

**MOUNTAIN VIEW-EDGEWOOD  
WATER COMPANY**

Audited Financial Statements and  
Supplementary Information

December 31, 2017 and 2016

**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, 2017 and 2016, 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.

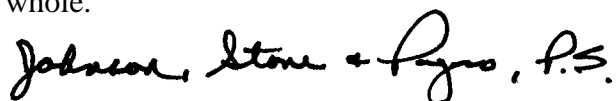
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***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, 2017 and 2016, 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 audits were 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 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 12, 2018

AUDITED FINANCIAL STATEMENTS

**MOUNTAIN VIEW-EDGEWOOD WATER COMPANY**

**BALANCE SHEETS**

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b><u>ASSETS</u></b>		
<b>WATER PLANT</b> , net of accumulated depreciation	\$ 11,932,569	\$ 11,529,556
<b>COMPREHENSIVE PLAN</b> , net of accumulated amortization	43,488	10,244
<b>CERTIFICATES OF DEPOSIT</b>	2,248,818	496,823
<b>CURRENT ASSETS</b>		
Cash	1,586,555	1,373,616
Certificates of deposit	248,948	233,418
Accounts receivable	92,277	98,407
Inventory	42,394	54,975
Prepaid expenses	4,375	4,375
<b>Total Current Assets</b>	<u>1,974,549</u>	<u>1,764,791</u>
<b>TOTAL ASSETS</b>	<u>\$ 16,199,424</u>	<u>\$ 13,801,414</u>

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

**MOUNTAIN VIEW-EDGEWOOD WATER COMPANY**

BALANCE SHEETS (Continued)

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b><u>MEMBERS' EQUITY AND LIABILITIES</u></b>		
<b>MEMBERS' EQUITY</b>		
Members' equity designated for capital projects	\$ 2,736,524	\$ 2,050,524
Members' equity undesignated	<u>11,384,827</u>	<u>10,203,620</u>
<b>Total Members' Equity</b>	14,121,351	12,254,144
<b>CONTRIBUTIONS IN AID OF CONSTRUCTION, net</b>		
	1,912,945	1,397,543
<b>CURRENT LIABILITIES</b>		
Accounts payable	46,028	35,504
Accrued expenses	57,680	64,497
Deposits	<u>61,420</u>	<u>49,726</u>
<b>Total Current Liabilities</b>	<u>165,128</u>	<u>149,727</u>
<b>TOTAL MEMBERS' EQUITY AND LIABILITIES</b>	<u>\$ 16,199,424</u>	<u>\$ 13,801,414</u>

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

# MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

## STATEMENTS OF INCOME

Years Ended December 31, 2017 and 2016

	2017		2016	
	Amount	% to Revenue	Amount	% to Revenue
<b>REVENUE</b>				
Water sales	\$ 1,574,782	66.0 %	\$ 1,401,087	66.1 %
Fire protection sales	407,085	17.0	402,556	19.0
Meters and hydrants, sales and service	136,412	5.7	74,125	3.5
Lease and rental income	183,710	7.7	165,211	7.8
Membership transfer income	26,500	1.1	20,650	1.0
Miscellaneous	22,095	0.9	35,895	1.7
Inspection income	13,590	0.6	7,910	0.4
Collection income	23,512	1.0	11,380	0.5
<b>Total Revenue</b>	<b>2,387,686</b>	<b>100.0</b>	<b>2,118,814</b>	<b>100.0</b>
<b>DIRECT COST OF SERVICE</b>				
Depreciation and amortization, net	575,173	24.1	430,101	20.3
Salaries	313,138	13.1	360,661	17.0
Electricity	108,572	4.5	98,629	4.7
Service repairs	143,061	6.0	93,243	4.4
Shop expense	31,634	1.3	28,392	1.3
Employee benefits	85,183	3.6	76,506	3.6
Miscellaneous	17,638	0.7	14,460	0.7
Payroll taxes	37,329	1.6	39,324	1.9
<b>Total Direct Cost of Service</b>	<b>1,311,728</b>	<b>54.9</b>	<b>1,141,316</b>	<b>53.9</b>
<b>Gross Margin</b>	<b>1,075,958</b>	<b>45.1</b>	<b>977,498</b>	<b>46.1</b>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>581,706</b>	<b>24.4</b>	<b>511,965</b>	<b>24.2</b>
<b>Operating Income</b>	<b>494,252</b>	<b>20.7</b>	<b>465,533</b>	<b>21.9</b>
<b>NONOPERATING INCOME (EXPENSE)</b>				
Interest income	5,890	0.2	1,240	0.1
Unrealized loss on investments	(4,935)	(0.2)	(3,863)	(0.2)
<b>Total Nonoperating Income (Expense)</b>	<b>955</b>		<b>(2,623)</b>	<b>(0.1)</b>
<b>NET INCOME</b>	<b>\$ 495,207</b>	<b>20.7 %</b>	<b>\$ 462,910</b>	<b>21.8 %</b>

