

THE ISLAND WATER ASSOCIATION, INC.

Financial Statements

December 31, 1984 and 1983

(With Auditors' 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, 1984 and 1983 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, 1984 and 1983 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 24, 1985

THE ISLAND WATER ASSOCIATION, INC.

Balance Sheets

December 31, 1984 and 1983

<u>Assets</u>	<u>1984</u>	<u>1983</u>
Plant property (notes 2 and 3):		
Utility plant in service	\$ 14,349,536	14,171,914
Construction work in progress	<u>322,235</u>	<u>53,633</u>
	14,671,771	14,225,547
Less accumulated depreciation	<u>4,221,820</u>	<u>3,650,349</u>
Net plant property	<u>10,449,951</u>	<u>10,575,198</u>
Current assets:		
Cash, principally certificates of deposit	873,434	302,966
Accounts receivable	74,344	101,823
Unbilled revenues	137,067	123,784
Prepayments and other	73,246	46,758
Materials and supplies, at cost	<u>69,104</u>	<u>76,390</u>
Total current assets	<u>1,227,195</u>	<u>651,721</u>
Restricted assets (note 3) -		
Cash, principally certificates of deposit	632,540	530,000
	<u>\$ 12,309,686</u>	<u>11,756,919</u>

See accompanying notes to financial statements.

<u>Capitalization, Liabilities and Members' Contributions</u>	<u>1984</u>	<u>1983</u>
Capitalization:		
Accumulated surplus (deficit):		
Unappropriated deficit	\$ (381,831)	(225,372)
Appropriated surplus (note 3)	<u>632,540</u>	<u>530,000</u>
Net accumulated surplus	250,709	304,628
Long-term debt, excluding current installments (note 3)	<u>4,299,983</u>	<u>4,380,454</u>
Total capitalization	<u>4,550,692</u>	<u>4,685,082</u>
Current liabilities:		
Current installments of long-term debt (note 3)	83,198	79,189
Accounts payable and accrued expenses	300,542	124,692
Accrued interest payable	<u>8,406</u>	<u>11,607</u>
Total current liabilities	<u>392,146</u>	<u>215,488</u>
Members' contributions in aid of construction	7,366,848	6,856,349
	<u>\$ 12,309,686</u>	<u>11,756,919</u>

THE ISLAND WATER ASSOCIATION, INC.

Statements of Operations

Years ended December 31, 1984 and 1983

	<u>1984</u>	<u>1983</u>
Operating revenues	\$ <u>2,676,591</u>	<u>2,452,767</u>
Operating expenses:		
Operation	1,505,010	1,410,226
Maintenance	509,372	366,448
Depreciation	587,511	546,830
Taxes, other than income	<u>50,559</u>	<u>39,987</u>
Total operating expenses	<u>2,652,452</u>	<u>2,363,491</u>
Operating income	<u>24,139</u>	<u>89,276</u>
Other income:		
Interest	115,638	60,179
Allowance for funds used during construction	5,100	17,500
Other	<u>21,961</u>	<u>25,173</u>
Total other income	<u>142,699</u>	<u>102,852</u>
Income before interest charges	166,838	192,128
Interest charges on long-term debt	<u>220,757</u>	<u>225,453</u>
Net loss	<u>\$ (53,919)</u>	<u>(33,325)</u>

See accompanying notes to financial statements.

THE ISLAND WATER ASSOCIATION, INC.

Statements of Accumulated Surplus

Years ended December 31, 1984 and 1983

	Unappropriated <u>deficit</u>	Appropriated <u>surplus</u>	Net accumulated <u>surplus</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	(225,372)	530,000	304,628
Year ended December 31, 1984:			
Net transfer to appropriated surplus (note 3)	(102,540)	102,540	-
Net income	<u>(53,919)</u>	<u>-</u>	<u>(53,919)</u>
Balances at December 31, 1984	<u>\$ (381,831)</u>	<u>632,540</u>	<u>250,709</u>

See accompanying notes to financial statements.

