

**MOUNTAIN VIEW-EDGEWOOD
WATER COMPANY**

Audited Financial Statements and
Supplementary Information

December 31, 2016 and 2015

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

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Independent Auditor's Report

Board of Directors
Mountain View-Edgewood Water Company
Edgewood, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Mountain View-Edgewood Water Company (a Washington nonprofit corporation), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of income, changes in members' equity and cash flows for the years 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 accounting principles generally accepted in the United States of America; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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.

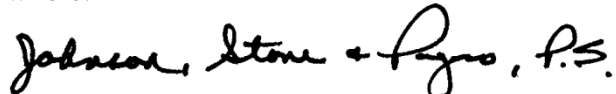
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mountain View-Edgewood Water Company as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The general and administrative expenses are presented for purposes of additional analysis and are 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



JOHNSON, STONE & PAGANO, P.S.

September 21, 2017

AUDITED FINANCIAL STATEMENTS

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

BALANCE SHEETS

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
WATER PLANT , net of accumulated depreciation	\$ 11,529,556	\$ 10,879,600
COMPREHENSIVE PLAN , net of accumulated amortization	10,244	19,785
CERTIFICATES OF DEPOSIT	496,823	
CURRENT ASSETS		
Cash	1,373,616	558,219
Certificates of deposit	233,418	233,046
Accounts receivable	98,407	101,698
Inventory	54,975	52,018
Prepaid expenses	4,375	5,357
Grant and other receivables	<u> </u>	<u>9,668</u>
Total Current Assets	<u>1,764,791</u>	<u>960,006</u>
TOTAL ASSETS	<u>\$ 13,801,414</u>	<u>\$ 11,859,391</u>

The accompanying notes are an integral part of these financial statements.

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

BALANCE SHEETS (Continued)

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>MEMBERS' EQUITY AND LIABILITIES</u>		
MEMBERS' EQUITY		
Members' equity designated for capital projects	\$ 2,050,524	
Members' equity undesignated	<u>10,203,620</u>	<u>\$ 10,690,186</u>
Total Members' Equity	12,254,144	10,690,186
CONTRIBUTIONS IN AID OF CONSTRUCTION, net		
	1,397,543	977,632
CURRENT LIABILITIES		
Accounts payable	35,504	113,340
Accrued expenses	64,497	28,405
Deposits	<u>49,726</u>	<u>49,828</u>
Total Current Liabilities	<u>149,727</u>	<u>191,573</u>
TOTAL MEMBERS' EQUITY AND LIABILITIES	<u>\$ 13,801,414</u>	<u>\$ 11,859,391</u>

The accompanying notes are an integral part of these financial statements.

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

STATEMENTS OF INCOME

Years Ended December 31, 2016 and 2015

	2016		2015	
	Amount	% to Revenue	Amount	% to Revenue
REVENUE				
Water sales	\$ 1,401,087	66.1 %	\$ 1,391,977	73.3 %
Fire protection sales	402,556	19.0	223,699	11.8
Meters and hydrants, sales and service	74,125	3.5	55,425	2.9
Lease and rental income	165,211	7.8	155,833	8.2
Membership transfer income	20,650	1.0	22,400	1.2
Miscellaneous	35,895	1.7	38,094	2.0
Inspection income	7,910	0.4		
Collection income	11,380	0.5	11,275	0.6
Total Revenue	2,118,814	100.0	1,898,703	100.0
DIRECT COST OF SERVICE				
Depreciation and amortization, net	430,101	20.3	468,684	24.6
Salaries	360,661	17.0	287,728	15.1
Electricity	98,629	4.7	104,606	5.5
Service repairs	93,243	4.4	77,660	4.1
Shop expense	28,392	1.3	31,662	1.7
Employee benefits	76,506	3.6	65,630	3.5
Miscellaneous	14,460	0.7	15,469	0.8
Payroll taxes	39,324	1.9	31,354	1.7
Total Direct Cost of Service	1,141,316	53.9	1,082,793	57.0
Gross Margin	977,498	46.1	815,910	43.0
GENERAL AND ADMINISTRATIVE EXPENSES				
	511,965	24.2	480,825	25.3
Operating Income	465,533	21.9	335,085	17.7
NONOPERATING INCOME (EXPENSE)				
Interest income	1,240	0.1	955	0.1
Unrealized loss on investments	(3,863)	(0.2)		
Grant revenue			46,616	2.5
Interest expense			(29,269)	(1.5)
Total Nonoperating Income (Expense)	(2,623)	(0.1)	18,302	1.1
NET INCOME	\$ 462,910	21.8 %	\$ 353,387	18.8 %

The accompanying notes are an integral part of these financial statements.

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Years Ended December 31, 2016 and 2015

	<u>Member Certificates</u>	<u>Members' Equity</u>	<u>Total</u>
Balance at December 31, 2014	\$ 3,923,060	\$ 6,091,739	\$ 10,014,799
Net income		353,387	353,387
New memberships	<u>322,000</u>	<u> </u>	<u>322,000</u>
Balance at December 31, 2015	4,245,060	6,445,126	10,690,186
Net income		462,910	462,910
New memberships	<u>1,101,048</u>	<u> </u>	<u>1,101,048</u>
Balance at December 31, 2016	<u>\$ 5,346,108</u>	<u>\$ 6,908,036</u>	<u>\$ 12,254,144</u>

The accompanying notes are an integral part of these financial statements.