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, 2017 and 2016

	<u>Member Certificates</u>	<u>Members' Equity</u>	<u>Total</u>
<b>Balance at December 31, 2015</b>	\$ 4,245,060	\$ 6,445,126	\$ 10,690,186
Net income		462,910	462,910
New memberships	<u>1,101,048</u>		<u>1,101,048</u>
<b>Balance at December 31, 2016</b>	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>
<b>Balance at December 31, 2017</b>	<u>\$ 6,718,108</u>	<u>\$ 7,403,243</u>	<u>\$ 14,121,351</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash collected from customers	\$ 2,388,929	\$ 2,129,150
Cash paid to suppliers and employees	<u>(1,284,437)</u>	<u>(1,267,001)</u>
<b>Net Cash Flows Provided by Operating Activities</b>	1,104,492	862,149
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of water plant assets	(452,540)	(650,605)
Additions to comprehensive plan	(43,488)	
Purchases of certificates of deposit, net	<u>(1,767,525)</u>	<u>(497,195)</u>
<b>Net Cash Flows Used by Investing Activities</b>	(2,263,553)	(1,147,800)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from member certificates issued, net	<u>1,372,000</u>	<u>1,101,048</u>
<b>Net Cash Flows Provided by Financing Activities</b>	<u>1,372,000</u>	<u>1,101,048</u>
<b>NET INCREASE IN CASH</b>	212,939	815,397
<b>Cash at Beginning of Year</b>	<u>1,373,616</u>	<u>558,219</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 1,586,555</u>	<u>\$ 1,373,616</u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING AND INVESTING ACIVITIES</b>		
Assets received from developer, contribution in aid of construction	<u>\$ 600,260</u>	<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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>RECONCILIATION OF NET INCOME TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>		
Net income	\$ 495,207	\$ 462,910
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization, net	575,173	430,101
(Increase) decrease in		
Accounts receivable	6,130	3,291
Inventory	12,581	(2,957)
Prepaid expenses		982
Grant and other receivable		9,668
Increase (decrease) in		
Accounts payable	10,524	(77,836)
Accrued expenses	(6,817)	36,092
Deposits	11,694	(102)
<b>NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 1,104,492</u>	<u>\$ 862,149</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, 2017 and 2016

### **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 ten years as required by the state. The last 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 \$10,244 and \$9,541 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016

### **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 2017 and 2016 totaled \$600,260 and \$481,729, respectively. Amortization of contributions in aid of construction totaled \$84,858 and \$61,818 for the years ended December 31, 2017 and 2016, 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.

#### ***New Accounting Pronouncement***

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, to improve the presentation of net asset classifications and other information, presented or disclosed in the financial statements, regarding a not-for-profit entity's liquidity and availability of financial resources, board designations of net assets, financial performance and expenses on a functional basis. The ASU's requirements are broadly applicable, and will be effective for years beginning after December 15, 2017. Management is currently evaluating how the new requirements will affect the Company's financial statements.

