciation	(1,028,055)	(968,728)
	<u>579,042</u>	<u>485,338</u>
Land	<u>1,000</u>	<u>1,000</u>
TOTAL ASSETS	<u>\$906,466</u>	<u>\$672,078</u>

See Notes To Financial Statements
See Independent Accountant's Review Report

DIAMOND A MUTUAL WATER COMPANY
BALANCE SHEETS
December 31, 2017 and December 31, 2016

	<u>2017</u>	<u>2016</u>
<u>LIABILITIES</u>		
Long-Term Liabilities:		
Westamerica Loan #1	\$78,664	\$128,728
Westamerica Loan #2	222,838	0
 <u>STOCKHOLDERS' EQUITY</u>		
Stockholders' Equity:		
Common Stock	214	214
Additional Paid-In Capital	1,637,839	1,468,971
Retained Earnings (Deficit)	<u>(1,033,089)</u>	<u>(925,835)</u>
Total Stockholders' Equity	\$604,964	\$543,350
 TOTAL LIABILITIES & STOCKHOLDERS EQUITY		
	<u>\$906,466</u>	<u>\$672,078</u>

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DIAMOND A MUTUAL WATER COMPANY
 STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)
 December 31, 2017 and December 31, 2016

	<u>2017</u>	<u>2016</u>
<u>Income</u>		
Water Sales & Service	<u>\$107,122</u>	<u>\$105,117</u>
<u>Expenses</u>		
Answering Service	777	868
Bank & Merchant Charges	3,696	2,812
Depreciation Expense	59,327	51,801
Electricity	32,591	25,677
Equipment & Materials	0	3,764
Fees	1,905	371
Insurance	7,504	5,677
Interest	9,091	5,669
Labor	33,840	12,828
Legal & Accounting	2,650	7,061
Mailing & Office Supplies	601	1,425
Monthly Service of Water System	14,876	12,777
Finance Manager	14,600	14,400
Operations Manager	12,000	11,000
Property Taxes	695	607
Repairs	10,280	12,776
Repair Parts	569	0
Taxes	800	800
Telephone	1,796	3,365
Water Analysis	6,723	3,322
Website	<u>196</u>	<u>196</u>
Total Expenses	<u>\$214,517</u>	<u>\$177,196</u>
<u>Other Expenses</u>		
Prior Year Adjustment	<u>0</u>	<u>1,423</u>
	\$0	\$1,423

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 See Independent Accountant's Review Report

DIAMOND A MUTUAL WATER COMPANY
 STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)
 December 31, 2017 and December 31, 2016

	<u>2017</u>	<u>2016</u>
<u>Operating Income (Loss)</u>	<u>(\$107,395)</u>	<u>(\$73,502)</u>
<u>Other Income</u>		
Interest Income	141	50
Other Income	<u>0</u>	<u>0</u>
Total Other Income	<u>141</u>	<u>50</u>
Net Income (Loss)	(\$107,254)	(\$73,452)
Retained Earnings (Deficit):		
Retained Earnings-Beginning	<u>(\$925,835)</u>	<u>(\$852,383)</u>
Retained Earnings-Ending	<u>(\$1,033,089)</u>	<u>(\$925,835)</u>

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 See Independent Accountant's Review Report

DIAMOND A MUTUAL WATER COMPANY
 STATEMENTS OF CASH FLOWS
 YEAR ENDED DECEMBER 31, 2017 AND DECEMBER 31, 2016

	<u>2017</u>	<u>2016</u>
INCREASE AND (DECREASE) IN CASH AND CASH EQUIVALENTS		
Cash flows from operating activities:		
Net income (loss)	(\$107,254)	(\$73,452)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	59,327	51,801
(Increase)Decrease accounts receivable	1,249	2,997
(Increase)Decrease undeposited funds	2,285	(5,345)
Increase(Decrease) in long term contracts	<u>172,774</u>	<u>(48,144)</u>
	<u>235,635</u>	<u>1,309</u>
Net cash provided (used in) operating activities	128,381	(72,143)
Cash flows from investing used in activities:		
Capital expenditures	<u>(153,031)</u>	<u>(47,143)</u>
Net cash provided by investing activities	(153,031)	<u>(47,143)</u>
Cash flows from financing activities:		
Additions to Paid in Capital	<u>168,868</u>	<u>169,534</u>
Net cash from to financing activities	<u>168,868</u>	<u>169,534</u>
Net change in cash	144,218	50,248
Cash - Beginning of Year	<u>177,484</u>	<u>127,236</u>
Cash - End of Year	<u>\$321,702</u>	<u>\$177,484</u>
Supplemental Disclosures:		
Cash paid during the year for:		
Income Taxes	<u>\$800</u>	<u>\$800</u>
Interest	<u>\$9,091</u>	<u>\$5,669</u>

See Notes to Financial Statements
 See Independent Accountant's Review Report

DIAMOND A MUTUAL WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND DECEMBER 31, 2016

Note 1. History and significant accounting policies:

a. History

The Company was incorporated December 21, 1961 as a California Corporation. The Corporation supplies water to 213 residences located on land formerly known as the Anderson Ranch. As a mutual water company, for the Diamond A Subdivision, each lot was originally issued one share in the company, in the form of a water certificate. Seven Board of Directors, who are elected for two-year terms, govern the company.

