

THE ISLAND WATER ASSOCIATION, INC.

Financial Statements

December 31, 1979 and 1978

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Peat, Marwick, Mitchell & Co.

Certified Public Accountants

P.O. Box 1439
Tampa, Florida 33601

The Board of Directors and Members
The Island Water Association, Inc.:

We have examined the balance sheets of The Island Water Association, Inc. as of December 31, 1979 and 1978 and the related statements of operations and accumulated deficit and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of The Island Water Association, Inc. at December 31, 1979 and 1978 and the results of its operations and the changes in its financial position for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

February 1, 1980

THE ISLAND WATER ASSOCIATION, INC.

Balance Sheets

December 31, 1979 and 1978

<u>Assets</u>	<u>1979</u>	<u>1978*</u>
Plant property (notes 2, 3 and 4):		
Utility plant in service	\$ 8,418,453	6,861,481
Construction work in progress	1,628,342	1,451,046
	<u>10,046,795</u>	<u>8,312,527</u>
Less accumulated depreciation	1,642,302	1,323,135
Net plant property	<u>8,404,493</u>	<u>6,989,392</u>
Current assets:		
Cash	405,029	94,339
Certificates of deposit	-	800,000
Accounts receivable	101,160	145,072
Unbilled revenues	87,530	-
Prepayments and other (note 3)	37,198	172,320
Materials and supplies, at lower of cost (first-in, first-out) or market	<u>102,286</u>	<u>140,170</u>
Total current assets	<u>733,203</u>	<u>1,351,901</u>
Restricted assets (note 4):		
Cash	12,767	2,907
Certificates of deposit	<u>215,000</u>	<u>95,785</u>
Total restricted assets	<u>227,767</u>	<u>98,692</u>
Deposits	<u>1,114</u>	<u>1,969</u>
	<u>\$ 9,366,577</u>	<u>8,441,954</u>

*Certain amounts have been reclassified to conform with 1979 classifications.

See accompanying notes to financial statements.

<u>Accumulated Deficit and Liabilities</u>	<u>1979</u>	<u>1978*</u>
Capitalization:		
Accumulated deficit	\$ (361,539)	(453,164)
Long-term debt, excluding current installments (note 4)	<u>4,644,663</u>	<u>3,726,303</u>
Total capitalization	<u>4,283,124</u>	<u>3,273,139</u>
Current liabilities:		
Note payable to bank	-	189,000
Current installments of long-term debt (note 4)	49,426	-
Accounts payable	108,353	363,735
Accrued interest (note 4)	<u>10,965</u>	<u>67,205</u>
Total current liabilities	<u>168,744</u>	<u>619,940</u>
Customer advances for construction	11,194	18,490
Members' contributions in aid of construction	4,903,515	4,530,385
Contingency (note 6)		
	<u>\$ 9,366,577</u>	<u>8,441,954</u>

THE ISLAND WATER ASSOCIATION, INC.

Statements of Operations and
Accumulated Deficit

Years ended December 31, 1979 and 1978

	<u>1979</u>	<u>1978</u>
Operating revenues	\$ 1,818,327 ✓	1,445,973
Operating expenses:		
Operation	986,446	801,601
Maintenance	220,211	104,504
Depreciation	459,501	365,941
Taxes, other than income	<u>24,343</u>	<u>19,831</u>
Total operating expenses	<u>1,690,501</u>	<u>1,291,877</u>
Operating income	<u>127,826</u>	<u>154,096</u>
Other income:		
Interest	85,377 ✓	63,842
Allowance for funds used during construction	73,800	29,976
Other	<u>6,578</u> ✓	<u>34,362</u>
Total other income	<u>165,755</u>	<u>128,180</u>
Income before interest charges	<u>293,581</u>	<u>282,276</u>
Interest charges on long-term debt	<u>201,956</u>	<u>163,501</u>
Net income	91,625	118,775
Accumulated deficit at beginning of year	<u>(453,164)</u>	<u>(571,939)</u>
Accumulated deficit at end of year	<u>\$ (361,539)</u>	<u>(453,164)</u>

See accompanying notes to financial statements.

THE ISLAND WATER ASSOCIATION, INC.

Statements of Changes in Financial Position

Years ended December 31, 1979 and 1978

	<u>1979</u>	<u>1978*</u>
Funds provided:		
Net income	\$ 91,625	118,775
Add nonfund charges (credits) to income:		
Depreciation	459,501	365,941
Allowance for funds used during construction	<u>(73,800)</u>	<u>(29,976)</u>
Funds derived from operations	<u>477,326</u>	<u>454,740</u>
Increase in customers' contributions in aid of construction	373,130	1,101,178
Decrease in other assets	855	36,245
Proceeds from short-term borrowings	-	189,000
Proceeds from long-term borrowings	1,000,000	776,000
Decrease in working capital	<u>307,076</u>	<u>-</u>
	<u>\$ 2,158,387</u>	<u>2,557,163</u>
Funds used:		
Gross property additions (net of allowance for funds used during construction)	1,800,802	2,113,057
Increase in restricted assets	129,075	20,809
Decrease in short-term borrowings	189,000	-
Decrease in long-term debt	32,214	36,320
Decrease in customers' advances for construction	7,296	1,145
Increase in working capital	<u>-</u>	<u>385,832</u>
	<u>\$ 2,158,387</u>	<u>2,557,163</u>
Changes in working capital (excluding short-term borrowings):		
Increase (decrease) in cash and certificates of deposit	(489,310)	465,337
Increase (decrease) in accounts receivables	(43,912)	45,031
Increase in unbilled revenues	87,530	-
Increase (decrease) in prepayments and other	(135,122)	94,154
Increase (decrease) in materials and supplies	(37,884)	38,076
Decrease (increase) in accounts payable	255,382	(265,037)
Decrease in accrued interest	<u>56,240</u>	<u>8,271</u>
Net change	<u>\$ (307,076)</u>	<u>385,832</u>

*Certain amounts have been reclassified to conform with 1979 classifications.

