

2007 Annual Report



Modern Electric Water Company
P.O. Box 14008
Spokane Valley, WA 99214-0008

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PRESIDENT'S REPORT

I am pleased, once again, to report a successful and productive year for MEWCO. There were many new customer connections.

The electric and water departments continued their maintenance programs, and upgrading our infrastructure. Unlike other utilities, we have experienced few outages during storms, and they were of short duration. This is the goal of our excellent electrical system. Our water system continues to deliver excellent and safe water to our houses.

We have embarked on two ambitious programs to improve our service to shareholders. One is the new Enterprise system which will facilitate and improve daily operations. The other is called TWACS, which is an automated meter reading system. Our management and staff have devoted many hours in addition to their daily duties to analyze and make recommendations to the board. Implementations will take most of 2008, and be operational by 2009. There will be periodic updates on progress of these projects in our newsletters.

There have been many requests for online bill paying. Our staff solved many of the obstacles, and now we have online bill paying for your convenience.

We continue to face many challenges from local, state and federal laws and regulations. Complying to these requirements are time consuming and add to the cost of operations. I feel many of these are frivolous, and I classify them as "busy work", none the less, if they continue, the costs will inevitably increase your utility bills.

We continue to be fiscally sound, with no debt. Our employee pension plan is fully funded. We maintain ample reserves for all operations, which are on a cash basis, and also for future projects.

With the cooperation of my fellow board members, our attorney James Wolff, and the dedication of our staff and management I am happy to announce, at this time of increased costs, we will reduce your electric costs by 4%.

On behalf of the board, I would like to thank the management and employees and recognize their significant contribution and dedication to the success of Modern Electric Water Company, and excellent service and the lowest cost to our shareholders.

James G. Bourekis
President

Modern Electric Water Company is financially strong with no debt, ample reserves, lawsuit free, and has a strong, fully-funded employee pension system. We have good internal financial and budgetary controls, and most importantly, a highly-skilled, motivated, focused staff that is working for our customers. Because of these strengths, we will be able to meet our future challenges in a positive manner, and continue to provide excellent customer service at the lowest possible cost. As of March 1, 2008, we will **reduce our electric energy cost to our customers by 4%.**

It has been a pleasure to be your general manager for the past 15 years, and as always, I enjoy working for you, Modern Electric Water Company's shareholders.

Sincerely,



Mike Baker
General Manager

GENERAL MANAGER'S REPORT

This past year was another busy and successful year for Modern Electric Water Company as outlined in the President's Report.

During the past year we hooked up many new residential and commercial services without any major incidents. This is due to our strong electric and water distribution systems which have the capacity for additional water and electric loads.

Also, as mentioned in the President's Report, we are in the process of implementing two major systems which are the automated meter reading system and a new computer enterprise system. These systems are part of our long-range planning, and will be paid for from our reserves and not through rate increases.

Nowadays, when you listen to the news or read the newspaper, there is a lot of information on global warming, greenhouse gases, and conservation. For many years, MEWCO has been proactive in doing our part for the environment. In the past and present, we have designed conservation programs to meet our customers' needs, to be cost effective, and to be a valuable resource to the region. When appropriate, we have replaced our larger fleet vehicles with smaller, more fuel efficient vehicles. We were one of the first utilities to use a hybrid gas/electric vehicle. Ninety-five percent of the energy Modern Electric Water Company buys from Bonneville Power Administration is renewable. The majority of that energy is generated from the federal hydro-electric system. This is why MEWCO, along with many other utilities, continues to fight outside interest in removing the four Snake River dams and to fight the reduction in production of the hydro-electric system. The loss of this green, renewable resource would force us to replace it with a higher cost and most likely nonrenewable resources. Not only would this significantly increase our customers' energy bills, it would also have a negative effect on the environment.

In fact, because of the renewable federal hydro-electric system, Washington state's total carbon footprint is about half of the rest of the Nation. We will continue to protect our valuable, low-cost, renewable resources from the on-going outside interest groups attacks.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Modern Electric Water Company
Spokane Valley, Washington

We have audited the accompanying balance sheets of Modern Electric Water Company as of September 30, 2007 and 2006, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Modern Electric Water Company as of September 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Anderson, Peretti & Co.
Certified Public Accountants, P.S.
Spokane Valley, Washington
February 11, 2008

