



FINANCIAL STATEMENTS

April 30, 2013

(With Independent Auditor's Report Thereon)



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Ames Lake Water Association

We have audited the accompanying financial statements of Ames Lake Water Association (the Association), which comprise the statement of financial position as of April 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

As explained in Note 2 to the financial statements, contributions in aid of construction that are contributed are recorded at their fair value at date of acquisition. It is impractical for us to confirm the value of contributed improvements to the water system. We are unable to obtain sufficient appropriate audit evidence about the amount recognized for the value of contributed improvements to the water system in prior years. Consequently, we were unable to determine whether any adjustments to those amounts were necessary.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Ames Lake Water Association as of April 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenses on page 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Vine Dahlen PLLC

August 13, 2013

AMES LAKE WATER ASSOCIATION
STATEMENT OF FINANCIAL POSITION
April 30, 2013

ASSETS

CURRENT ASSETS:	
Cash and equivalents	\$ 744,591
Member receivables, net	45,906
Prepaid expenses	<u>7,960</u>
TOTAL CURRENT ASSETS	<u>798,457</u>
OTHER ASSETS:	
Property and equipment, net	3,697,383
Easements	<u>13,500</u>
TOTAL OTHER ASSETS	<u>3,710,883</u>
TOTAL ASSETS	<u><u>\$ 4,509,340</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Current portion of long-term debt	\$ 35,000
Accounts payable	72,234
Accrued liabilities	<u>20,344</u>
TOTAL CURRENT LIABILITIES	<u>127,578</u>
LONG-TERM DEBT, net of current portion	<u>721,729</u>
NET ASSETS:	
Unrestricted	<u>3,660,033</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,509,340</u></u>

AMES LAKE WATER ASSOCIATION
STATEMENT OF ACTIVITIES
For the Year Ended April 30, 2013

CHANGES IN UNRESTRICTED NET ASSETS:

Revenues:	
Membership fees	\$ 530,788
Water use fees	284,617
Tax fees	25,520
Business office fees	22,834
Rental income	16,214
Interest and dividend income	<u>1,534</u>
Total revenues	<u>881,507</u>
Expenses and losses:	
Program services	537,802
Supporting services	<u>223,927</u>
Total expenses	<u>761,729</u>
Loss on disposal of property and equipment	<u>8,023</u>
Total expenses and losses	<u>769,752</u>
Revenues in excess of expenses and losses	<u>111,755</u>
Other changes in unrestricted net assets:	
Issuance of membership certificates	6,000
General facility and storage fees	41,650
Contributions in aid of construction	<u>11,811</u>
Total other changes	<u>59,461</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>171,216</u>
BEGINNING UNRESTRICTED NET ASSETS	<u>3,488,817</u>
ENDING UNRESTRICTED NET ASSETS	<u><u>\$ 3,660,033</u></u>

AMES LAKE WATER ASSOCIATION
STATEMENT OF CASH FLOWS
For the Year Ended April 30, 2013

CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:	
Change in net assets	<u>\$ 171,216</u>
Adjustments to reconcile change in net assets to net cash:	
Depreciation	189,119
Loss on disposal of property and equipment	8,023
Other changes in unrestricted net assets	(59,461)
Changes in assets and liabilities:	
Decrease (increase) in assets:	
Member receivables	(1,964)
Prepaid expenses	(554)
Increase (decrease) in liabilities:	
Accounts payable and accrued liabilities	<u>4,258</u>
Total adjustments and changes	<u>139,421</u>
	<u>310,637</u>
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES:	
Cash purchases of property and equipment	<u>(644,558)</u>
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES:	
Principal payments on debt	(31,368)
Proceeds from issuance of membership certificates	6,000
Development fees collected	<u>53,461</u>
	<u>28,093</u>
NET DECREASE IN CASH AND EQUIVALENTS	(305,828)
BEGINNING CASH AND EQUIVALENTS	<u>1,050,419</u>
ENDING CASH AND EQUIVALENTS	<u><u>\$ 744,591</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid during the year for interest	\$ 41,712
Non-cash investing activities	
Vendor financed portion of property and equipment	\$ 56,212

See accompanying notes to financial statements.

AMES LAKE WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
April 30, 2013

1. NATURE OF ACTIVITIES

Ames Lake Water Association (the Association) is a not-for-profit consumer owned cooperative located in unincorporated north central King County, Washington, whose purpose is to provide water services to its members. The Association is a nonprofit corporation under the laws of the State of Washington.

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 accounting policies conform to U.S. generally accepted accounting principles and 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 U.S. generally accepted accounting principles 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 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.

Receivables

The Association carries its receivables at cost less an allowance for doubtful accounts. On a periodic basis, the Association evaluates its receivables and establishes an allowance for doubtful accounts, when deemed necessary, based on its history of past write-offs and collections and current credit conditions. The allowance for uncollectible amounts is \$0 since management considers the balance in member receivables to be fully collectible.

The Association's policy does provide for accrual of interest or other service charges on accounts receivable. A onetime 10% fee of the unpaid amount results upon failure to pay by the due date. After 90 days interest is charged at 8% per annum on the entire amount due. The Association has the right to disconnect service for non-payment and attach a lien to the real property that receives or is designated to receive water services.

AMES LAKE WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Water use fees are based upon water consumption. The Association reads water meters on a monthly basis and records the resulting revenue as earned.

General facility and storage fees are collected from new members and are generally recognized as revenue when received.