#### ***Subsequent Events***

The management of Mountain View-Edgewood Water Company evaluated subsequent events and transactions for potential recognition and disclosure through September 12, 2018, the date the statements were available to be issued.

## MOUNTAIN VIEW-EDGEWOOD WATER COMPANY

### NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

#### 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, 2017, the Company's cash balances exceeded the insured amount by a total of \$845,598. The Company has not experienced any losses in such accounts.

#### NOTE 3 - 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, 2017 range from 1.10% to 1.85%. Deposits at each of the financial institutions are insured by the FDIC with basic coverage up to \$250,000. At December 31, 2017, the Company did not hold any certificates of deposit that were in excess of federally insured limits.

#### 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>2017</u>	<u>2016</u>
Distribution system	\$ 13,510,600	\$ 12,391,578
Wells	1,272,521	1,272,521
Buildings	1,415,369	1,408,781
Trucks and equipment	490,167	454,081
Pumping plant and equipment	69,027	69,027
Office equipment	368,960	236,547
Land	324,170	324,170
Reservoirs	2,659,870	2,659,870
Construction in progress	492	241,802
	<u>20,111,176</u>	<u>19,058,377</u>
Less accumulated depreciation	<u>8,178,607</u>	<u>7,528,821</u>
Total	<u>\$ 11,932,569</u>	<u>\$ 11,529,556</u>

Depreciation expense totaled \$564,929 and \$482,378 for the years ended December 31, 2017 and 2016, respectively.

## **MOUNTAIN VIEW-EDGEWOOD WATER COMPANY**

### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2017 and 2016

#### **NOTE 5 - MEMBER CERTIFICATES - BOOK VALUE**

The book value of membership equity certificates is \$4,691 and \$4,183 per certificate at December 31, 2017 and 2016, respectively. There were 3,418 and 3,264 membership certificates outstanding as of December 31, 2017 and 2016, respectively.

#### **NOTE 6 - 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:

2018	\$ 150,200
2019	151,276
2020	122,971
2021	46,975
2022	<u>5,713</u>
	\$ <u>477,135</u>

Combined lease and rental income, net of expenses, was \$183,710 and \$165,211 for the years ended December 31, 2017 and 2016, respectively.

#### **NOTE 7 - 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 \$36,655 and \$33,038 for the years ended December 31, 2017 and 2016, respectively.

#### **NOTE 8 - 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 \$3,000,000. Members' equity designated for the reservoir capital project totaled \$2,736,524 and \$2,050,524 at December 31, 2017 and 2016, respectively.

**SUPPLEMENTARY INFORMATION**



**MOUNTAIN VIEW-EDGEWOOD WATER COMPANY**

**GENERAL AND ADMINISTRATIVE EXPENSES**

Years Ended December 31, 2017 and 2016

	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>% to Revenue</u>	<u>Amount</u>	<u>% to Revenue</u>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>				
Salaries and wages	\$ 257,498	10.8 %	\$ 235,387	11.2 %
Insurance	23,718	1.0	34,316	1.6
Business taxes	20,713	0.9	12,046	0.6
Employee benefits	61,474	2.6	51,438	2.4
Office expenses	31,529	1.3	23,016	1.1
Miscellaneous	31,347	1.3	26,856	1.3
Payroll taxes	28,511	1.2	25,537	1.2
Repairs and maintenance	80,928	3.4	64,213	3.0
Professional services	26,222	1.1	21,040	1.0
Utilities and telephone	15,504	0.6	15,520	0.7
Dues and subscriptions	4,262	0.2	2,596	0.1
<b>TOTAL GENERAL AND ADMINISTRATIVE EXPENSES</b>	<u>\$ 581,706</u>	<u>24.4 %</u>	<u>\$ 511,965</u>	<u>24.2 %</u>