**MODERN ELECTRIC WATER COMPANY
BALANCE SHEETS**

September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
UTILITY PLANT (Note 2)		
Land	\$ 540,172	\$ 540,172
Buildings & grounds	3,650,722	3,401,479
Equipment & vehicles	2,409,929	2,352,886
Tanks, towers & plant	6,676,784	6,639,739
Water system	8,564,063	8,412,719
Electric system	15,911,691	15,601,750
	<u>\$ 37,753,361</u>	<u>\$ 36,948,745</u>
Less depreciation reserve	18,746,344	17,587,357
Net utility plant	<u>\$ 19,007,017</u>	<u>\$ 19,361,388</u>
PLANT REPLACEMENT AND IMPROVEMENT FUNDS (Note 4)		
	<u>\$ 16,305,198</u>	<u>\$ 13,571,378</u>
OTHER ASSETS		
Deferred charges (Note 6)	\$ 62,103	\$ 38,587
Prepaid pension (Note 5)	-	428,846
Deposits	47,245	38,639
	<u>\$ 109,348</u>	<u>\$ 506,072</u>
CURRENT ASSETS		
Cash and equivalents	\$ 2,035,591	\$ 1,816,786
Receivables (Note 1):		
Customer accounts	1,534,827	1,437,038
Other	20,000	130,000
Inventory (Note 1)	331,137	322,500
Prepaid expenses	91,623	93,207
Total current assets	<u>\$ 4,013,178</u>	<u>\$ 3,799,531</u>
	<u>\$ 39,434,741</u>	<u>\$ 37,238,369</u>

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 8. ACCUMULATED COMPREHENSIVE INCOME

	<u>2007</u>	<u>2006</u>
Unrealized gains and losses (note 4)	\$ 278,640	\$ 118,429
Pension liability adjustment (note 5)	(888,814)	-
	<u>\$ (610,174)</u>	<u>\$ 118,429</u>

NOTE 9. ADMINISTRATIVE EXPENSES

	<u>2007</u>	<u>2006</u>
General office wages & expense	\$ 635,428	\$ 560,735
Taxes	55,259	51,591
Office supplies & maint.	80,654	96,847
Public relations	42,275	37,470
Dues & subscriptions	52,195	47,313
Pension plan	190,451	198,169
Postage	57,094	50,997
Accounting & legal fees	47,203	78,121
Insurance	51,350	51,013
Medical plan costs	91,696	88,279
Transportation costs	5,066	5,663
Company power usage	15,668	12,542
Depreciation	154,909	163,038
	<u>\$1,479,248</u>	<u>\$ 1,441,778</u>

NOTE 6. PLANT SYSTEM STUDIES

The Company has undertaken planning and rate studies in order to anticipate the future growth and demand requirements of its service area. The costs of these studies are being amortized 5 years and are reported at cost net of accumulated amortization. At September 30, 2007, the current year and accumulated amortization was \$ 0 and \$ 0, respectively. At September 30, 2006, the current year and accumulated amortization was \$2,158 and \$ 0, respectively.

The current plan has been completely amortized and removed from the books as of 9/30/2006. A new Comprehensive Water System Plan has been completed and will become effective 1/1/2008. The balance of \$62,103 represents prepayment on the new plan.

NOTE 7. COMMITMENTS

All water utilities in the State are required by the Washington Health Department to submit an updated comprehensive water plan outlining the strategies the companies will implement over a six year period to insure their compliance with new regulations. Modern Electric Water Company will be required to submit, and is currently working on an updated plan for the six year period commencing January 2008.

Effective October 1, 2001, the Company entered into a five-year agreement to purchase all of its electrical power from Bonneville Power Administration.

The Company has entered into an additional agreement with Bonneville Power Administration to purchase power for the period October 1, 2006 through September 30, 2011.

The Company has a letter of credit of \$1,400,000 with UBS Financial Services, Inc. to financially assist BPA in the event that they experience low reserves. The letter of credit expires on September 30, 2008 and is secured by investments held at UBS Financial Services, Inc.

The Company is subject to a collective bargaining agreement that cover employees other than management and clerical employees. The agreement will expire on March 31, 2009.

	<u>2007</u>	<u>2006</u>
STOCKHOLDERS' EQUITY (Note 3)		
Capital stock \$1 par value	\$ 3,153	\$ 3,153
Paid-in capital & earnings retained prior to 1963	2,113,957	2,113,957
Paid-in capital since 1963	44,371	44,371
Earnings retained 1963-2007	35,655,191	33,322,342
Accumulated comprehensive income (Note 8)	<u>(610,174)</u>	<u>118,429</u>
	<u>\$ 37,206,498</u>	<u>\$ 35,602,252</u>
LIABILITIES		
ACCRUED PENSION COSTS (Note 5)		
	<u>\$ 576,516</u>	<u>\$ -</u>
CURRENT LIABILITIES		
Accounts payable	\$ 1,218,681	\$ 1,186,571
Accrued liabilities:		
Wages & vacation	246,246	259,525
Taxes & other	<u>186,800</u>	<u>190,021</u>
Total current liabilities	<u>\$ 1,651,727</u>	<u>\$ 1,636,117</u>
	<u>\$ 39,434,741</u>	<u>\$ 37,238,369</u>

