

FINANCIAL STATEMENTS

April 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Ames Lake Water Association, Inc.

We have audited the accompanying statements of assets, liabilities and membership equity--cash basis of Ames Lake Water Association, Inc. (the Association) as of April 30, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets--cash basis for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 7, it is impractical for us to confirm the value of donated improvements to the water system. Accordingly, we do not express an opinion as to the value of the donated assets in the financial statements.

As described in Note 2, the Association's policy is to prepare its financial statements using the cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to confirm the value of donated improvements, the financial statements referred to in the first paragraph above present fairly, in all material respects, the assets, liabilities and membership equity of Ames Lake Water Association, Inc. as of April 30, 2007 and 2006, and its revenues, expenses and changes in its net assets for the years then ended, on the basis of accounting described in Note 2.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of expenses on page 10 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

November 1, 2007

AMES LAKE WATER ASSOCIATION, INC.
STATEMENTS OF ASSETS, LIABILITIES AND MEMBERSHIP EQUITY--CASH BASIS
April 30, 2007 and 2006

	ASSETS	
	2007	2006
CURRENT ASSETS:		
Cash and equivalents	\$ 373,085	\$ 313,883
Prepaid expenses	7,406	7,406
TOTAL CURRENT ASSETS	380,491	321,289
OTHER ASSETS:		
Property and equipment, net	3,305,376	2,951,405
Easements	13,500	13,500
TOTAL OTHER ASSETS	3,318,876	2,964,905
	\$ 3,699,367	\$ 3,286,194
LIABILITIES AND MEMBERSHIP EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 32,000	\$ 30,000
Payroll tax liability	2,709	3,133
TOTAL CURRENT LIABILITIES	34,709	33,133
LONG-TERM DEBT, net of current portion	924,321	952,488
MEMBERSHIP EQUITY:		
Membership certificates	1,147,900	1,071,900
Unrestricted net assets	1,592,437	1,228,673
TOTAL MEMBERSHIP EQUITY	2,740,337	2,300,573
	\$ 3,699,367	\$ 3,286,194

See accompanying notes to financial statements

AMES LAKE WATER ASSOCIATION, INC.
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS--CASH BASIS
 For the Years Ended April 30, 2007 and 2006

	2007	2006
REVENUES:		
Membership fees	\$ 526,441	\$ 316,603
Contributions in aid of construction	462,395	11,257
	988,836	327,860
TOTAL REVENUES		
EXPENSES:		
Program services:		
Water distribution	342,736	253,579
Supporting services:		
Administration	185,432	235,614
	528,168	489,193
TOTAL EXPENSES		
INCOME (LOSS) FROM OPERATIONS	460,668	(161,333)
ASSESSMENT ACTIVITY:		
Assessments	111,989	94,405
Interest expense	(56,623)	(53,192)
Depreciation	(185,652)	(177,982)
	(130,286)	(136,769)
OTHER INCOME:		
Interest and dividend income	16,090	15,557
Rental income	17,292	14,442
	33,382	29,999
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	363,764	(268,103)
BEGINNING UNRESTRICTED NET ASSETS	1,228,673	1,496,776
ENDING UNRESTRICTED NET ASSETS	\$ 1,592,437	\$ 1,228,673

See accompanying notes to financial statements

1. NATURE OF ACTIVITIES

Ames Lake Water Association, Inc. (the Association) is a not-for-profit consumer owned cooperative located in unincorporated southeastern King County, Washington, whose purpose is to provide water services to its members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Association is presented to assist in understanding the Association's financial statements. These financial statements have been prepared

on the cash basis of accounting and these accounting principles have been consistently applied in the preparation of the financial statements.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with the cash basis of accounting requires management to make estimates that affect the reported amounts of assets and liabilities and 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.

Basis of presentation

The records of the Association are maintained on the cash basis of accounting and the accompanying statements have been prepared on that basis. Noncash transactions are not recognized except depreciation, in-kind contributions in aid of construction, and amortization of loan principal.