The company operates four wells. The system's pumping capacity is approximately two times the average usage rate during the peak summer period. The 400,000-gallon storage capacity of the four tanks is equal to the daily average usage during the warmest summer days.

The company has installed and maintains 35 class A fire hydrants and 2 class B fire hydrants. A 100,000-gallon fire fighting reserve is maintained at all times.

b. Revenue Recognition and Allowances

The Company maintains its accounting records on the accrual method for financial reporting purposes. No allowance for doubtful accounts is considered necessary by management at December 31, 2017 and 2016.

c. Operating Property and Equipment

The operating property and equipment are stated at cost. Depreciation is computed utilizing the straight-line method and useful lives of five to twenty-five years. Additions, renewals, and betterments that significantly extend the life of the asset are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred. The Company reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying value of such assets may not be fully recoverable. If impairment is present, the carrying value of the impaired asset is reduced to its fair value. There were no impaired assets as of December 31, 2017 or 2016.

d. Income Taxes

The Company uses the accrual basis method of accounting for income tax purposes. No deferred taxes or credits are reflected in the financial statements. Net operating losses of \$848,704 for Federal and \$127,965 for State purposes are available as carryovers to 2018.

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DIAMOND A MUTUAL WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND DECEMBER 31, 2016

Note 1. History and significant accounting policies (Continued):

e. Accounts and note receivable

Management reviewed the accounts receivable at December 31, 2017 and 2016 and recorded no bad debts in 2017 or 2016. If members do not pay their water bills then the Company would no longer provide water services. The Company can also place a lien on the member's real property if they do not pay. There was no allowance for uncollectible accounts at December 31, 2017 or 2016.

Note 2. Maintenance & Improvement Paid-in Capital:

The Company charges a quarterly Capital Fee to each residence to pay for capital expenditures. Funds received from the Maintenance and Improvement billings are not reflected as Income, but are shown as Paid-In Capital. These funds are used to pay for major capital expenditures, such as new tanks or wells.

In 2014, the Company raised the Maintenance and Improvement charge to \$120 per quarter to build up cash reserves in anticipation of the need to replace three water storage tanks over the next 10 years. In 2015 this charge was increased to \$200 per quarter to fund the acceleration of the tank replacement schedule. The White Oak replacement tank was installed in October of 2015 by the Company. Zone 2 Tank was in the process of replacement in 2017 and installation was complete in February 2018. This was financed with a new note from Westamerica Bank.

Note 3. Long-Term Notes Payable:

The Company took out a long-term note payable of \$250,000 to help pay for its new water storage tanks, discussed in Note 2. The note with Westamerica Bank executed on May 24, 2017 has a 5 year maturity date and a 4.25% interest rate.

The Company previously took out a long-term note payable of \$200,000 to help pay for its water storage tanks, installed in October 2015. The note with Westamerica Bank executed on June 11, 2015 has a 4 year maturity date and a 3.5% interest rate.

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DIAMOND A MUTUAL WATER COMPANY
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017 AND DECEMBER 31, 2016

Note 3. Long-Term Notes Payable (Continued):

A summary of the principal payments of the long-term debt for the next five years follows:

Principal Payments				Long-Term Debt Ending Balance		
<u>Prior</u>	<u>New</u>	<u>Total</u>		<u>Prior</u>	<u>New</u>	<u>Total</u>
<u>Loan</u>	<u>Loan</u>	<u>Total</u>		<u>Loan</u>	<u>Loan</u>	<u>Total</u>
\$50,064	\$27,162	\$77,226	December 31, 2017	\$78,503	\$222,838	\$301,341
\$51,871	\$46,249	\$98,120	December 31, 2018	\$26,633	\$176,589	\$203,222
\$26,633	\$48,217	\$74,850	December 31, 2019		\$128,372	\$128,372
	\$50,264	\$50,264	December 31, 2020		\$78,108	\$78,108
	\$52,400	\$52,400	December 31, 2021		\$25,708	\$25,708
	\$25,708	\$25,708	December 31, 2022			\$0

The new note has monthly payments of \$4,643.30 starting June 30, 2017, with a final payment of \$4,643.30 due May 31, 2022.

The prior note has monthly payments of \$4,484.44 starting July 31, 2015, with a final payment of \$4,484.44 due June 30, 2019.

Note 4. Subsequent Events:

Management has evaluated subsequent events through March 12, 2018 and there are no significant events to disclose.

See Independent Accountant's Review Report