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash collected from customers	\$ 2,129,150	\$ 1,933,844
Cash paid to suppliers and employees	(1,267,001)	(1,121,063)
Interest paid		<u>(23,272)</u>
Net Cash Flows Provided by Operating Activities	862,149	789,509
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of water plant assets	(650,605)	(1,087,242)
Purchases of certificates of deposit, net	<u>(497,195)</u>	<u>(488)</u>
Net Cash Flows Used by Investing Activities	(1,147,800)	(1,087,730)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from member certificates issued, net	1,101,048	322,000
Principal payments on long-term debt		(265,902)
Payments on line of credit, net		<u>(1,892)</u>
Net Cash Flows Provided by Financing Activities	<u>1,101,048</u>	<u>54,206</u>
NET INCREASE (DECREASE) IN CASH	815,397	(244,015)
Cash at Beginning of Year	<u>558,219</u>	<u>802,234</u>
CASH AT END OF YEAR	<u>\$ 1,373,616</u>	<u>\$ 558,219</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING AND INVESTING ACTIVITIES		
Assets received from developer, contribution in aid of construction	<u>\$ 481,729</u>	

The accompanying notes are an integral part of these financial statements.

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF NET INCOME TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Net income	\$ 462,910	\$ 353,387
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization, net	430,101	477,380
(Increase) decrease in		
Accounts receivable	3,291	(16,288)
Inventory	(2,957)	597
Prepaid expenses	982	(5,357)
Grant and other receivable	9,668	3,857
Increase (decrease) in		
Accounts payable	(77,836)	(34,936)
Accrued expenses	36,092	(18,342)
Deposits	(102)	31,910
Interest payable	<u> </u>	<u>(2,699)</u>
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	<u>\$ 862,149</u>	<u>\$ 789,509</u>

DISCLOSURE OF ACCOUNTING POLICY

For the purpose of these financial statements, the Company considers all highly-liquid investment securities with original maturities of three months or less to be cash equivalents.

The accompanying notes are an integral part of these financial statements.

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 1 - DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Operations

Mountain View-Edgewood Water Company (the "Company") is a nonprofit corporation engaged in the sale and distribution of water services for its members in Pierce County, Washington. The Company is organized and owned by the members it serves. Memberships are granted through an application process with the Board of Directors and payment of an application fee. Amounts billed to members for the previous two months' service are due upon receipt by the member.

Method of Accounting

The accompanying financial statements are presented using the accrual method of accounting whereby water sales and customer charges are recorded when billed and expenses are recorded when incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Water Plant

The Company capitalizes additions to water plant and major replacements of property at cost, which includes direct labor, materials and overhead. Costs of repairs and maintenance are charged to expense as incurred. The original costs of plant assets retired are removed from the accounts and recorded as a reduction of accumulated depreciation. Accumulated depreciation accounts are also reduced by costs incurred in removing plant assets and are increased by any salvage proceeds.

Comprehensive Plan

The Company developed a Comprehensive Plan that was approved by the state of Washington in July 1992. The Comprehensive Plan is updated every six years as required by the state. The last plan was updated and approved in 2011. The estimated cost for the proposed system improvements over the six-year period covered by the plan is \$2,930,000. Amortization of the Comprehensive Plan was \$9,541 and \$10,408 for the years ended December 31, 2016 and 2015, respectively.

Accounts Receivable

The Company carries its accounts receivable at the amount management expects to collect from outstanding balances. The Company's policy is to discontinue service on the last day of the month following the due date. Service is re-established after accounts due are paid in full. The Company does not maintain an allowance for doubtful accounts based upon collection history.

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 1 - DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory is stated at the lower of cost or market utilizing the average cost method.

Contributions in Aid of Construction

Developers must pay or reimburse the Company for all costs associated with main extensions, including material, labor and overhead. When completed, the developer deeds the main to the Company, and the cost is added to the distribution system and recorded as contributions in aid of construction. Amortization for these assets is recognized as a reduction to contributions in aid of construction.

Contributions in aid of construction received in 2016 totaled \$481,729. The Company did not receive contributions in aid of construction during the year ended December 31, 2015. Amortization of contributions in aid of construction totaled \$61,818 and \$54,086 for the years ended December 31, 2016 and 2015, respectively.

Revenue Recognition

The Company records revenue as billed to its customers on a bi-monthly billing cycle.

Federal Income Taxes

The Company is exempt from federal income tax under provisions of Section 501(c)(12) of the Internal Revenue Code. Accordingly, the financial statements do not include a provision for federal income taxes.

Subsequent Events

The management of Mountain View-Edgewood Water Company evaluated subsequent events and transactions for potential recognition and disclosure through September 21, 2017, the date the statements were available to be issued.

