

**DIAMOND A MUTUAL WATER COMPANY**

REVIEWED FINANCIAL STATEMENTS  
(Unaudited)

December 31, 2015 and December 31, 2014

## TABLE OF CONTENTS

	<u>Page</u>
<b>ACCOUNTANT'S REPORT</b>	<b>1</b>
<b>FINANCIAL STATEMENTS</b>	
<b>Balance Sheets</b>	<b>2-3</b>
<b>Statement of Income and Retained Earnings</b>	<b>4-5</b>
<b>Statements of Cash Flows</b>	<b>6</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>7-9</b>

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

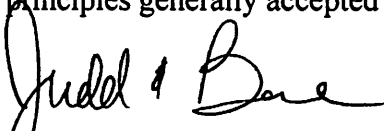
To Management  
Diamond A Mutual Water Company  
El Verano, California

I have reviewed the accompanying balance sheets of Diamond A Mutual Water Company (a corporation) as of December 31, 2015 and December 31, 2014, and the related statements of income and retained earnings and cash flows for the year then ended. 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 and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

My responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. I believe that the results of my procedures provide a reasonable basis for my report.

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  
May 10, 2016

DIAMOND A MUTUAL WATER COMPANY  
BALANCE SHEETS  
December 31, 2015 and December 31, 2014

	<u>2015</u>	<u>2014</u>
<b><u>ASSETS</u></b>		
Current Assets:		
Westamerica Bank - Checking	\$79,107	\$21,701
Westamerica Bank - Money Market	46,507	45,275
Morgan Stanley - Money Market	<u>1,422</u>	<u>0</u>
Total Cash	<u>127,036</u>	<u>66,976</u>
Accounts Receivable	5,308	9,453
Undeposited Funds	0	1,962
Prepaid Taxes - State	<u>800</u>	<u>800</u>
Total Current Assets	\$133,144	\$79,191
Operating Property & Equipment - At Cost		
Capital Improvements	\$924,892	\$653,200
Water Equipment	<u>482,031</u>	<u>482,031</u>
	1,406,923	1,135,231
Less Accumulated Depreciation	(916,927)	(851,322)
	<u>489,996</u>	<u>283,909</u>
Land	<u>1,000</u>	<u>1,000</u>
<b>TOTAL ASSETS</b>	<b><u>\$624,140</u></b>	<b><u>\$364,100</u></b>

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

DIAMOND A MUTUAL WATER COMPANY  
BALANCE SHEETS  
December 31, 2015 and December 31, 2014

	<u>2015</u>	<u>2014</u>
<b><u>LIABILITIES</u></b>		
Long-Term Liabilities:		
Westamerica Loan	\$176,872	\$0
<b><u>STOCKHOLDERS' EQUITY</u></b>		
Stockholders' Equity:		
Common Stock	214	214
Additional Paid-In Capital	1,299,437	1,129,748
Retained Earnings (Deficit)	<u>(852,383)</u>	<u>(765,862)</u>
Total Stockholders' Equity	\$447,268	\$364,100
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS EQUITY</b>	<b><u>\$624,140</u></b>	<b><u>\$364,100</u></b>

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

DIAMOND A MUTUAL WATER COMPANY  
 STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)  
 December 31, 2015 and December 31, 2014

	<u>2015</u>	<u>2014</u>
<b><u>Income</u></b>		
Water Sales & Service	<u>\$108,512</u>	<u>\$119,463</u>
<b><u>Expenses</u></b>		
Answering Service	1,170	1,054
Bank & Merchant Charges	2,295	0
Computer Consultant	0	213
Depreciation Expense	65,605	64,994
Electricity	23,149	29,241
Equipment & Materials	5,231	14,681
Fees	1,638	1,399
Insurance	4,843	3,068
Interest	3,779	0
Labor	4,576	8,171
Legal & Accounting	4,723	645
Mailing & Office Supplies	1,063	2,045
Maintenance Supplies	495	3,039
Miscellaneous Expense	0	0
Monthly Service of Water System	15,902	6,480
Finance Manager	16,791	9,525
Operations Manager	12,200	12,030
Property Taxes	987	553
Repairs	18,489	13,116
Repair Parts	4,847	3,968
Taxes	800	800
Telephone	3,405	2,981
Water Analysis	2,911	5,881
Website	<u>167</u>	<u>167</u>
Total Expenses	<u>\$195,066</u>	<u>\$184,051</u>