MODERN ELECTRIC WATER COMPANY
STATEMENTS OF INCOME
Years Ended September 30, 2007 and 2006

	Department	
	<u>Electric</u>	<u>Water</u>
OPERATING REVENUES:		
Customer service	\$ 11,735,654	\$ 1,781,907
Customer construction	72,092	108,447
Total operating revenues	<u>\$ 11,807,746</u>	<u>\$ 1,890,354</u>
OPERATING EXPENSES:		
Power purchases	\$ 7,087,522	\$ 101,303
General operations	690,871	468,144
Maintenance & repairs	367,933	188,332
Depreciation	476,196	577,034
Taxes	551,262	153,379
Total operating expenses	<u>\$ 9,173,784</u>	<u>\$ 1,488,192</u>
Income before		
administrative expenses	<u>\$ 2,633,962</u>	<u>\$ 402,162</u>

Administrative expenses (Note 9)

Income from operations

OTHER INCOME (EXPENSE):

Investment income	
Other income (expense)	
Total other income	

Net income

**STATEMENTS OF RETAINED
EARNINGS**

Years Ended September 30, 2007 and 2006

Balance, beginning	\$ 33,322,342	\$ 29,964,831
Add net income	2,332,849	3,357,511
Balance, ending	<u>\$ 35,655,191</u>	<u>\$ 33,322,342</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 5. DEFINED BENEFIT PENSION PLAN

Net pension cost for the Company's defined benefit pension plan consisted of the following components for the years ended 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Service cost (benefits earned)	\$ 209,572	\$ 199,555
Interest cost on projected benefit obligation	148,815	133,504
Actual return on plan assets	(224,056)	(157,037)
Net amortization and deferral	180,195	140,753
Employee contributions	(17,978)	(17,621)
	<u>\$ 296,548</u>	<u>\$ 299,154</u>

Company contribution	<u>\$ 180,000</u>	<u>\$ 180,000</u>
Benefits paid	<u>\$ 4,037</u>	<u>\$ 39,302</u>

The following table sets forth the plan's funded status as of September 30, 2007 and 2006 and the amount recognized in the accompanying balance sheets as of September 30:

	<u>2007</u>	<u>2006</u>
Actuarial present value of benefit obligations:		
Vested benefits	\$ 1,846,052	\$ 1,578,220
Accumulated benefits	\$ 1,868,865	\$ 1,596,154
Projected benefits	\$(2,831,865)	\$(2,482,279)
Plan assets at fair value	2,255,349	1,837,362
Plan assets less than projected benefit obligation	\$ (576,516)	\$ (644,917)
Unrecognized net loss	744,258	893,859
Unrecognized prior service cost	144,556	179,904
Unrecognized transition asset	-	-
Other comprehensive income	(888,814)	-
Asset (accrual) on balance sheet	<u>\$ (576,516)</u>	<u>\$ 428,846</u>

The discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the benefit obligations were 6.0% and 4.5%, respectively, at September 30, 2007. The expected long-term rate of return on plan assets used in 2007 was 6.0%.

NOTE 4. PLANT REPLACEMENT AND IMPROVEMENT FUNDS (continued)

The Company has invested the funds in debt and equity securities. Debt securities consist primarily of obligations of the U.S. and state governments, and domestic corporations. Any premiums or discounts on debt securities are amortized over their contract lives. Equity securities are held in managed fund portfolios. Since the Company neither buys investment securities in anticipation of short-term fluctuations in market prices nor absolutely commits to holding securities to maturity, these investments are classified as available-for-sale in accordance with FASB 115 and are stated at market value. A summary of cost, market value and unrealized gains at September 30, 2007 and 2006 for these investments follows:

	Securities Amortized Cost	Net Unrealized Gain (Loss)	Securities Market Value
2007			
Debt	\$ 8,946,345	\$ (272,254)	\$ 8,674,091
Equity	7,080,213	550,894	7,631,107
	<u>\$16,026,558</u>	<u>\$ 278,640</u>	<u>\$ 16,305,198</u>
2006			
Debt	\$ 9,636,511	\$ (96,533)	\$ 9,539,978
Equity	3,816,438	214,962	4,031,400
	<u>\$ 13,452,949</u>	<u>\$ 118,429</u>	<u>\$ 13,571,378</u>

Net comprehensive income during the years ended September 30, 2007 and 2006 is \$160,211 and \$159,572, respectively. Net comprehensive income consists of unrealized holding gains (losses) arising during the year of \$192,074 and \$115,979, respectively, and reclassification adjustment for net realized gains (losses) included in net income for the year of \$(31,863) and \$43,593, respectively. Accumulated comprehensive income at September 30, is \$278,640 and \$118,429, respectively.

