

DIAMOND A MUTUAL WATER COMPANY

REVIEWED FINANCIAL STATEMENTS
(Unaudited)

December 31, 2018 and December 31, 2017

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

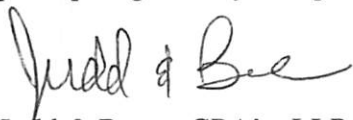
To Management
Diamond A Mutual Water Company
El Verano, California

We have reviewed the accompanying financial statements of Diamond A Mutual Water Company (a corporation), which comprise the balance sheet as of December 31, 2018 and December 31, 2017, 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, we 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.

Our 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 us to perform procedures to obtain limited assurance as a basis for reporting whether we are 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. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Based on our review, we are 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 21, 2019

DIAMOND A MUTUAL WATER COMPANY
BALANCE SHEETS
December 31, 2018 and December 31, 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Current Assets:		
Westamerica Bank - Checking	\$59,799	\$25,003
Westamerica Bank - Money Market	<u>86,802</u>	<u>296,699</u>
Total Cash	146,601	321,702
Accounts Receivable	2,364	862
Undeposited Funds	0	3,060
Prepaid Taxes - State	<u>800</u>	<u>800</u>
Total Current Assets	\$149,765	\$326,424
Operating Property & Equipment - At Cost		
Capital Improvements	\$1,316,907	\$1,125,066
Water Equipment	<u>482,031</u>	<u>482,031</u>
	1,798,938	1,607,097
Less Accumulated Depreciation	(1,098,761)	(1,028,055)
	<u>700,177</u>	<u>579,042</u>
Land	<u>1,000</u>	<u>1,000</u>
TOTAL ASSETS	<u>\$850,942</u>	<u>\$906,466</u>

See Notes To Financial Statements
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DIAMOND A MUTUAL WATER COMPANY
BALANCE SHEETS
December 31, 2018 and December 31, 2017

	<u>2018</u>	<u>2017</u>
<u>LIABILITIES</u>		
Long-Term Liabilities:		
Westamerica Loan #1	\$21,541	\$78,664
Westamerica Loan #2	171,809	222,838
 <u>STOCKHOLDERS' EQUITY</u>		
Stockholders' Equity:		
Common Stock	214	214
Additional Paid-In Capital	1,805,374	1,637,829
Retained Earnings (Deficit)	<u>(1,147,996)</u>	<u>(1,033,089)</u>
Total Stockholders' Equity	\$657,592	\$604,954
 TOTAL LIABILITIES & STOCKHOLDERS EQUITY		
	<u>\$850,942</u>	<u>\$906,456</u>

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DIAMOND A MUTUAL WATER COMPANY
 STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)
 December 31, 2018 and December 31, 2017

	<u>2018</u>	<u>2017</u>
<u>Income</u>		
Water Sales & Service	<u>\$121,366</u>	<u>\$107,122</u>
<u>Expenses</u>		
Answering Service	0	777
Bank & Merchant Charges	3,447	3,696
Depreciation Expense	70,706	59,327
Electricity	33,335	32,591
Equipment & Materials	0	0
Fees	1,574	1,905
Insurance	7,569	7,504
Interest	11,342	9,091
Labor	21,784	33,840
Legal & Accounting	2,700	2,650
Mailing & Office Supplies	607	601
Monthly Service of Water System	18,141	14,876
Finance Manager	16,800	14,600
Operations Manager	12,000	12,000
Property Taxes	702	695
Repairs	26,933	10,280
Repair Parts	3,338	569
Taxes	800	800
Telephone	1,239	1,796
Water Analysis	3,163	6,723
Website	<u>196</u>	<u>196</u>
Total Expenses	<u>\$236,376</u>	<u>\$214,517</u>

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DIAMOND A MUTUAL WATER COMPANY
 STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)
 December 31, 2018 and December 31, 2017