The Association records the following revenue as earned when billed:

- Membership fees include charges that are based upon meter size and generally assessed monthly to provide funds for debt repayment and future capital improvements.
- Tax fees are assessed for public utility taxes that the Association is obligated to remit to state and local tax authorities.
- Business office fees are assessed for delinquent accounts, membership transfer fees and various other administrative fees.

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.

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.

Property and equipment

Property and equipment are recorded at cost if purchased and fair value at the date of acquisition if received as a contribution. Property and equipment acquisitions of \$2,500 or more are capitalized. 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, 15 - 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 that is included in office equipment. The Association periodically evaluates whether events or circumstances have occurred that indicate the carrying value of long-lived assets may not be recoverable or that the remaining useful life may warrant revision. Water systems are required to update and submit a comprehensive plan every six years to various authoritative agencies. One goal of the plan is to document existing system infrastructure and identify current and future system needs.

Functional expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

AMES LAKE WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Wells, pumps and water distribution systems	\$ 6,815,622
Machines and equipment	117,639
Office equipment	39,078
Vehicles	77,840
	7,050,179
Less accumulated depreciation	3,469,298
	3,580,881
Construction in progress	84,002
Land	32,500
	\$ 3,697,383

Depreciation expense totaled \$182,472 for the year ended April 30, 2013.

4. LONG-TERM DEBT

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

Payable in monthly installments of \$2,121, including interest at 5.25%. The note matures in 2033.	\$ 318,061
Payable in monthly installments of \$2,310, including interest at 4.625%. The note matures in 2044.	274,080
Payable in monthly installments of \$1,055, including interest at 6.5%. The note matures in 2028.	118,017
Payable in monthly installments of \$604, including interest at 5%. The note matures in 2021.	46,571
	756,729
Less current portion	35,000
	\$ 721,729

Future maturities of long-term debt are as follows:

<u>Year ending April 30,</u>	
2014	\$ 35,000
2015	36,000
2016	38,000
2017	40,000
2018	42,000
Thereafter	565,729
	\$ 756,729

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.

AMES LAKE WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

5. MEMBERSHIP CERTIFICATES

Membership certificates represent capital that is issued to eligible members in accordance with the governing documents of the Association. The proceeds from the issuance of membership certificates are recognized when received. Transfers of membership certificates shall be made upon the books of the Association only to persons eligible to become members and only when the transferring member is free from indebtedness to the Association. Each member is entitled to one vote at meetings of the members although it shall be permissible for one member to hold more than one membership certificate.

Following is a summary of activity in membership certificates included in unrestricted net assets:

	Number	Value
Beginning Balance	1,166	\$ 1,171,900
Issued	3	6,000
Ending Balance	1,169	\$ 1,177,900

6. TAX EXEMPTION

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.

The Association's tax filings are subject to audit by various taxing authorities. The Association's open audit periods are 2010 and forward, generally three years after the returns are filed. The Association would recognize accrued interest and penalties associated with uncertain tax provisions, if any, as part of administration expenses.

7. COMMITMENTS

The Association is the lessor of property with the following annual rate and lease term of \$8,294 per year beginning August 2010 through July 2015. Future maturities for the next 2 years total \$16,588. The tenant has the option to extend the lease for one additional five-year term. Lease income for the year ended April 30, 2013 was \$8,294.

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: \$6,048 per year for the first user and an additional \$1,728 per year for each additional user. The tenant as sublessor then has the option to extend this use agreement for one additional five-year term. Consideration for granting consent to sublease for the year ended April 30, 2013 was \$7,920.

The Association is the lessee of property for office and shop space under lease agreements with terms of one year. Total rent expense under all leases for the year ended April 30, 2013 was \$24,338.

AMES LAKE WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

8. CONCENTRATION OF CREDIT RISK

The Association maintains its cash balances at financial institutions which are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times during the year, the Association had balances in excess of the insured amount.

9. RELATED PARTY TRANSACTIONS

A member of Ames Lake Water Association that had been engaged to provide consulting services to the Association became an employee during the year ended April 30, 2013. Expense for consulting services paid to this member totaled \$4,745 for the year ended April 30, 2013.

10. SUBSEQUENT EVENTS

The date to which events occurring after April 30, 2013, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is August 13, 2013, which is the date the financial statements were available to be issued.

11. CHANGE IN ACCOUNTING BASIS

For the year ended April 30, 2013 the Association adopted the policy of preparing the financial statements in accordance with U.S. generally accepted accounting principles. The beginning balance of unrestricted net assets has been increased by \$15,138 for the conversion from the cash basis to the accrual basis of accounting.

SUPPLEMENTARY INFORMATION

AMES LAKE WATER ASSOCIATION
SCHEDULE OF EXPENSES
For the Year Ended April 30, 2013

WATER DISTRIBUTION:

Depreciation	\$ 182,472
Salaries and related expenses	169,175
Interest	41,712
Utilities	35,840
Taxes	28,404
Repairs and maintenance	26,417
Consulting fees	13,016
Rent	9,600
Insurance	9,333
Travel	8,552
Licenses and permits	6,726
Supplies	5,108
Chemicals	1,326
Miscellaneous expense	121
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	537,802
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ADMINISTRATION:

Salaries and related expenses	87,394
Professional fees	47,978
Information systems	31,775
Office expense and supplies	23,872
Rent	14,738
Director reimbursement and meetings	6,658
Depreciation	6,647
Telephone	2,935
Miscellaneous expense	1,930
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	223,927
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TOTAL EXPENSES

\$ 761,729