The amortized cost and market value of debt securities, by contractual maturities, as of September 30, 2007 are as follows:

	Amortized Cost	Market Value
Due in one year or less	\$ 2,728,992	\$ 2,744,921
Due after one year through five years	-	-
Due after five years	6,217,353	5,929,170
	<u>\$ 8,946,345</u>	<u>\$ 8,674,091</u>

	2007 TOTAL	2006 TOTAL
	\$ 13,517,561	\$ 12,969,396
	180,539	205,899
	<u>\$ 13,698,100</u>	<u>\$ 13,175,295</u>
	\$ 7,188,825	\$ 5,786,786
	1,159,015	1,047,945
	556,265	424,498
	1,053,230	1,054,724
	704,641	700,825
	<u>\$ 10,661,976</u>	<u>\$ 9,014,778</u>
	\$ 3,036,124	\$ 4,160,517
	1,479,248	1,441,778
	<u>\$ 1,556,876</u>	<u>\$ 2,718,739</u>
	\$ 879,028	\$ 664,193
	(103,055)	(25,421)
	<u>\$ 775,973</u>	<u>\$ 638,772</u>
	<u>\$ 2,332,849</u>	<u>\$ 3,357,511</u>

See Notes to Financial Statements.

MODERN ELECTRIC WATER COMPANY
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2007 and 2006

	2007	2006
CASH FLOWS FROM		
OPERATING ACTIVITIES:		
Cash from customers	\$ 13,600,311	\$ 12,961,335
Cash paid for operations	(10,849,230)	(10,055,638)
Investment income received	42,007	13,656
Net cash from operations	\$ 2,793,088	\$ 2,919,353
CASH FLOWS FROM		
INVESTING ACTIVITIES:		
Proceeds from sale of assets	\$ 3,000	\$ 64,430
Purchase of:		
Buildings & grounds	(266,389)	(31,120)
Equipment & vehicles	(112,539)	(77,926)
Tanks, towers & plant	-	(2,709)
Water system	(164,899)	(194,446)
Electric system	(309,941)	(743,017)
Purchase of plant funds	(1,700,000)	(2,535,000)
Deferred charges	(23,515)	(38,583)
Net cash used in investing	\$ (2,574,283)	\$ (3,558,371)
Increase (decrease) in cash	\$ 218,805	\$ (639,018)
Beginning cash	1,816,786	2,455,804
Ending cash	\$ 2,035,591	\$ 1,816,786

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. UTILITY PLANT (continued)

Depreciation is computed on the straight-line method with the following range of lives and balances:

	Lives in Years	Reserve for Depreciation at September 30	
		2007	2006
Buildings & grounds	10-40	\$ 855,899	\$ 759,686
Equipment & vehicles	5-10	1,788,336	1,650,842
Tanks, towers & pumping plant	10-35	3,655,912	3,407,462
Water system	20-35	4,672,063	4,414,233
Electric system	15-40	7,774,134	7,355,134
		\$ 18,746,344	\$ 17,587,357

NOTE 3. STOCKHOLDERS' EQUITY

The Company (a Washington corporation) is owned by the owners of the real property within its service area. The Company's authorized capital consists of 6,000 shares of \$1 par value stock. Stock certificates, as such, are not issued to each owner, but rather ownership is vested in the deed to their property. There are 3153 acres of land which have vested ownership. Prior to December 31, 1963, the Company did not segregate retained earnings and paid-in capital. The retained earnings shown in the accompanying financial statements represent earnings retained since such date.

NOTE 4. PLANT REPLACEMENT AND IMPROVEMENT FUNDS

Management intends that these funds be used for normal replacement, expansion, and upgrading of the Company's utility plant. In addition, changes in various requirements of federal, state or local regulations could require the Company to incur substantial capital expenditures in order to comply with any such new regulations. Management's intention is to use these funds to meet such contingencies when they arise.

**NOTE 1. NATURE OF BUSINESS AND
SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Inventory:

Inventory is recorded at average cost not in excess of replacement cost.

Income tax:

The Company is a tax-exempt entity under Internal Revenue Code Section 501 (c) (12), per an exemption letter dated March 12, 1939.

