
THE ISLAND WATER ASSOCIATION, INC.

Financial Statements

December 31, 1983 and 1982

(With Audit Report Thereon)



Peat, Marwick, Mitchell & Co.
Certified Public Accountants
P.O. Box 1439
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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, 1983 and 1982 and the related statements of operations, accumulated surplus 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, 1983 and 1982 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.

January 27, 1984

THE ISLAND WATER ASSOCIATION, INC.

Balance Sheets

December 31, 1983 and 1982

<u>Assets</u>	<u>1983</u>	<u>1982</u>
Plant property (notes 2 and 3):		
Utility plant in service	\$ 14,171,914	13,292,450
Construction work in progress	<u>53,633</u>	<u>190,517</u>
	14,225,547	13,482,967
Less accumulated depreciation (note 5)	<u>3,650,349</u>	<u>3,181,248</u>
Net plant property	<u>10,575,198</u>	<u>10,301,719</u>
Current assets:		
Cash, principally interest-bearing accounts	302,966	274,942
Accounts receivable	101,823	142,566
Unbilled revenues	123,784	92,638
Prepayments and other	46,758	40,604
Materials and supplies, at cost	<u>76,390</u>	<u>88,879</u>
Total current assets	<u>651,721</u>	<u>639,629</u>
Restricted assets (note 3) -		
Cash, principally interest-bearing accounts	530,000	386,500
	<u>\$ 11,756,919</u>	<u>11,327,848</u>

See accompanying notes to financial statements.

<u>Capitalization, Liabilities and Members' Contributions</u>	<u>1983</u>	<u>1982</u>
Capitalization:		
Accumulated surplus (deficit):		
Unappropriated deficit	\$ (225,372)	(48,547)
Appropriated surplus (note 3)	<u>530,000</u>	<u>386,500</u>
Net accumulated surplus	304,628	337,953
Long-term debt, excluding current installments (note 3)	<u>4,380,454</u>	<u>4,459,418</u>
Total capitalization	<u>4,685,082</u>	<u>4,797,371</u>
Current liabilities:		
Current installments of long-term debt (note 3)	79,189	75,653
Accounts payable and accrued expenses	124,692	97,299
Accrued interest payable	<u>11,607</u>	<u>11,182</u>
Total current liabilities	<u>215,488</u>	<u>184,134</u>
Members' contributions in aid of construction	6,856,349	6,346,343
	<u>\$ 11,756,919</u>	<u>11,327,848</u>

THE ISLAND WATER ASSOCIATION, INC.

Statements of Operations

Years ended December 31, 1983 and 1982

	<u>1983</u>	<u>1982</u>
Operating revenues	\$ <u>2,452,767</u>	<u>2,396,225</u>
Operating expenses:		
Operation	1,410,226	1,244,742
Maintenance	366,448	299,198
Depreciation (note 5)	546,830	503,275
Taxes, other than income	<u>39,987</u>	<u>34,351</u>
Total operating expenses	<u>2,363,491</u>	<u>2,081,566</u>
Operating income	<u>89,276</u>	<u>314,659</u>
Other income:		
Interest	60,179	68,888
Allowance for funds used during construction	17,500	9,000
Other	<u>25,173</u>	<u>23,071</u>
Total other income	<u>102,852</u>	<u>100,959</u>
Income before interest charges	192,128	415,618
Interest charges on long-term debt	<u>225,453</u>	<u>228,460</u>
Net income (loss)	<u>\$ (33,325)</u>	<u>187,158</u>

See accompanying notes to financial statements.

THE ISLAND WATER ASSOCIATION, INC.

Statements of Accumulated Surplus

Years ended December 31, 1983 and 1982

	Unappropriated surplus <u>(deficit)</u>	Appropriated <u>surplus</u>	Net accumulated <u>surplus</u>
Balances at December 31, 1981	\$ (223,576)	374,371	150,795
Year ended December 31, 1982:			
Net transfer to appropriated surplus (note 3)	(12,129)	12,129	-
Net income	<u>187,158</u>	<u>-</u>	<u>187,158</u>
Balances at December 31, 1982	(48,547)	386,500	337,953
Year ended December 31, 1983:			
Net transfer to appropriated surplus (note 3)	(143,500)	143,500	-
Net loss	<u>(33,325)</u>	<u>-</u>	<u>(33,325)</u>
Balances at December 31, 1983	<u>\$ (225,372)</u>	<u>530,000</u>	<u>304,628</u>

See accompanying notes to financial statements.

THE ISLAND WATER ASSOCIATION, INC.