	<u>2018</u>	<u>2017</u>
<u>Operating Income (Loss)</u>	<u>(\$115,010)</u>	<u>(\$107,395)</u>
<u>Other Income</u>		
Interest Income	103	141
Other Income	<u>0</u>	<u>0</u>
Total Other Income	<u>103</u>	<u>141</u>
Net Income (Loss)	(\$114,907)	(\$107,254)
Retained Earnings (Deficit):		
Retained Earnings-Beginning	<u>(\$1,033,089)</u>	<u>(\$925,835)</u>
Retained Earnings-Ending	<u>(\$1,147,996)</u>	<u>(\$1,033,089)</u>

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DIAMOND A MUTUAL WATER COMPANY
STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018 AND DECEMBER 31, 2017

	<u>2018</u>	<u>2017</u>
INCREASE AND (DECREASE) IN CASH AND CASH EQUIVALENTS		
Cash flows from operating activities:		
Net income (loss)	(\$114,907)	(\$107,254)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	70,706	59,327
(Increase)Decrease accounts receivable	(1,479)	1,249
(Increase)Decrease undeposited funds	3,038	2,285
Increase(Decrease) in long term contracts	<u>(108,152)</u>	<u>172,774</u>
	<u>(35,887)</u>	<u>235,635</u>
Net cash provided (used in) operating activities	(150,794)	128,381
Cash flows from investing used in activities:		
Capital expenditures	<u>(191,841)</u>	<u>(153,031)</u>
Net cash provided by investing activities	(191,841)	<u>(153,031)</u>
Cash flows from financing activities:		
Additions to Paid in Capital	<u>167,535</u>	<u>168,868</u>
Net cash from to financing activities	<u>167,535</u>	<u>168,868</u>
Net change in cash	(175,100)	144,218
Cash - Beginning of Year	<u>321,702</u>	<u>177,484</u>
Cash - End of Year	<u>\$146,602</u>	<u>\$321,702</u>
Supplemental Disclosures:		
Cash paid during the year for:		
Income Taxes	<u>\$800</u>	<u>\$800</u>
Interest	<u>\$11,342</u>	<u>\$9,091</u>

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

DIAMOND A MUTUAL WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND DECEMBER 31, 2017

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 financial statements are presented using the accrual basis of accounting. No allowance for doubtful accounts is considered necessary by management at December 31, 2018 and 2017.

The preparation of financial statements in conforming with generally accepted accounting principles required management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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, 2018 or 2017. Section 179 depreciation is not used by the Company.

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DIAMOND A MUTUAL WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND DECEMBER 31, 2017

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

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 \$962,629 for Federal and \$572,068 for State purposes are available as carryovers to 2019.

Normally the IRS has three years after the tax return is filed to make adjustments. California has four years. Deferred tax assets have not been recorded relating to the net operating losses after giving consideration to the operating patterns of the Company, and offsetting temporary differences and valuation allowances. These items are not considered material at December 31, 2018 or 2017.

e. Accounts and note receivable

Management reviewed the accounts receivable at December 31, 2018 and 2017 and recorded no bad debts in 2018 or 2017. 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, 2018 or 2017.

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.

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DIAMOND A MUTUAL WATER COMPANY
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018 AND DECEMBER 31, 2017

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.

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>Prior</u>	<u>New</u>	
<u>Loan</u>	<u>Loan</u>	<u>Total</u>		<u>Loan</u>	<u>Loan</u>	<u>Total</u>
\$57,123	\$51,029	\$108,152	December 31, 2018	\$21,541	\$171,809	\$193,350
\$21,541	\$48,534	\$70,075	December 31, 2019		\$123,275	\$123,275
	\$51,341	\$51,341	December 31, 2020		\$71,934	\$71,934
	\$53,567	\$53,567	December 31, 2021		\$18,367	\$18,367
	\$18,367	\$18,367	December 31, 2022			

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 21, 2019 and there are no significant events to disclose.

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