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

DIAMOND A MUTUAL WATER COMPANY  
 STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)  
 December 31, 2015 and December 31, 2014

	<u>2015</u>	<u>2014</u>
<b><u>Operating Income (Loss)</u></b>	<b><u>(\$86,554)</u></b>	<b><u>(\$64,588)</u></b>
<b><u>Other Income</u></b>		
Interest Income	33	17
Other Income	<u>0</u>	<u>6,834</u>
Total Other Income	<u>33</u>	<u>6,851</u>
Net Income (Loss)	(\$86,521)	(\$57,737)
Retained Earnings (Deficit):		
Retained Earnings-Beginning	<u>(\$765,862)</u>	<u>(\$708,125)</u>
Retained Earnings-Ending	<u>(\$852,383)</u>	<u>(\$765,862)</u>

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

DIAMOND A MUTUAL WATER COMPANY  
STATEMENTS OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2015 AND DECEMBER 31, 2014

	<u>2015</u>	<u>2014</u>
<b>INCREASE AND (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
Cash flows from operating activities:		
Net income (loss)	(\$86,521)	(\$57,737)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	65,605	64,994
(Increase)Decrease accounts receivable	4,145	(12,603)
(Increase)Decrease undeposited funds	1,962	10,830
Increase(Decrease) in long term contracts	<u>176,872</u>	<u>0</u>
	<u>248,584</u>	<u>63,221</u>
Net cash provided (used in) operating activities	162,063	5,484
Cash flows from investing used in activities:		
Capital expenditures	<u>(271,692)</u>	<u>(43,958)</u>
Net cash provided by investing activities	<u>(271,692)</u>	<u>(43,958)</u>
Cash flows from financing activities:		
Additions to Paid in Capital	<u>169,689</u>	<u>93,474</u>
Net cash from to financing activities	<u>169,689</u>	<u>93,474</u>
Net change in cash	60,060	55,000
Cash - Beginning of Year	<u>66,976</u>	<u>11,976</u>
Cash - End of Year	<u>\$127,036</u>	<u>\$66,976</u>
Supplemental Disclosures:		
Cash paid during the year for:		
Income Taxes	<u>\$800</u>	<u>\$800</u>
Interest	<u>\$3,779</u>	<u>\$0</u>

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



DIAMOND A MUTUAL WATER COMPANY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND DECEMBER 31, 2014

**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 340,000-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 50,000-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, 2015 and 2014.

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, 2015 or 2014.

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 \$669,421 for Federal and \$201,729 for State purposes are available as carryovers to 2016.

See Independent Accountant's Review Report

DIAMOND A MUTUAL WATER COMPANY  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2015 AND DECEMBER 31, 2014

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

e. Accounts and note receivable

Management reviewed the accounts receivable at December 31, 2015 and 2014 and recorded no bad debts in 2015 or 2014. 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 property if they do not pay. There was no allowance for uncollectible accounts at December 31, 2015 or 2014.

**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.

**Note 3. Long-Term Notes Payable:**

The Company took out a long-term note payable of \$200,000 to help pay for its new water storage tanks, discussed in Note 2. 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 four years follows:

<u>Year End</u>	<u>Principal Payments</u>	<u>Long-Term Debt Ending Balance</u>
December 31, 2015	\$23,128	\$176,872
December 31, 2016	\$48,305	\$128,567
December 31, 2017	\$50,064	\$ 78,503
December 31, 2018	\$51,870	\$ 26,633
December 31, 2019	\$26,633	\$ -

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

See Independent Accountant's Review Report

DIAMOND A MUTUAL WATER COMPANY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND DECEMBER 31, 2014

**Note 4. Subsequent Events:**

Management has evaluated subsequent events through May 10, 2016 and there are no significant events to disclose.

See Independent Accountant's Review Report