

THE ISLAND WATER ASSOCIATION, INC.

Financial Statements

December 31, 1980 and 1979

(With Accountants' Report Thereon)



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, 1980 and 1979 and the related statements of operations, 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, 1980 and 1979 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 6, 1981

THE ISLAND WATER ASSOCIATION, INC.

Balance Sheets

December 31, 1980 and 1979

<u>Assets</u>	<u>1980</u>	<u>1979</u>
Plant property (notes 2 and 3):		
Utility plant in service	\$ 10,967,714	8,418,453
Construction work in progress	259,656	1,628,342
	<u>11,227,370</u>	<u>10,046,795</u>
Less accumulated depreciation	<u>2,199,133</u>	<u>1,642,302</u>
Net plant property	<u>9,028,237</u>	<u>8,404,493</u>
Current assets:		
Cash	300,404	405,029
Accounts receivable	53,922	101,160
Unbilled revenues	122,354	87,530
Prepayments and other	39,235	37,198
Materials and supplies, at lower of cost (first-in, first-out) or market	<u>117,794</u>	<u>102,286</u>
Total current assets	<u>633,709</u>	<u>733,203</u>
Restricted assets (notes 3 and 5):		
Cash	13,122	12,767
Certificates of deposit	<u>421,500</u>	<u>215,000</u>
Total restricted assets	<u>434,622</u>	<u>227,767</u>
Deposits	<u>941</u>	<u>1,114</u>
	<u>\$ 10,097,509</u>	<u>9,366,577</u>

See accompanying notes to financial statements.

<u>Accumulated Deficit and Liabilities</u>	<u>1980</u>	<u>1979</u>
Capitalization:		
Accumulated deficit:		
Unappropriated surplus (deficit)	\$ (565,378)	(589,306)
Appropriated surplus (note 3)	<u>434,622</u>	<u>227,767</u>
Net accumulated deficit	(130,756)	(361,539)
Long-term debt, excluding current installments (note 3)	<u>4,615,827</u>	<u>4,644,663</u>
Total capitalization	<u>4,485,071</u>	<u>4,283,124</u>
Current liabilities:		
Current installments of long-term debt (note 3)	48,840	49,426
Accounts payable	75,639	108,353
Accrued interest	<u>20,886</u>	<u>10,965</u>
Total current liabilities	<u>145,365</u>	<u>168,744</u>
Customer advances for construction	8,840	11,194
Members' contributions in aid of construction (note 5)	5,458,233	4,903,515
	<u>\$ 10,097,509</u>	<u>9,366,577</u>

THE ISLAND WATER ASSOCIATION, INC.

Statements of Operations

Years ended December 31, 1980 and 1979

	<u>1980</u>	<u>1979</u>
Operating revenues (note 5)	\$ <u>2,211,200</u>	<u>1,818,327</u>
Operating expenses:		
Operation	1,029,757	986,446
Maintenance	199,234	220,211
Depreciation	567,364	459,501
Taxes, other than income	<u>24,308</u>	<u>24,343</u>
Total operating expenses	<u>1,820,663</u>	<u>1,690,501</u>
Operating income	<u>390,537</u>	<u>127,826</u>
Other income:		
Interest	54,161	85,377
Allowance for funds used during construction	48,000	73,800
Other	<u>4,355</u>	<u>6,578</u>
Total other income	<u>106,516</u>	<u>165,755</u>
Income before interest charges	497,053	293,581
Interest charges on long-term debt	<u>266,270</u>	<u>201,956</u>
Net income	<u>\$ 230,783</u>	<u>91,625</u>

See accompanying notes to financial statements.

THE ISLAND WATER ASSOCIATION, INC.

Statements of Accumulated Deficit

Years ended December 31, 1980 and 1979

	Unappropriated surplus <u>(deficit)</u>	Appropriated surplus	Net accumulated <u>deficit</u>
Balance at December 31, 1978	\$ (551,856)	98,692	(453,164)
Year ended December 31, 1979:			
Appropriation of surplus (note 3)	(129,075)	129,075	-
Net income	<u>91,625</u>	<u>-</u>	<u>91,625</u>
Balance at December 31, 1979	(589,306)	227,767	(361,539)
Year ended December 31, 1980:			
Appropriation of surplus (note 3)	(206,855)	206,855	-
Net income	<u>230,783</u>	<u>-</u>	<u>230,783</u>
Balance at December 31, 1980	\$ <u>(565,378)</u>	<u>434,622</u>	<u>(130,756)</u>

See accompanying notes to financial statements.

THE ISLAND WATER ASSOCIATION, INC.