See accompanying notes to financial statements.

THE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 1979 and 1978

(1) Summary of Significant Accounting Policies

(a) Organization

The Island Water Association, Inc. is a nonprofit organization exempt from Federal and state income taxes under Internal Revenue Code Section 501(c)(4).

A nonrefundable connection fee is charged to all new subscribers for the services of the Association. Each subscriber is entitled to one vote in the Association.

(b) Regulatory Agency

The Association is regulated by the Board of County Commissioners of Lee County, Florida.

(c) Utility Plant in Service

Utility plant in service is recorded at cost. Cost of depreciable plant assets retired, plus the cost of removal, less salvage value received is charged against accumulated depreciation.

(d) Unbilled Revenues

Unbilled revenues represent revenues between the last dates of the cycle billings and year end. They occur in 1979 because of the Association's adoption of cycle billing procedures during the year.

(e) Allowance for Funds Used
During Construction

Interest is capitalized on funds used during construction at the 5% rate paid by the Association on its long-term debt. Capitalized interest in 1979 and 1978 was \$73,800 and \$29,976, respectively.

(f) Depreciation

Depreciation of utility plant in service is provided by the straight-line method over the estimated useful lives of the respective assets.

(g) Pension Plan

The Association's policy is to fund the normal cost as determined by the actuary using the aggregate method. There are no prior service costs.

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THE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

(2) Utility Plant in Service

A summary of utility plant in service follows:

	<u>1979</u>	<u>1978</u>
Source of supply plant	\$ 976,306	909,040
Pumping plant	494,331	479,261
Water treatment plant	2,439,468	2,375,788
Transmission and distribution plant	4,285,067	2,978,398
General plant	<u>223,281</u>	<u>118,994</u>
	<u>\$ 8,418,453</u>	<u>6,861,481</u>

(3) Performance Guarantee

The contractor for the electro dialysis equipment being currently used in the water treatment plant had guaranteed the performance of this equipment over a five-year period ended November 28, 1978. The guarantee was based on engineering data, water quality, usage, additional capacity and other specified conditions. If the Association's replacement and service outlay for various parts, reduced by any savings in projected electrical and chemical costs, exceeded contractor's projected amounts, then the contractor gave the Association credit on future purchases of parts. Based upon an engineer's study, credit was \$45,668 and has been reflected in prepayments and other as of December 31, 1978. Such credit was utilized during 1979.

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THE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

(4) Long-term Debt

A summary of long-term debt payable to Farmers Home Administration follows:

	<u>1979</u>	<u>1978</u>
5% mortgage note payable in monthly installments of \$4,016, including interest, to November 18, 2005	\$ 646,399	648,866
5% mortgage note payable in monthly installments of \$5,578, including interest, to July 17, 2013	1,033,664	1,042,769
5% mortgage note payable in monthly installments of \$1,235, including interest, to July 17, 2013	215,296	215,296
5% mortgage note payable in monthly installments of \$5,434, including interest, to October 11, 2014	1,042,329	1,043,372
5% mortgage note payable in monthly installments of \$3,834, including interest, to August 11, 2018	775,575	776,000
5% mortgage note payable, monthly interest of \$4,167 due to February 28, 1981, then monthly installments of \$4,947, including interest, to February 28, 2019	<u>980,826</u>	<u>-</u>
	4,694,089	3,726,303
Less current installments of long-term debt	<u>49,426</u>	<u>-</u>
	<u>\$ 4,644,663</u>	<u>3,726,303</u>

Substantially all plant assets are pledged to secure long-term debt.

All payments required by agreement with the lender have been made. The lender's determination of the allocation of the payments between principal and interest caused substantial accrued interest payable at December 31, 1978. Because the scheduled payments for 1979 were not sufficient to pay the interest accrued at December 31, 1978 and that which would have been accrued during 1979, no current portion of long-term debt was shown.

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THE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

Under the terms of the Farmer Home Administration loan agreements, to the extent funds are available, the Association is required to transfer an annual amount equivalent to one-tenth of the annual payments to a separate account until such account equals the total annual payments of \$233,964. These funds are to be used only to repair damage from unforeseen catastrophes or, with approval, certain expansion of facilities. These funds totalled \$126,906 in 1979 and \$98,692 in 1978.

The Board of Directors has restricted \$100,861 in 1979 to provide additional funds for unforeseen and extraordinary expenditures which may be utilized without prior approval by the Farmers Home Administration.

(5) Pension Plan

The Association established a noncontributory defined-benefit pension plan covering substantially all employees beginning July 1, 1976. Such plan was replaced at November 1, 1979 with a defined-contribution plan. Total pension plan expense was \$25,891 in 1979 and \$21,363 in 1978.

(6) Contingency

The Association has filed suit against Lee County for breach of franchise agreement. The Second District Court of Appeal has affirmed the Lee County Circuit Court ruling in favor of the Association. Damages to be awarded are estimated by counsel to be in excess of \$200,000. Final resolution is pending outcome of the trial for damages.