

THE ISLAND WATER ASSOCIATION, INC.

Financial Statements

December 31, 1981 and 1980

(With Accountants' Report Thereon)



Peat, Marwick, Mitchell & Co.
Certified Public Accountants



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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, 1981 and 1980 and the related statements of operations, accumulated surplus (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, 1981 and 1980 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 19, 1982

THE ISLAND WATER ASSOCIATION, INC.

Balance Sheets

December 31, 1981 and 1980

<u>Assets</u>	<u>1981</u>	<u>1980</u>
Plant property (notes 2 and 3):		
Utility plant in service	\$ 11,348,414	10,967,714
Construction work in progress	1,247,105	259,656
	<u>12,595,519</u>	<u>11,227,370</u>
Less accumulated depreciation	<u>2,727,088</u>	<u>2,199,133</u>
Net plant property	<u>9,868,431</u>	<u>9,028,237</u>
Current assets:		
Cash, including interest-bearing accounts	142,171	300,404
Accounts receivable	108,760	53,922
Unbilled revenues	101,164	122,354
Prepayments and other	33,414	39,235
Materials and supplies, at lower of cost (weighted average) or market	<u>134,998</u>	<u>117,794</u>
Total current assets	<u>520,507</u>	<u>633,709</u>
Restricted assets (notes 3 and 5):		
Cash	387	13,122
Certificates of deposit	<u>373,984</u>	<u>421,500</u>
Total restricted assets	<u>374,371</u>	<u>434,622</u>
Deposits	<u>2,992</u>	<u>941</u>
	<u>\$ 10,766,301</u>	<u>10,097,509</u>

See accompanying notes to financial statements.

*510,542. cash from bank
2007 12 - 31 82*

<u>Accumulated Surplus (Deficit) and Liabilities</u>	<u>1981</u>	<u>1980</u>
Capitalization:		
Accumulated surplus (deficit):		
Unappropriated deficit	\$ (223,576)	(565,378)
Appropriated surplus (note 3)	<u>374,371</u>	<u>434,622</u>
Net accumulated surplus (deficit)	150,795	(130,756)
Long-term debt, excluding current installments (note 3)	<u>4,536,081</u>	<u>4,615,827</u>
Total capitalization	<u>4,686,876</u>	<u>4,485,071</u>
Current liabilities:		
Current installments of long-term debt (note 3)	71,707	48,840
Accounts payable	196,135	75,639
Accrued interest	<u>9,713</u>	<u>20,886</u>
Total current liabilities	<u>277,555</u>	<u>145,365</u>
Customer advances for construction	8,418	8,840
Members' contributions in aid of construction (note 5)	5,793,452	5,458,233
Commitments (note 6)		
	<u>\$ 10,766,301</u>	<u>10,097,509</u>

THE ISLAND WATER ASSOCIATION, INC.

Statements of Operations

Years ended December 31, 1981 and 1980

	<u>1981</u>	<u>1980</u>
Operating revenues (note 5)	\$ <u>2,502,955</u>	<u>2,211,200</u>
Operating expenses:		
Operation	1,215,457	1,029,757
Maintenance	252,685	199,234
Depreciation	629,969	567,364
Taxes, other than income	<u>30,007</u>	<u>24,308</u>
Total operating expenses	<u>2,128,118</u>	<u>1,820,663</u>
Operating income	<u>374,837</u>	<u>390,537</u>
Other income:		
Interest	88,932	54,161
Allowance for funds used during construction	36,000	48,000
Other	<u>12,570</u>	<u>4,355</u>
Total other income	<u>137,502</u>	<u>106,516</u>
Income before interest charges	512,339	497,053
Interest charges on long-term debt	<u>230,788</u>	<u>266,270</u>
Net income	<u>\$ 281,551</u>	<u>230,783</u>

See accompanying notes to financial statements.

THE ISLAND WATER ASSOCIATION, INC.

Statements of Accumulated Surplus (Deficit)

Years ended December 31, 1981 and 1980

	Unappropriated surplus <u>(deficit)</u>	Appropriated surplus <u>surplus</u>	Net accumulated surplus <u>(deficit)</u>
Balances 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>
Balances at December 31, 1980	(565,378)	434,622	(130,756)
Year ended December 31, 1981:			
Transfer from appropriated surplus (note 3)	60,251	(60,251)	-
Net income	<u>281,551</u>	<u>-</u>	<u>281,551</u>
Balances at December 31, 1981	\$ <u><u>(223,576)</u></u>	<u><u>374,371</u></u>	<u><u>150,795</u></u>

See accompanying notes to financial statements.

THE ISLAND WATER ASSOCIATION, INC.

