

**MOUNTAIN VIEW-EDGEWOOD
WATER COMPANY**

Audited Financial Statements and
Supplementary Information

December 31, 2018 and 2017

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) (the "Company"), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of income, changes in members' equity, functional expenses 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

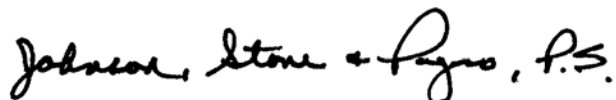
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mountain View-Edgewood Water Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As discussed in Note 1 to the financial statements, Mountain View-Edgewood Water Company adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-profit Entities*, as of and for the year ended December 31, 2018 and 2017. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The comparative schedule of expenses is 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 audits 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 11, 2019

AUDITED FINANCIAL STATEMENTS

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

BALANCE SHEETS

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
WATER PLANT , net of accumulated depreciation	\$ 12,998,719	\$ 11,932,569
COMPREHENSIVE PLAN , net of accumulated amortization	39,140	43,488
CERTIFICATES OF DEPOSIT , net of current portion	1,778,388	2,248,818
CURRENT ASSETS		
Cash	964,933	1,586,555
Certificates of deposit, current	3,237,948	248,948
Accounts receivable	85,183	92,277
Inventory	41,914	42,394
Prepaid expenses	<u>5,833</u>	<u>4,375</u>
Total Current Assets	<u>4,335,811</u>	<u>1,974,549</u>
TOTAL ASSETS	<u>\$ 19,152,058</u>	<u>\$ 16,199,424</u>

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

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

BALANCE SHEETS (Continued)

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>MEMBERS' EQUITY AND LIABILITIES</u>		
MEMBERS' EQUITY		
Members' equity designated for capital projects	\$ 3,137,664	\$ 2,736,524
Members' equity undesignated	<u>12,845,792</u>	<u>11,384,827</u>
Total Members' Equity	15,983,456	14,121,351
CONTRIBUTIONS IN AID OF CONSTRUCTION, net	3,002,710	1,912,945
CURRENT LIABILITIES		
Accounts payable	54,108	46,028
Accrued expenses	46,063	57,680
Deposits	<u>65,721</u>	<u>61,420</u>
Total Current Liabilities	<u>165,892</u>	<u>165,128</u>
TOTAL MEMBERS' EQUITY AND LIABILITIES	<u>\$ 19,152,058</u>	<u>\$ 16,199,424</u>

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

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

STATEMENTS OF INCOME

Years Ended December 31, 2018 and 2017

	2018		2017	
	Amount	% to Revenue	Amount	% to Revenue
REVENUE				
Water sales	\$ 1,614,963	65.2 %	\$ 1,574,782	66.0 %
Fire protection sales	454,856	18.3	407,085	17.0
Meters and hydrants, sales and service	137,193	5.5	136,412	5.7
Lease and rental income	175,899	7.1	183,710	7.7
Membership transfer income	37,275	1.5	26,500	1.1
Miscellaneous	18,406	0.7	22,095	0.9
Inspection income	20,316	0.8	13,590	0.6
Collection income	23,520	0.9	23,512	1.0
Total Revenue	<u>2,482,428</u>	<u>100.0</u>	<u>2,387,686</u>	<u>100.0</u>
DIRECT COST OF SERVICE	<u>1,326,373</u>	<u>53.4</u>	<u>1,266,914</u>	<u>53.1</u>
Gross Margin	1,156,055	46.6	1,120,772	46.9
GENERAL AND ADMINISTRATIVE EXPENSES	<u>636,389</u>	<u>25.6</u>	<u>626,520</u>	<u>26.2</u>
Operating Income	519,666	21.0	494,252	20.7
NONOPERATING INCOME (EXPENSE)				
Interest income	56,321	2.3	5,890	0.2
Unrealized loss on investments	(5,382)	(0.2)	(4,935)	(0.2)
Total Nonoperating Income	<u>50,939</u>	<u>2.1</u>	<u>955</u>	
NET INCOME	<u>\$ 570,605</u>	<u>23.1 %</u>	<u>\$ 495,207</u>	<u>20.7 %</u>

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, 2018 and 2017

	<u>Member Certificates</u>	<u>Members' Equity</u>	<u>Total</u>
Balance at December 31, 2016	\$ 5,346,108	\$ 6,908,036	\$ 12,254,144
Net income		495,207	495,207
New memberships	<u>1,372,000</u>		<u>1,372,000</u>
Balance at December 31, 2017	6,718,108	7,403,243	14,121,351
Net income		570,605	570,605
New memberships	<u>1,291,500</u>		<u>1,291,500</u>
Balance at December 31, 2018	<u>\$ 8,009,608</u>	<u>\$ 7,973,848</u>	<u>\$ 15,983,456</u>