The cash basis differs from U.S. generally accepted accounting principles primarily because certain revenues are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred. The cash basis is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Association has no temporarily or permanently restricted net assets.

Cash and equivalents

Cash and equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

Property and equipment

Property and equipment are recorded at cost if purchased and fair value at the date of acquisition if received as a donation. Water districts are required to update and submit a comprehensive plan every six years to various authoritative agencies. It is the Association's policy to capitalize part of the cost of the comprehensive plan if new construction arises from the plan. Provision for depreciation of all items of property and equipment is computed on the straight-line method over the estimated useful lives of the assets: 15 - 40 years for wells, pumps and water distribution systems, 40 years for fire hydrants included in machines and equipment, 10 years for other assets in machines and equipment, vehicles, and all office equipment, and 3 years for computer software.

Contributions in aid of construction

All contributions received by the Association involve improvements or additions to the existing water distribution system. Certain water service extensions are contributed by developers to the Association in exchange for membership certificates and the right to obtain water from the Association. The estimated costs of such extensions are added to property and equipment and the appropriate number of memberships granted are added to the membership certificates balance. Where the value of the extensions exceeds the value of certificates granted, the difference is recorded as a contribution in aid of construction and is added to the current year's revenues.

Federal income taxes

The Association has obtained tax exempt status under Section 501(c)(12) of the Internal Revenue Code. An organization described in Section 501(c)(12) must receive at least 85% of its income from

amounts collected from members for the sole purpose of meeting current and future losses and expenses.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2007</u>	<u>2006</u>
Land	\$ 32,500	\$ 32,500
Wells, pumps and water distribution systems	5,525,412	5,025,797
Machines and equipment	69,283	29,275
Office equipment	14,603	14,603
Vehicles	13,486	13,486
	<u>5,655,284</u>	<u>5,115,661</u>
Less accumulated depreciation	<u>2,349,908</u>	<u>2,164,256</u>
	<u>\$ 3,305,376</u>	<u>\$ 2,951,405</u>

Depreciation expense totaled \$185,652 and \$177,982 for the years ended April 30, 2007 and 2006, respectively.

4. LONG-TERM DEBT

Notes payable to the United States Department of Agriculture (USDA):

	<u>2007</u>	<u>2006</u>
Payable in monthly installments of \$2,121, including interest at 5.25%. The note matures in 2033.	\$ 363,024	\$ 367,700
Payable in monthly installments of \$2,130, including interest at 4.625%. The note matures in 2044.	352,762	361,140
Payable in monthly installments of \$1,055, including interest at 6.5%. The note matures in 2028.	142,744	145,205
Payable in monthly installments of \$604, including interest at 5%. The note matures in 2021.	72,024	74,700
Payable in annual installments of \$7,933, including interest at 5%. The note matures in 2010.	17,536	24,215
Payable in annual installments of \$1,778, including interest at 5%. The note matures in 2013.	8,231	9,528
	<u>956,321</u>	<u>982,488</u>
Less current portion	<u>32,000</u>	<u>30,000</u>
	<u>\$ 924,321</u>	<u>\$ 952,488</u>

Future maturities of long-term debt are as follows:

Year ending April 30,

2008	\$ 32,000
2009	33,339
2010	30,439
2011	28,755
2012	31,004
Thereafter	800,784
	<u>\$ 956,321</u>

All property and equipment as disclosed in Note 3, accounts receivable and future revenue are secured as collateral for notes payable to the USDA above.

5. MEMBERSHIP CERTIFICATES

Upon joining the Association, each member is required to purchase a membership certificate as their contribution to capital.

	2007		2006	
	Number	Value	Number	Value
Beginning Balance	1,116	\$ 1,071,900	1,108	\$ 1,055,900
Granted	30	60,000	0	0
Issued	8	16,000	8	16,000
Ending Balance	<u>1,154</u>	<u>\$ 1,147,900</u>	<u>1,116</u>	<u>\$ 1,071,900</u>

During the year ended April 30, 2007, membership certificates were granted in exchange for extensions to the water distribution system received from members. The value of the membership certificates granted in 2007 is discussed in Note 7.

