



FINANCIAL STATEMENTS

April 30, 2011 and 2010

(With Independent Auditors' Report Thereon)



INDEPENDENT AUDITORS' REPORT

Board of Directors
Ames Lake Water Association

We have audited the accompanying statements of assets, liabilities and membership equity--cash basis of Ames Lake Water Association (the Association) as of April 30, 2011 and 2010, 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.

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 described in Note 2, Basis of Presentation, 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.

As discussed in Note 2, Contributions in Aid of Construction, it is impractical for us to confirm the value of contributed improvements to the water system. Accordingly, we do not express an opinion as to the value of the contributed property and equipment in the financial statements.

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 contributed improvements to the water system, 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 as of April 30, 2011 and 2010, 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--cash basis on page 9 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

July 26, 2011

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AMES LAKE WATER ASSOCIATION
STATEMENTS OF ASSETS, LIABILITIES AND MEMBERSHIP EQUITY--CASH BASIS
April 30, 2011 and 2010

ASSETS

	2011	2010
CURRENT ASSETS:		
Cash and equivalents	\$ 938,532	\$ 833,143
Prepaid expenses	7,406	7,406
TOTAL CURRENT ASSETS	945,938	840,549
OTHER ASSETS:		
Property and equipment, net	3,164,829	3,102,276
Easements	13,500	13,500
TOTAL OTHER ASSETS	3,178,329	3,115,776
	\$ 4,124,267	\$ 3,956,325

LIABILITIES AND MEMBERSHIP EQUITY

CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 31,000	\$ 30,000
Taxes withheld	3,241	7,605
TOTAL CURRENT LIABILITIES	34,241	37,605
LONG-TERM DEBT, net of current portion	788,331	820,273
MEMBERSHIP EQUITY:		
Membership certificates	1,171,900	1,157,900
Unrestricted net assets	2,129,795	1,940,547
TOTAL MEMBERSHIP EQUITY	3,301,695	3,098,447
	\$ 4,124,267	\$ 3,956,325

AMES LAKE WATER ASSOCIATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS--CASH BASIS
For the Years Ended April 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
REVENUES:		
Membership fees	\$ 590,006	\$ 719,615
Contributions in aid of construction	10,059	9,348
	<u>600,065</u>	<u>728,963</u>
EXPENSES:		
Program services:		
Water distribution	391,084	410,632
Supporting services:		
Administration	<u>178,022</u>	<u>173,866</u>
	<u>569,106</u>	<u>584,498</u>
INCOME FROM OPERATIONS	<u>30,959</u>	<u>144,465</u>
ASSESSMENT ACTIVITY:		
Assessments	365,617	355,822
Interest expense	(42,139)	(44,946)
Depreciation	<u>(186,193)</u>	<u>(188,929)</u>
	<u>137,285</u>	<u>121,947</u>
OTHER INCOME:		
Interest and dividend income	4,790	4,460
Rental income	<u>16,214</u>	<u>15,792</u>
	<u>21,004</u>	<u>20,252</u>
EXCESS OF REVENUES OVER EXPENSES	189,248	286,664
BEGINNING UNRESTRICTED NET ASSETS	<u>1,940,547</u>	<u>1,653,883</u>
ENDING UNRESTRICTED NET ASSETS	<u>\$ 2,129,795</u>	<u>\$ 1,940,547</u>

See accompanying notes to financial statements.

AMES LAKE WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
April 30, 2011 and 2010

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 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 contribution. Property and equipment of \$2,500 or more are capitalized. Water systems are required to update and submit a comprehensive plan every six years to various authoritative agencies. 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.

AMES LAKE WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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:

	2011	2010
Land	\$ 32,500	\$ 32,500
Construction in progress	210,925	95,118
Wells, pumps and water distribution systems	5,832,157	5,760,232
Machines and equipment	84,895	80,071
Office equipment	36,573	36,573
Vehicles	69,676	13,486
	6,266,726	6,017,980
Less accumulated depreciation	3,101,897	2,915,704
	\$ 3,164,829	\$ 3,102,276

Depreciation expense totaled \$186,193 and \$188,929 for the years ended April 30, 2011 and 2010, respectively.