NOTE 2 - CASH

Virtually all cash is on deposit with local banks. Accounts at each of the financial institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") with basic coverage up to \$250,000. At December 31, 2016, the Company's cash balances exceeded the insured amount by a total of \$951,235. The Company has not experienced any losses in such accounts.

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 3 - CERTIFICATES OF DEPOSITS

Certificates of Deposit are classified as long-term or current depending on their relative maturity dates. Interest rates on the certificates of deposit owned by the Company as of December 31, 2016 range from 0.25% to 1.25%. Deposits at each of the financial institutions are insured by the FDIC with basic coverage up to \$250,000. At December 31, 2016, the Company held deposits in excess of insured limits by a total of \$233,418.

NOTE 4 - WATER PLANT

Major classifications of water plant and their respective depreciable lives using the straight-line method at December 31 are summarized below:

	<u>2016</u>	<u>2015</u>
Distribution system	\$ 12,391,578	\$ 11,169,940
Wells	1,272,521	1,272,521
Buildings	1,408,781	1,259,961
Trucks and equipment	454,081	318,888
Pumping plant and equipment	69,027	69,027
Office equipment	236,547	225,348
Land	324,170	324,170
Reservoirs	2,659,870	2,550,449
Construction in progress	<u>241,802</u>	<u>735,739</u>
	19,058,377	17,926,043
Less accumulated depreciation	<u>(7,528,821)</u>	<u>(7,046,443)</u>
Total	\$ <u>11,529,556</u>	\$ <u>10,879,600</u>

Depreciation expense totaled \$482,378 and \$512,362 for the years ended December 31, 2016 and 2015, respectively.

NOTE 5 - LINE OF CREDIT

The Company had a line of credit agreement with Timberland Bank with maximum borrowings in the amount of \$500,000. The Company paid the balance on the line during 2015 and the line of credit agreement expired December 15, 2015.

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 6 - LONG-TERM DEBT

The Company had a promissory note payable to Washington State Department of Community, Trade and Economic Development. The note was paid in full during 2015.

Interest expense for the year ended December 31, 2015 was \$20,573. The Company expensed the remaining balance of loan fees totaling \$8,696 during 2015.

NOTE 7 - MEMBER CERTIFICATES - BOOK VALUE

The book value of membership equity certificates is \$4,183 and \$3,641 per certificate at December 31, 2016 and 2015, respectively. There were 3,264 and 3,205 membership certificates outstanding as of December 31, 2016 and 2015, respectively.

NOTE 8 - LEASE AND RENTAL INCOME

The Company rents access on its water storage tank to various entities for the installation, maintenance, operation and repair of communication equipment. The lengths of the leases range from one to ten years. Each of the leases contains renewal options for substantially the same terms as the original leases and provide for various rate increases.

Future minimum lease revenues to be received in subsequent years ending December 31 are as follows:

2017	\$ 150,200
2018	137,662
2019	122,970
2020	69,553
2021	<u>5,714</u>
	\$ <u>486,099</u>

Combined lease and rental income, net of expenses, was \$165,211 and \$155,833 for the years ended December 31, 2016 and 2015, respectively.

NOTE 9 - PENSION PLAN

The Company provides a Simplified Employee Pension (SEP) plan for all eligible employees. To qualify, the employee must be at least twenty-one years of age, have worked for the Company for one year, and have received more than the minimum amount of compensation as established by the plan. The Board of Directors decides how much to contribute each year to the employee SEP. Employees may also contribute to the plan through the salary deferral option. The Company's contributions to the plan were \$33,038 and \$47,769 for the years ended December 31, 2016 and 2015, respectively.

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 10 - BOARD DESIGNATED MEMBERS' EQUITY

During 2016, the Company's Board of Directors designated a portion of members' equity for the purpose of constructing a new reservoir in a future period expected to cost approximately \$3,000,000. Members' equity designated for the reservoir capital project totaled \$2,050,524 at December 31, 2016.

SUPPLEMENTARY INFORMATION

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

GENERAL AND ADMINISTRATIVE EXPENSES

Years Ended December 31, 2016 and 2015

	<u>2016</u>		<u>2015</u>	
	<u>Amount</u>	<u>% to Revenue</u>	<u>Amount</u>	<u>% to Revenue</u>
GENERAL AND ADMINISTRATIVE EXPENSES				
Salaries and wages	\$ 235,387	11.2 %	\$ 184,697	9.7 %
Insurance	34,316	1.6	30,852	1.6
Business taxes	12,046	0.6	18,079	1.0
Employee benefits	51,438	2.4	63,354	3.3
Office expenses	23,016	1.1	34,680	1.8
Miscellaneous	26,856	1.3	27,499	1.4
Payroll taxes	25,537	1.2	23,618	1.2
Repairs and maintenance	64,213	3.0	65,648	3.5
Professional services	21,040	1.0	18,051	1.0
Utilities and telephone	15,520	0.7	10,942	0.6
Dues and subscriptions	<u>2,596</u>	<u>0.1</u>	<u>3,405</u>	<u>0.2</u>
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 511,965</u>	<u>24.2 %</u>	<u>\$ 480,825</u>	<u>25.3 %</u>