6. COMMITMENTS

The Association is the lessor of property with the following lease terms: \$6,912 per year beginning August 2005 through July 2010. The tenant has the option to extend the lease for two additional five-year terms. Lease income for the year was \$6,912.

On October 23, 2000, the Association entered into a use agreement which authorizes and consents to the subleasing of the property by the tenant under the same effective dates as the tenant's original lease agreement. For granting the consent for the tenant to sublease, the Association will receive the following consideration under the use agreement: \$5,040 per year for the first user and an additional \$1,440 per year for each additional user. The tenant as sublessor then has the option to extend this use agreement for two additional five-year terms. Consideration for granting consent to sublease for the year was \$10,380.

Future minimum rental payments to be received under the non-cancelable lease is as follows at April 30, 2007:

Year ending April 30,

2008	\$	6,912
2009		6,912
2010		<u>6,912</u>
	\$	<u>20,736</u>

7. CONTRIBUTIONS IN AID OF CONSTRUCTION

When the Association receives water system improvements contributed by developers where actual cost or confirmation of cost from developers is unavailable, the Association's management estimates the fair value of the contributions at the date of acquisition.

Water system improvements with an estimated value of \$507,600 and \$0 were recorded as contributions in aid of construction in the amount of \$447,600 and \$0 and membership certificates granted with a value of \$60,000 and \$0 for the years ended April 30, 2007 and 2006, respectively.

8. CONCENTRATION OF CREDIT RISK

The Association had demand deposits in excess of federally insured limits as of April 30, 2007. The possibility of loss exists if a bank holding deposits were to fail.

9. RELATED PARTY TRANSACTIONS

A member of Ames Lake Water Association, Inc. is engaged to provide consulting services to the Association. Payments to this member totaled \$8,101 and \$10,436 for the years ended April 30, 2007 and 2006, respectively.

A member of Ames Lake Water Association, Inc. is a stockholder in two companies that provided administrative and operational services to the Association. Payments to both companies totaled \$0 and \$175,197 during the years ended April 30, 2007 and 2006, respectively. The contracts with both of these companies were terminated in November 2005.

A member of Ames Lake Water Association, Inc. is an employee of the Association. Payments to this member totaled \$39,812 and \$30,825 for the years ended April 30, 2007 and 2006, respectively.

10. RECLASSIFICATIONS

Certain amounts in the prior year financial statements have been reclassified to conform with the presentation in the current year financial statements.

11. SUBSEQUENT EVENT

On August 14, 2007 the Board approved an emergency interim moratorium on the issuance of new memberships for a period of 6 months.

SUPPLEMENTARY INFORMATION

AMES LAKE WATER ASSOCIATION, INC.
SCHEDULES OF EXPENSES--CASH BASIS
For the Years Ended April 30, 2007 and 2006

	2007	2006
WATER DISTRIBUTION:		
Salaries and related expenses	\$ 102,823	\$ 47,889
Consulting fees	86,217	34,091
Repairs and maintenance	43,904	82,008
Utilities	31,774	33,528
Taxes	22,998	14,970
Supplies	15,877	22,975
Travel	11,137	3,023
Insurance	8,634	8,653
Rent	8,400	0
Miscellaneous	7,562	225
Chemicals	3,410	2,151
Conservation/Cross connection	0	4,066
	342,736	253,579
ADMINISTRATION:		
Salaries and related expenses	\$ 105,048	\$ 68,332
Professional fees	41,817	39,953
Office expense and supplies	13,940	16,699
Rent	11,130	16,304
Miscellaneous expense	9,570	3,965
Director reimbursement and meetings	3,927	19,220
Office operations	0	71,141
	185,432	235,614
TOTAL EXPENSES	\$ 528,168	\$ 489,193