



## FINANCIAL STATEMENTS

April 30, 2008 and 2007

(With Independent Auditors' Report Thereon)



**VINE DAHLEN**  
CERTIFIED PUBLIC ACCOUNTANTS  
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, 2008 and 2007, 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, 2008 and 2007, 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.

*Vine Dahlen PLLC*

November 10, 2008

AMES LAKE WATER ASSOCIATION, INC.  
STATEMENTS OF ASSETS, LIABILITIES AND MEMBERSHIP EQUITY--CASH BASIS  
April 30, 2008 and 2007

ASSETS

	2008	2007
CURRENT ASSETS:		
Cash and equivalents	\$ 100,996	\$ 86,228
Investments	206,526	286,857
Prepaid expenses	7,406	7,406
TOTAL CURRENT ASSETS	314,928	380,491
OTHER ASSETS:		
Property and equipment, net	3,249,628	3,305,376
Easements	13,500	13,500
TOTAL OTHER ASSETS	3,263,128	3,318,876
	\$ 3,578,056	\$ 3,699,367

LIABILITIES AND MEMBERSHIP EQUITY

CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 33,000	\$ 32,000
Payroll tax liability	4,843	2,709
TOTAL CURRENT LIABILITIES	37,843	34,709
LONG-TERM DEBT, net of current portion	889,467	924,321
MEMBERSHIP EQUITY:		
Membership certificates	1,159,900	1,147,900
Unrestricted net assets	1,490,846	1,592,437
TOTAL MEMBERSHIP EQUITY	2,650,746	2,740,337
	\$ 3,578,056	\$ 3,699,367

AMES LAKE WATER ASSOCIATION, INC.  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS--CASH BASIS  
For the Years Ended April 30, 2008 and 2007

	2008	2007
REVENUES:		
Membership fees	\$ 493,215	\$ 526,441
Contributions in aid of construction	20,609	462,395
TOTAL REVENUES	513,824	988,836
EXPENSES:		
Program services:		
Water distribution	382,577	342,736
Supporting services:		
Administration	165,997	185,432
TOTAL EXPENSES	548,574	528,168
INCOME (LOSS) FROM OPERATIONS	(34,750)	460,668
ASSESSMENT ACTIVITY:		
Assessments	234,738	111,989
Interest expense	(48,937)	(56,623)
Depreciation	(189,004)	(185,652)
	(3,203)	(130,286)
OTHER INCOME (EXPENSE):		
Interest and dividend income	15,450	16,090
Unrealized loss on investments	(95,360)	0
Rental income	16,272	17,292
	(63,638)	33,382
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(101,591)	363,764
BEGINNING UNRESTRICTED NET ASSETS	1,592,437	1,228,673
ENDING UNRESTRICTED NET ASSETS	\$ 1,490,846	\$ 1,592,437

See accompanying notes to financial statements.

AMES LAKE WATER ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2008 and 2007

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 changes in fair value of investments, 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.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of assets, liabilities and membership equity -- cash basis.

The balance in investments at April 30, 2008 and 2007 was invested in mutual funds.

AMES LAKE WATER ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 that is included in office equipment.

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:

	2008	2007
Land	\$ 32,500	\$ 32,500
Wells, pumps and water distribution systems	5,658,191	5,525,412
Machines and equipment	69,760	69,283
Office equipment	14,603	14,603
Vehicles	13,486	13,486
	5,788,540	5,655,284
Less accumulated depreciation	2,538,912	2,349,908
	\$ 3,249,628	\$ 3,305,376

Depreciation expense totaled \$189,004 and \$185,652 for the years ended April 30, 2008 and 2007, respectively.

AMES LAKE WATER ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT

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

	2008	2007
Payable in monthly installments of \$2,121, including interest at 5.25%. The note matures in 2033.	\$ 356,476	\$ 363,024
Payable in monthly installments of \$2,130, including interest at 4.625%. The note matures in 2044.	341,114	352,762
Payable in monthly installments of \$1,055, including interest at 6.5%. The note matures in 2028.	139,261	142,744
Payable in monthly installments of \$604, including interest at 5%. The note matures in 2021.	68,293	72,024
Payable in annual installments of \$7,933, including interest at 5%. The note matures in 2010.	10,458	17,536
Payable in annual installments of \$1,778, including interest at 5%. The note matures in 2013.	6,865	8,231
	922,467	956,321
Less current portion	33,000	32,000
	\$ 889,467	\$ 924,321

Future maturities of long-term debt are as follows:

<u>Years ending April 30,</u>		
2009	\$	33,000
2010		30,000
2011		29,000
2012		31,000
2013		30,000
Thereafter		769,467
	\$	922,467

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, INC.  
NOTES TO FINANCIAL STATEMENTS

5. MEMBERSHIP CERTIFICATES

Upon joining the Association, each member is required to purchase a membership certificate as their contribution to capital. Following is a summary of membership certificates:

	2008		2007	
	Number	Value	Number	Value
Beginning Balance	1,154	\$ 1,147,900	1,116	\$ 1,071,900
Granted	0	0	30	60,000
Issued	8	16,000	8	16,000
Redeemed	(2)	(4,000)	0	0
Ending Balance	1,160	\$ 1,159,900	1,154	\$ 1,147,900

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.

During the year ended April 30, 2008, unused membership certificates were repurchased by the Association. The memberships were repurchased at the amount of a membership fee on the current fee schedule. On August 14, 2007, the Board approved an emergency interim moratorium on the issuance of new memberships.

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 each of the years ended April 30, 2008 and 2007 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 years ended April 30, 2008 and 2007 was \$9,360 and \$10,380, respectively.

Future minimum rental payments to be received under the non-cancelable lease is as follows at April 30, 2008:

<u>Years ending April 30,</u>	
2009	\$ 6,912
2010	6,912
	\$ 13,824

AMES LAKE WATER ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS

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 \$0 and \$507,600 were recorded as contributions in aid of construction in the amount of \$0 and \$447,600 and membership certificates granted with a value of \$0 and \$60,000 for the years ended April 30, 2008 and 2007, respectively.

8. 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 \$9,760 and \$8,101 for the years ended April 30, 2008 and 2007, respectively.

A member of Ames Lake Water Association, Inc. is an employee of the Association. Payments to this member totaled \$38,312 and \$39,812 for the years ended April 30, 2008 and 2007, respectively.

9. RECLASSIFICATION

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

SUPPLEMENTARY INFORMATION

AMES LAKE WATER ASSOCIATION, INC.  
SCHEDULES OF EXPENSES--CASH BASIS  
For the Years Ended April 30, 2008 and 2007

	2008	2007
<b>WATER DISTRIBUTION:</b>		
Salaries and related expenses	\$ 123,925	\$ 102,823
Consulting fees	57,755	86,217
Repairs and maintenance	52,109	43,904
Supplies	34,728	15,877
Utilities	34,323	31,774
Taxes	21,859	22,998
Travel	10,769	11,137
Chemicals	10,594	3,410
Rent	9,100	8,400
Insurance	8,899	8,634
Subcontractors	8,509	884
Licenses and permits	8,044	6,562
Miscellaneous	1,963	116
	382,577	342,736
<b>ADMINISTRATION:</b>		
Salaries and related expenses	87,850	105,048
Professional fees	39,199	41,817
Office expense and supplies	14,308	14,074
Rent	12,155	11,130
Director reimbursement and meetings	5,495	3,927
Telephone	3,702	6,375
Information systems	3,194	0
Miscellaneous expense	94	3,061
	165,997	185,432
<b>TOTAL EXPENSES</b>	<b>\$ 548,574</b>	<b>\$ 528,168</b>