Statements of Changes in Financial Position

Years ended December 31, 1983 and 1982

	<u>1983</u>	<u>1982</u>
Funds provided:		
Net income (loss)	\$ (33,325)	187,158
Add nonfund charges (credits) to income:		
Depreciation	546,830	503,275
Allowance for funds used during construction	<u>(17,500)</u>	<u>(9,000)</u>
Funds derived from operations	<u>496,005</u>	<u>681,433</u>
Increase in members' contributions in aid of construction	510,006	544,473
Decrease in working capital	<u>19,262</u>	<u>-</u>
	<u>\$ 1,025,273</u>	<u>1,225,906</u>
Funds used:		
Property additions, net of allowance for funds used during construction	802,809	927,563
Increase in restricted assets	143,500	12,129
Decrease in long-term debt	78,964	76,663
Increase in working capital	<u>-</u>	<u>209,551</u>
	<u>\$ 1,025,273</u>	<u>1,225,906</u>
Changes in working capital:		
Increase in cash and interest-bearing accounts	28,024	132,771
Increase (decrease) in accounts receivable	(40,743)	33,806
Increase (decrease) in unbilled revenues	31,146	(8,526)
Increase in prepayments and other	6,154	4,198
Decrease in materials and supplies	(12,489)	(46,119)
Increase in current installments of long-term debt	(3,536)	(3,946)
Decrease (increase) in accounts payable and accrued expenses	(27,393)	98,836
Increase in accrued interest payable	<u>(425)</u>	<u>(1,469)</u>
Net change	<u>\$ (19,262)</u>	<u>209,551</u>

See accompanying notes to financial statements.

THE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 1983 and 1982

(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.

Replacement membranes and filters for the electro dialysis plant are expensed when placed in service. Membrane replacement expense was approximately \$104,000 in 1983 and \$77,000 in 1982.

(d) Unbilled Revenues

Unbilled revenues represent revenues between the last dates of the cycle billings and year end.

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THE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

(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 1983 and 1982 was \$17,500 and \$9,000, 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) Members' Contributions in
Aid of Construction

Members' contributions in aid of construction consists of connection fees received from members and distribution lines contributed to the Corporation by real estate developers since the inception of the Corporation. These distribution lines are valued at an estimate of the developers' costs and are added to the Corporation's transmission and distribution plant.

(2) Utility Plant in Service

A summary of utility plant in service follows:

	<u>1983</u>	<u>1982</u>
Source of supply plant	\$ 1,448,103	1,254,511
Pumping plant	583,736	572,045
Water treatment plant	5,408,552	5,402,022
Transmission and distribution plant	6,364,087	5,708,893
General plant	<u>367,436</u>	<u>354,979</u>
	<u>\$ 14,171,914</u>	<u>13,292,450</u>

(Continued)

THE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

(3) Long-term Debt

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

	<u>1983</u>	<u>1982</u>
5% mortgage note payable in monthly installments of \$4,016, including interest, to November 18, 2005	\$ 589,382	607,608
5% mortgage note payable in monthly installments of \$5,700, including interest, to July 17, 2013	974,625	993,771
5% mortgage note payable in monthly installments of \$1,235, including interest, to July 17, 2013	206,243	210,632
5% mortgage note payable in monthly installments of \$5,504, including interest, to October 11, 2014	999,153	1,014,816
5% mortgage note payable in monthly installments of \$3,904, including interest, to August 11, 2018	742,709	752,163
5% mortgage note payable in monthly installments of \$4,680, including interest, to February 28, 2019	947,531	956,081
	<u>4,459,643</u>	<u>4,535,071</u>
Less current installments of long-term debt	<u>79,189</u>	<u>75,653</u>
	<u>\$ 4,380,454</u>	<u>4,459,418</u>

Substantially all plant assets are pledged to secure long-term debt. Aggregate monthly payments of \$25,039, including interest, or \$300,468 annually are due under the above mortgage notes payable.

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 \$245,469 at December 31, 1983 and \$215,422 at December 31, 1982.

The Board of Directors has restricted \$284,531 at December 31, 1983 and \$171,078 at December 31, 1982 to provide funds for unforeseen and extraordinary expenditures and to fund improvements, membrane replacement and expansion of plant in service.

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THE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

Maturities of long-term debt for the succeeding five years is as follows:

1984	\$ 79,189
1985	\$ 83,353
1986	\$ 87,617
1987	\$ 92,100
1988	<u>\$ 96,813</u>

(4) Pension Plan

The Corporation established a contributory defined-contribution pension plan covering substantially all employees beginning November 1, 1979. The defined-contribution plan 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 were \$37,374 in 1983 and \$21,410 in 1982.

(5) Change in Estimate

During 1982, the Corporation reevaluated the estimated useful life of the electrolysis plant. The reevaluation was considered necessary due to recent technological advances that will permit the plant to efficiently operate for a period longer than was originally estimated. The plant will now be fully depreciated by December 31, 1991 rather than by December 31, 1983. The impact in 1982 of the change in depreciable life was to reduce depreciation expense by \$238,000.