Pension benefits:

The Company has a defined benefit pension plan covering certain employees who meet the eligibility requirements. To be eligible, an employee must be 21 years of age and have completed one year of service. The plan provides benefits based on the average annual compensation of the highest five consecutive years of compensation out of the last ten years of service of each participant, which are subject to certain reductions if the employee retires before reaching age 65. In order to become plan participants, employees are required to contribute one percent of their pay to the plan. The employer contributes the remaining amount necessary to provide the plan's defined benefits.

In addition, the Company has a deferred compensation plan which is available to all employees. The Company matches employee contributions up to 5% of total gross compensation. The Company's contributions to this plan were \$81,222 and \$81,985 for 2007 and 2006, respectively.

Use of estimates:

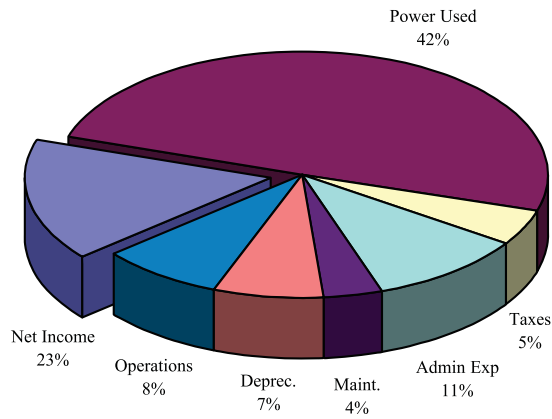
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2. UTILITY PLANT

Additions to utility plant are recorded at cost, including any applicable overhead costs. The cost of repairs and minor replacements is charged to maintenance. Gains and losses on the retirement of utility plant are included in the statements of income.

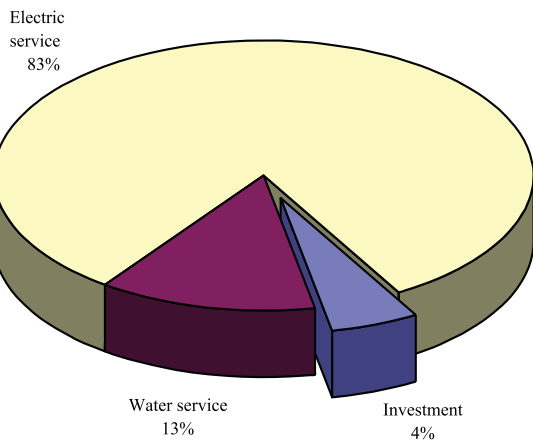
	2007	2006
RECONCILIATION OF NET INCOME TO CASH FROM OPERATING ACTIVITIES:		
Net income	\$ 2,332,849	\$ 3,357,511
Adjustments to reconcile net income to cash from operations:		
(Gain) loss on sale of fixed assets	(3,000)	(51,018)
Depreciation & amortization	1,208,139	1,219,920
Reinvested investment income	(873,609)	(817,573)
(Increase) decrease in assets:		
Accounts receivable	(97,789)	(213,959)
Other receivables	110,000	259,288
Inventory	(8,637)	(30,765)
Prepaid expenses	1,584	(5,902)
Prepaid pension	116,545	119,154
Deposits	(8,606)	(9,825)
Increase (decrease) in liabilities:		
Accounts payable	32,111	(936,747)
Accrued liabilities	(16,499)	29,269
Net cash from operations	<u>\$ 2,793,088</u>	<u>\$ 2,919,353</u>

What was done with Revenue
For the Year Ended September 30, 2007



Revenue

For the Year Ended September 30, 2007



MODERN ELECTRIC WATER COMPANY
NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of business:

The Company operates an electric and water utility company in Spokane Valley, Washington.

A summary of the Company's significant accounting policies follows:

Revenue recognition:

The Company realizes revenue from electric service monthly as the charges are earned. Water service and estimated usage are also billed monthly. Actual residential water usage is determined in May, July, and September at which time water billings are adjusted accordingly.

Accounts receivable:

The allowance for bad debt reserve was zero at year end. Unpaid accounts receivable create a lien against the property and are therefore adequately secured. Receivables ninety days or more past due were \$14,634 and \$19,227 as of September 30, 2007 and 2006, respectively.

Cash and cash equivalents:

For the purposes of reporting the statements of cash flows, the Company considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

The Company maintains its cash accounts in various banks located in Spokane Valley, Washington. Accounts at each bank are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. A summary of the total insured and uninsured cash balances follows:

	<u>2007</u>	<u>2006</u>
Total cash in all banks	\$ 2,035,591	\$ 1,816,786
Portion insured by FDIC	300,000	300,000
Uninsured cash balances	<u>\$ 1,735,591</u>	<u>\$ 1,516,786</u>