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

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2018

	<u>Direct Service Cost</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
EXPENSES			
Salaries and wages	\$ 324,188	\$ 247,221	\$ 571,409
Payroll taxes	32,730	24,497	57,227
Employee benefits	<u>84,687</u>	<u>74,423</u>	<u>159,110</u>
Total Salaries and Related Expenses	441,605	346,141	787,746
Electricity	115,010		115,010
Service repairs and maintenance	185,338		185,338
Shop expense	28,385		28,385
Miscellaneous	22,145	38,704	60,849
Insurance		21,404	21,404
Business taxes		40,646	40,646
Office expenses		22,453	22,453
Building repairs and maintenance		86,658	86,658
Professional services		25,152	25,152
Utilities and telephone		18,440	18,440
Dues and subscriptions		<u>5,164</u>	<u>5,164</u>
Total Expenses Before Depreciation	350,878	258,621	609,499
Depreciation and amortization, net	<u>533,890</u>	<u>31,627</u>	<u>565,517</u>
TOTAL EXPENSES	<u>\$ 1,326,373</u>	<u>\$ 636,389</u>	<u>\$ 1,962,762</u>

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

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017

	<u>Direct Service Cost</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
EXPENSES			
Salaries and wages	\$ 313,138	\$ 257,498	\$ 570,636
Payroll taxes	37,329	28,511	65,840
Employee benefits	<u>85,183</u>	<u>61,474</u>	<u>146,657</u>
Total Salaries and Related Expenses	435,650	347,483	783,133
Electricity	108,572		108,572
Service repairs and maintenance	143,061		143,061
Shop expense	31,634		31,634
Miscellaneous	17,638	31,347	48,985
Insurance		23,718	23,718
Business taxes		20,713	20,713
Office expenses		31,529	31,529
Building repairs and maintenance		80,928	80,928
Professional services		26,222	26,222
Utilities and telephone		15,504	15,504
Dues and subscriptions		<u>4,262</u>	<u>4,262</u>
Total Expenses Before Depreciation	300,905	234,223	535,128
Depreciation and amortization, net	<u>530,359</u>	<u>44,814</u>	<u>575,173</u>
TOTAL EXPENSES	<u>\$ 1,266,914</u>	<u>\$ 626,520</u>	<u>\$ 1,893,434</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash collected from customers	\$ 2,540,461	\$ 2,388,929
Cash paid to suppliers and employees	<u>(1,397,459)</u>	<u>(1,284,437)</u>
Net Cash Flows Provided by Operating Activities	1,143,002	1,104,492
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of water plant assets	(537,554)	(452,540)
Additions to comprehensive plan		(43,488)
Purchases of certificates of deposit, net	<u>(2,518,570)</u>	<u>(1,767,525)</u>
Net Cash Flows Used by Investing Activities	(3,056,124)	(2,263,553)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from member certificates issued, net	<u>1,291,500</u>	<u>1,372,000</u>
Net Cash Flows Provided by Financing Activities	<u>1,291,500</u>	<u>1,372,000</u>
NET INCREASE (DECREASE) IN CASH	(621,622)	212,939
Cash at Beginning of Year	<u>1,586,555</u>	<u>1,373,616</u>
CASH AT END OF YEAR	<u><u>\$ 964,933</u></u>	<u><u>\$ 1,586,555</u></u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING AND INVESTING ACTIVITIES		
Assets received from developer, contribution in aid of construction	<u><u>\$ 1,167,984</u></u>	<u><u>\$ 600,260</u></u>

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

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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.

Cash and Cash Equivalents

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.

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 ten years as required by the state. The most recent plan was updated and approved in 2017. The estimated cost for the proposed system improvements over the ten-year period covered by the plan is \$6,517,981. Amortization of the Comprehensive Plan was \$4,348 and \$10,244 for the years ended December 31, 2018 and 2017, 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, 2018 and 2017

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

Inventory

Inventory is stated at the lower of cost or net realizable value 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 2018 and 2017 totaled \$1,167,984 and \$600,260, respectively. Amortization of contributions in aid of construction totaled \$78,219 and \$84,858 for the years ended December 31, 2018 and 2017, 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.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Change in Accounting Principle

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-profit Entities*. The update requires the presentation of expenses by nature and by function, and disclosure of the liquidity and availability of financial resources. We have implemented ASU 2016-14 and have adjusted the presentation in these consolidated financial statements accordingly.

Reclassifications

Certain amounts have been reclassified in the 2017 financial statements to conform to the 2018 presentation. Previously reported total assets, members' equity and net income are unaffected by these reclassifications.

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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

Subsequent Events

The management of Mountain View-Edgewood Water Company evaluated subsequent events and transactions for potential recognition and disclosure through September 11, 2019, 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, 2018, the Company's cash balances exceeded the insured amount by a total of \$232,090. The Company has not experienced any losses in such accounts.

NOTE 3 - LIQUIDITY AND AVAILABILITY

Financial assets available for expenditure, that is, without donor or other restrictions or designations limiting their use, within one year of the balance sheet date, comprise the following at December 31:

	<u>2018</u>	<u>2017</u>
Cash	\$ 964,933	\$ 1,586,555
Certificates of deposit	5,016,336	2,497,766
Accounts receivable	<u>85,183</u>	<u>92,277</u>
Total financial assets	6,066,452	4,176,598
Less board-designated for capital projects	<u>3,137,664</u>	<u>2,736,524</u>
Total financial assets undesignated	\$ <u>2,928,788</u>	\$ <u>1,440,074</u>

As part of the Company's liquidity management plan, cash in excess of daily requirements is invested in short-term investments, certificates of deposit and money market funds. Occasionally, the Board designates a portion of any operating surplus to a reserve for future capital projects, see Note 9.