THE ISLAND WATER ASSOCIATION, INC.

Statements of Changes in Financial Position

Years ended December 31, 1984 and 1983

	<u>1984</u>	<u>1983</u>
Funds provided:		
Net income (loss)	\$ (53,919)	(33,325)
Add nonfund charges (credits) to income:		
Depreciation	587,511	546,830
Allowance for funds used during construction	<u>(5,100)</u>	<u>(17,500)</u>
Funds derived from operations	<u>528,492</u>	<u>496,005</u>
Increase in members' contributions in aid of construction	510,499	510,006
Decrease in working capital	<u>-</u>	<u>19,262</u>
	<u>\$ 1,038,991</u>	<u>1,025,273</u>
 Funds used:		
Property additions, net of allowance for funds used during construction	457,164	802,809
Increase in restricted assets	102,540	143,500
Decrease in long-term debt	80,471	78,964
Increase in working capital	<u>398,816</u>	<u>-</u>
	<u>\$ 1,038,991</u>	<u>1,025,273</u>
 Changes in working capital:		
Increase in cash and interest-bearing accounts	570,468	28,024
Decrease in accounts receivable	(27,479)	(40,743)
Increase in unbilled revenues	13,283	31,146
Increase in prepayments and other	26,488	6,154
Decrease in materials and supplies	(7,286)	(12,489)
Increase in current installments of long-term debt	(4,009)	(3,536)
Increase in accounts payable and accrued expenses	(175,850)	(27,393)
Decrease (increase) in accrued interest payable	<u>3,201</u>	<u>(425)</u>
Net change	<u>\$ 398,816</u>	<u>(19,262)</u>

See accompanying notes to financial statements.

THE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 1984 and 1983

(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

On July 14, 1965, the Corporation was granted a 30-year franchise by the Board of County Commissioners of Lee County, Florida (County). The franchise agreement states that all rate adjustments require the prior written consent of the County.

The franchise agreement gives the County the right to purchase the property of the Corporation at a purchase price not to exceed the original costs of the facilities less depreciation at any time during the franchise period.

(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 \$81,000 in 1984 and \$104,000 in 1983.

(d) Unbilled Revenues

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

(Continued)

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 was \$5,100 and \$17,500 in 1984 and 1983, 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>1984</u>	<u>1983</u>
Source of supply plant	\$ 1,454,261	1,448,103
Pumping plant	588,443	583,736
Water treatment plant	5,453,887	5,408,552
Transmission and distribution plant	6,426,982	6,364,087
General plant	425,963	367,436
	<u>\$ 14,349,536</u>	<u>14,171,914</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>1984</u>	<u>1983</u>
5% mortgage note payable in monthly installments of \$4,016, including interest, to November 18, 2005	\$ 570,551	589,382
5% mortgage note payable in monthly installments of \$5,700, including interest, to July 17, 2013	955,042	974,625
5% mortgage note payable in monthly installments of \$1,235, including interest, to July 17, 2013	201,746	206,243
5% mortgage note payable in monthly installments of \$5,504, including interest, to October 11, 2014	983,246	999,153
5% mortgage note payable in monthly installments of \$3,904, including interest, to August 11, 2018	733,198	742,709
5% mortgage note payable in monthly installments of \$4,680, including interest, to February 28, 2019	<u>939,398</u>	<u>947,531</u>
	4,383,181	4,459,643
Less current installments of long-term debt	<u>83,198</u>	<u>79,189</u>
	<u>\$ 4,299,983</u>	<u>4,380,454</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 \$275,516 at December 31, 1984 and \$245,469 at December 31, 1983.

(Continued)

THE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

The Board of Directors has restricted \$357,024 at December 31, 1984 and \$284,531 at December 31, 1983 to provide additional funds for unforeseen and extraordinary expenditures as well as to fund improvements, membrane replacement and expansion of plant in service.

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

1985	\$ 83,198
1986	87,455
1987	91,929
1988	96,633
1989	<u>101,577</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 \$44,179 in 1984 and \$37,374 in 1983.