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.	\$ 333,832	\$ 342,305
Payable in monthly installments of \$2,310, including interest at 4.625%. The note matures in 2044.	302,757	316,141

AMES LAKE WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT (Continued)

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

	2011	2010
Payable in monthly installments of \$1,055, including interest at 6.5%. The note matures in 2028.	127,016	131,579
Payable in monthly installments of \$604, including interest at 5%. The note matures in 2021.	55,726	60,248
	819,331	850,273
Less current portion	31,000	30,000
	\$ 788,331	\$ 820,273

Future maturities of long-term debt are as follows:

<u>Years ending April 30,</u>		
2012	\$	31,000
2013		33,000
2014		35,000
2015		36,000
2016		38,000
Thereafter		646,331
	\$	819,331

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. Following is a summary of activity in membership certificates:

	2011		2010	
	Number	Value	Number	Value
Beginning Balance	1,159	\$ 1,157,900	1,159	\$ 1,157,900
Issued	7	14,000	0	0
Ending Balance	1,166	\$ 1,171,900	1,159	\$ 1,157,900

On August 14, 2007, the Board approved an emergency interim moratorium on the issuance of new memberships. The moratorium was partially lifted to allow for the addition of 25 memberships beginning in April 2010.

AMES LAKE WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

6. COMMITMENTS

The Association is the lessor of property with the following annual rate and lease term: \$8,294 per year beginning August 2010 through July 2015. The tenant has the option to extend the lease for one additional five-year term. Lease income for the years ended April 30, 2011 and 2010 was \$8,294 and \$6,912, respectively.

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 terms. Consideration for granting consent to sublease for each of the years ended April 30, 2011 and 2010 was \$7,920 and \$8,880, respectively.

7. RELATED PARTY TRANSACTIONS

A member of Ames Lake Water Association is engaged to provide consulting services to the Association. Payments to this member totaled \$10,130 and \$8,770 for the years ended April 30, 2011 and 2010, respectively.

8. SUBSEQUENT EVENTS

The date to which events occurring after April 30, 2011, the date of the most recent statement of assets, liabilities and membership equity--cash basis, have been evaluated for possible adjustment to the financial statements or disclosure is July 26, 2011, which is the date the financial statements were available to be issued.

9. INCOME TAXES

The Association files its information return annually which is subject to examination by taxing authorities. The Association's open audit periods are 2008 and forward.

The Association would recognize accrued interest and penalties associated with uncertain tax provisions, if any, as part of miscellaneous expenses.

SUPPLEMENTARY INFORMATION

AMES LAKE WATER ASSOCIATION
SCHEDULES OF EXPENSES--CASH BASIS
For the Years Ended April 30, 2011 and 2010

	2011	2010
WATER DISTRIBUTION:		
Salaries and related expenses	\$ 187,682	\$ 185,748
Repairs and maintenance	50,040	53,749
Utilities	32,795	31,990
Transfer of Intertie	31,105	0
Taxes	23,634	32,765
Consulting fees	12,970	34,678
Licenses and permits	12,090	4,488
Insurance	9,918	8,506
Rent	9,600	9,600
Travel	9,396	8,247
Supplies	9,298	24,361
Chemicals	2,351	4,301
Miscellaneous	205	5,905
Conservation/cross connection	0	3,495
Subcontractors	0	2,799
	391,084	410,632
ADMINISTRATION:		
Salaries and related expenses	91,409	79,463
Professional fees	40,039	51,099
Office expense and supplies	16,623	13,941
Rent	13,670	14,020
Director reimbursement and meetings	7,762	7,164
Telephone	4,539	5,070
Information systems	2,465	1,902
Miscellaneous expense	1,515	1,207
	178,022	173,866
TOTAL EXPENSES	\$ 569,106	\$ 584,498