Statements of Changes in Financial Position

Years ended December 31, 1981 and 1980

	<u>1981</u>	<u>1980</u>
Funds provided:		
Net income	\$ 281,551	230,783
Add nonfund charges (credits) to income:		
Depreciation	629,969	567,364
Allowance for funds used during construction	<u>(36,000)</u>	<u>(48,000)</u>
Funds derived from operations	<u>875,520</u>	<u>750,147</u>
Increase in members' contributions in aid of construction	335,219	554,718
Decrease in restricted assets	60,251	-
Decrease in other assets	-	173
Decrease in working capital	<u>245,392</u>	<u>76,115</u>
	<u>\$ 1,516,382</u>	<u>1,381,153</u>
Funds used:		
Property additions, net of allowance for funds used during construction	1,434,163	1,143,108
Increase in restricted assets (note 5)	-	206,855
Increase in deposits	2,051	-
Decrease in long-term debt	79,746	28,836
Decrease in customer advances for construction	<u>422</u>	<u>2,354</u>
	<u>\$ 1,516,382</u>	<u>1,381,153</u>
Changes in working capital:		
Decrease in cash and interest-bearing accounts	(158,233)	(104,625)
Increase (decrease) in accounts receivable	54,838	(47,238)
Increase (decrease) in unbilled revenues	(21,190)	34,824
Increase (decrease) in prepayments and other	(5,821)	2,037
Increase in materials and supplies	17,204	15,508
Decrease (increase) in current installments of long-term debt	(22,867)	586
Decrease (increase) in accounts payable	(120,496)	32,714
Decrease (increase) in accrued interest	<u>11,173</u>	<u>(9,921)</u>
Net change	<u>\$ (245,392)</u>	<u>(76,115)</u>

See accompanying notes to financial statements.

THE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 1981 and 1980

(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 and Franchise

The Corporation operates under a 30-year franchise granted by the Board of County Commissioners of Lee County, Florida (County). Such franchise expires on July 14, 1995. Rate adjustments require the prior written consent of the County.

During the franchise period, the County has the right to purchase the property of the Corporation at a purchase price not to exceed the original costs of the facilities less depreciation.

(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 1981 and 1980 was \$36,000 and \$48,000, 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) Reclassifications

Certain 1980 amounts in the statement of changes in financial position have been reclassified to conform with the presentations adopted in 1981.

(Continued)

THE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

(2) Utility Plant in Service

A summary of utility plant in service follows:

	<u>1981</u>	<u>1980</u>
Source of supply plant	\$ 1,039,064	919,871
Pumping plant	569,118	547,621
Water treatment plant	4,492,236	4,503,415
Transmission and distribution plant	4,929,984	4,752,106
General plant	<u>318,012</u>	<u>244,701</u>
	<u>\$ 11,348,414</u>	<u>10,967,714</u>

(3) Long-term Debt

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

	<u>1981</u>	<u>1980</u>
5% mortgage note payable in monthly installments of \$4,016, including interest, to November 18, 2005	\$ 625,036	641,359
5% mortgage note payable in monthly installments of \$5,578, including interest, to July 17, 2013	1,012,132	1,026,221
5% mortgage note payable in monthly installments of \$1,190, including interest, to July 17, 2013	214,837	215,296
5% mortgage note payable in monthly installments of \$5,434, including interest, to October 11, 2014	1,029,866	1,042,329
5% mortgage note payable in monthly installments of \$3,834, including interest, to August 11, 2018	761,279	768,360
5% mortgage note payable in monthly installments of \$4,941, including interest, to February 28, 2019	<u>964,638</u>	<u>971,102</u>
	<u>4,607,788</u>	<u>4,664,667</u>
Less current installments of long-term debt	<u>71,707</u>	<u>48,840</u>
	<u>\$4,536,081</u>	<u>4,615,827</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 \$300,468. 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 \$185,375 at December 31, 1981 and \$155,483 at December 31, 1980.

The Board of Directors has restricted \$188,996 at December 31, 1981 and \$279,139 at December 31, 1980 to provide funds for unforeseen and extraordinary expenditures and to fund improvements, membrane replacement 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. The defined-contribution plan covers substantially all employees and requires the Corporation to contribute annually an amount equal to 10% of each employee's salary up to \$12,000 and 7% of the excess over \$12,000. Each employee is required to contribute monthly an amount equal to 3% of his monthly salary in excess of \$1,000. The Corporation's contributions amounted to approximately \$24,400 in 1981 and \$27,500 in 1980.

(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.

(6) Commitments

The Corporation has committed to purchase and the Greater Pine Island Water Association has committed to deliver 60-million gallons of treated water in 1982, 40-million gallons in 1983 and 20-million gallons in 1984. Cost per thousand gallons will be \$2.35 in 1982 and will be adjusted annually to reflect the change in the cost of living index.