Statements of Changes in Financial Position

Years ended December 31, 1980 and 1979

	<u>1980</u>	<u>1979</u>
Funds provided:		
Net income	\$ 230,783	91,625
Add nonfund charges (credits) to income:		
Depreciation	567,364	459,501
Allowance for funds used during construction	<u>(48,000)</u>	<u>(73,800)</u>
Funds derived from operations	<u>750,147</u>	<u>477,326</u>
Increase in members' contributions in aid of construction	554,718	373,130
Decrease in other assets	173	855
Proceeds from long-term borrowings	-	1,000,000
Decrease in working capital	<u>76,701</u>	<u>307,076</u>
	<u>\$ 1,381,739</u>	<u>2,158,387</u>
Funds used:		
Gross property additions (net of allowance for funds used during construction)	1,143,108	1,800,802
Increase in restricted assets	206,855	129,075
Decrease in short-term borrowings	-	189,000
Decrease in long-term debt	29,422	32,214
Decrease in customers' advances for construction	<u>2,354</u>	<u>7,296</u>
	<u>\$ 1,381,739</u>	<u>2,158,387</u>
Changes in working capital (excluding short-term borrowings):		
Increase (decrease) in cash and certificates of deposit	(104,625)	(489,310)
Increase (decrease) in accounts receivable	(47,238)	(43,912)
Increase in unbilled revenues	34,824	87,530
Increase (decrease) in prepayments and other	2,037	(135,122)
Increase (decrease) in materials and supplies	15,508	(37,884)
Decrease in accounts payable	32,714	255,382
Decrease (increase) in accrued interest	<u>(9,921)</u>	<u>56,240</u>
Net change	<u>\$ (76,701)</u>	<u>(307,076)</u>

See accompanying notes to financial statements.

THE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 1980 and 1979

(1) Summary of Significant Accounting Policies

(a) Organization

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

Each connection for the services rendered by the Corporation shall entitle the subscriber for such connection to one membership certificate. At any meeting of the members of the Corporation, each member shall be entitled to one vote only, regardless of the number of certificates of membership held.

(b) Regulatory Agency

The Corporation 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.

(e) Allowance for Funds Used
During Construction

Interest is capitalized on funds used during construction at the 5% rate paid by the Corporation on its long-term debt. Capitalized interest in 1980 and 1979 was \$48,000 and \$73,800, 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.

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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>1980</u>	<u>1979</u>
Source of supply plant	\$ 1,139,871	976,306
Pumping plant	547,621	494,331
Water treatment plant	4,503,415	2,439,468
Transmission and distribution plant	4,532,106	4,285,067
General plant	244,701	223,281
	<u>\$ 10,967,714</u>	<u>8,418,453</u>

(3) Long-term Debt

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

	<u>1980</u>	<u>1979</u>
5% mortgage note payable in monthly installments of \$4,016, including interest, to November 18, 2005	\$ 641,359	646,399
5% mortgage note payable in monthly installments of \$5,578, including interest, to July 17, 2013	1,026,221	1,033,664
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	1,042,329
5% mortgage note payable in monthly installments of \$3,834, including interest, to August 11, 2018	768,360	775,575
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	971,102	980,826
	<u>4,664,667</u>	<u>4,694,089</u>
Less current installments of long-term debt	48,840	49,426
	<u>\$ 4,615,827</u>	<u>4,644,663</u>

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

(Continued)

THE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

Under the terms of the Farmers Home Administration loan agreements, to the extent funds are available, the Corporation 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 \$291,180. These funds are to be used with the approval of the Farmers Home Administration only to repair damage from unforeseen catastrophes or certain expansion of facilities. These funds totalled \$155,483 at December 31, 1980 and \$126,906 at December 31, 1979.

The Board of Directors has restricted \$279,139 at December 31, 1980 and \$100,861 at December 31, 1979 to provide funds for unforeseen and extraordinary expenditures and to fund improvements and expansion of plant in service.

(4) Pension Plan

The Corporation 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. Excess assets over accrued benefits of \$13,075 from the defined-benefit plan were credited in 1980 to the new defined-contribution plan. In addition, a \$27,500 contribution was made by the Corporation in 1980. Pension plan expense for 1979 was \$25,891.

(5) Franchise Suit

The Corporation filed suit in 1979 against Lee County for violation of its franchise agreement. Damages awarded in 1980 were \$235,000. Such damages consisted of \$81,246 of connection fees which were recorded in 1980 as members' contributions in aid of construction and \$153,754 for lost revenues which were recorded as 1980 revenues. The \$235,000 proceeds represent a substantial portion of the 1980 increase in restricted assets.