NOTE 4 - CERTIFICATES OF DEPOSIT

Certificates of deposit are classified as long-term or current depending on their relative maturity dates and are recorded at fair value. Interest rates on certificates of deposit held by the Company as of December 31, 2018 range from 1.25% to 3.1%. Deposits at each of the financial institutions are insured by the FDIC with basic coverage up to \$250,000. At December 31, 2018, the Company did not hold any certificates of deposit that were in excess of federally insured limits.

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 5 - WATER PLANT

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

	<u>2018</u>	<u>2017</u>
Distribution system	\$ 14,811,025	\$ 13,510,600
Wells	1,272,602	1,272,521
Buildings	1,415,369	1,415,369
Trucks and equipment	558,294	490,167
Pumping plant and equipment	69,027	69,027
Office equipment	398,656	368,960
Land	324,170	324,170
Reservoirs	2,659,870	2,659,870
Construction in progress	<u>307,701</u>	<u>492</u>
	21,816,714	20,111,176
Less accumulated depreciation	<u>8,817,995</u>	<u>8,178,607</u>
Total	<u>\$ 12,998,719</u>	<u>\$ 11,932,569</u>

Depreciation expense totaled \$561,169 and \$564,929 for the years ended December 31, 2018 and 2017, respectively.

NOTE 6 - MEMBER CERTIFICATES - BOOK VALUE

The book value of membership equity certificates is \$5,392 and \$4,691 per certificate at December 31, 2018 and 2017, respectively. There were 3,522 and 3,418 membership certificates outstanding as of December 31, 2018 and 2017, respectively.

NOTE 7 - 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.

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 7 - LEASE AND RENTAL INCOME (Continued)

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

2019	\$ 153,213
2020	124,112
2021	46,975
2022	<u>5,713</u>
	\$ <u>330,013</u>

Combined lease and rental income, net of expenses, was \$177,976 and \$183,710 for the years ended December 31, 2018 and 2017, respectively.

NOTE 8 - 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 \$45,788 and \$36,655 for the years ended December 31, 2018 and 2017, respectively.

NOTE 9 - BOARD-DESIGNATED MEMBERS' EQUITY

The Company's Board of Directors designates a portion of members' equity for the purpose of constructing a new reservoir in a future period expected to cost approximately \$3,800,000. Members' equity designated for the reservoir capital project totaled \$3,137,664 and \$2,736,524 at December 31, 2018 and 2017, respectively.

NOTE 10 - FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, benefits, payroll taxes, depreciation and miscellaneous expenses, which are allocated on the basis of estimates of time and effort.

SUPPLEMENTARY INFORMATION

MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

COMPARATIVE SCHEDULE OF EXPENSES

Years Ended December 31, 2018 and 2017

	2018		2017	
	Amount	% to Revenue	Amount	% to Revenue
DIRECT COST OF SERVICE				
Salaries	\$ 324,188	13.1 %	\$ 313,138	13.1 %
Payroll taxes	32,730	1.3	37,329	1.6
Employee benefits	84,687	3.4	85,183	3.6
Total Salaries and Related Expenses	441,605	17.8	435,650	18.3
Electricity	115,010	4.6	108,572	4.6
Service repairs and maintenance	185,338	7.5	143,061	6.0
Shop expense	28,385	1.1	31,634	1.3
Miscellaneous	22,145	0.9	17,638	0.7
Depreciation and amortization, net	533,890	21.5	530,359	22.2
TOTAL DIRECT COST OF SERVICE	<u>\$ 1,326,373</u>	<u>53.4 %</u>	<u>\$ 1,266,914</u>	<u>53.1 %</u>
GENERAL AND ADMINISTRATIVE EXPENSES				
Salaries and wages	\$ 247,221	10.0 %	\$ 257,498	10.8 %
Payroll taxes	24,497	1.0	28,511	1.2
Employee benefits	74,423	3.0	61,474	2.6
Total Salaries and Related Expenses	346,141	14.0	347,483	14.6
Insurance	21,404	0.9	23,718	1.0
Business taxes	40,646	1.6	20,713	0.9
Office expenses	22,453	0.9	31,529	1.3
Miscellaneous	38,704	1.6	31,347	1.3
Repairs and maintenance	86,658	3.4	80,928	3.3
Professional services	25,152	1.0	26,222	1.1
Utilities and telephone	18,440	0.7	15,504	0.6
Dues and subscriptions	5,164	0.2	4,262	0.2
Depreciation and amortization, net	31,627	1.3	44,814	1.9
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 636,389</u>	<u>25.6 %</u>	<u>\$ 626,520</u>	<u>26.2 %</u>