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THE ISLAND WATER ASSOCIATION, INC.

Financial Statements

December 31, 1985 and 1984

(With Auditors' Report Thereon)

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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, 1985 and 1984 and the related statements of operations and 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, 1985 and 1984 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, 1986

THE ISLAND WATER ASSOCIATION, INC.

Balance Sheets

December 31, 1985 and 1984

<u>Assets</u>	<u>1985</u>	<u>1984</u>
Plant property (notes 2 and 3):		
Utility plant in service	\$ 15,121,118	14,349,536
Construction work in progress	495,891	322,235
	<u>15,617,009</u>	<u>14,671,771</u>
Less accumulated depreciation	4,367,514	4,221,820
Net plant property	<u>11,249,495</u>	<u>10,449,951</u>
Current assets:		
Cash, principally certificates of deposit	480,384	873,434
Cash designated by directors for special purposes (note 3)	51,334	357,024
Accounts receivable	152,215	74,344
Unbilled revenues	133,361	137,067
Prepayments and other	81,819	73,246
Materials and supplies, at cost	61,380	69,104
Total current assets	<u>960,493</u>	<u>1,584,219</u>
Restricted assets (note 3) -		
Cash, principally certificates of deposit	300,468	275,516
	<u>\$ 12,510,456</u>	<u>12,309,686</u>
 <u>Capitalization, Liabilities and Members' Contributions</u> 		
Capitalization:		
Accumulated surplus	296,784	250,709
Long-term debt, excluding current installments (note 3)	4,212,527	4,299,983
Total capitalization	<u>4,509,311</u>	<u>4,550,692</u>
Current liabilities:		
Current installments of long-term debt (note 3)	87,455	83,198
Accounts payable and accrued expenses	134,320	300,542
Accrued interest payable	8,247	8,406
Total current liabilities	<u>230,022</u>	<u>392,146</u>
Members' contributions in aid of construction	7,771,123	7,366,848
	<u>\$ 12,510,456</u>	<u>12,309,686</u>

See accompanying notes to financial statements.

THE ISLAND WATER ASSOCIATION, INC.

Statements of Operations and  
Accumulated Surplus

Years ended December 31, 1985 and 1984

	<u>1985</u>	<u>1984</u>
Operating revenues	\$ <u>2,916,228</u>	<u>2,676,591</u>
Operating expenses:		
Operation	1,609,401	1,505,010
Maintenance	498,570	509,372
Depreciation	616,147	587,511
Taxes, other than income	<u>56,288</u>	<u>50,559</u>
Total operating expenses	<u>2,780,406</u>	<u>2,652,452</u>
Operating income	<u>135,822</u>	<u>24,139</u>
Other income:		
Interest	98,482	115,638
Allowance for funds used during construction	20,876	5,100
Other	<u>8,095</u>	<u>21,961</u>
Total other income	<u>127,453</u>	<u>142,699</u>
Income before interest charges	<u>263,275</u>	<u>166,838</u>
Interest charges on long-term debt	<u>217,200</u>	<u>220,757</u>
Net income (loss)	46,075	(53,919)
Accumulated surplus, beginning of year	<u>250,709</u>	<u>304,628</u>
Accumulated surplus, end of year	<u>\$ 296,784</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, 1985 and 1984

	<u>1985</u>	<u>1984</u>
Funds provided:		
Net income (loss)	\$ 46,075	(53,919)
Add nonfund charges (credits) to income:		
Depreciation	616,147	587,511
Allowance for funds used during construction	<u>(20,876)</u>	<u>(5,100)</u>
Funds derived from operations	<u>641,346</u>	<u>528,492</u>
Increase in members' contributions in aid of construction	404,275	510,499
Decrease in working capital	<u>461,602</u>	<u>-</u>
	<u>\$ 1,507,223</u>	<u>1,038,991</u>
Funds used:		
Property additions, net of retirements and allowance for funds used during construction	1,394,815	457,164
Increase in restricted assets	24,952	30,047
Decrease in long-term debt	87,456	80,471
Increase in working capital	<u>-</u>	<u>471,309</u>
	<u>\$ 1,507,223</u>	<u>1,038,991</u>
Changes in working capital:		
Increase (decrease) in cash	(698,740)	642,961
Increase (decrease) in accounts receivable	77,871	(27,479)
Increase (decrease) in unbilled revenues	(3,706)	13,283
Increase in prepayments and other	8,573	26,488
Decrease in materials and supplies	(7,724)	(7,286)
Increase in current installments of long-term debt	(4,257)	(4,009)
Decrease (increase) in accounts payable and accrued expenses	166,222	(175,850)
Decrease in accrued interest payable	<u>159</u>	<u>3,201</u>
Net change	<u>\$ (461,602)</u>	<u>471,309</u>

See accompanying notes to financial statements.

THE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 1985 and 1984

(1) Summary of Significant Accounting Policies

(a) Organization

The Island Water Association, Inc. (the 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 thirty-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 at any time during the franchise period to purchase the property of the Corporation at a purchase price not to exceed the original costs of the facilities less depreciation. Upon the retirement by the Corporation of all of its outstanding debt, ownership will revert to Lee County.

(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 \$15,000 in 1985 and \$81,000 in 1984.

(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 was \$20,876 in 1985 and \$5,100 in 1984.

(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 at December 31 follows:

	<u>1985</u>	<u>1984</u>
Source of supply plant	\$ 1,629,604	1,454,261
Pumping plant	597,384	588,443
Water treatment plant	5,509,108	5,453,887
Transmission and distribution plant	6,574,564	6,426,982
General plant	<u>810,458</u>	<u>425,963</u>
	<u>\$ 15,121,118</u>	<u>14,349,536</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 at December 31 follows:

	<u>1985</u>	<u>1984</u>
5% mortgage note payable in monthly installments of \$4,016, including interest, to November 18, 2005	\$ 550,045	570,551
5% mortgage note payable in monthly installments of \$5,700, including interest, to July 17, 2013	936,274	955,042
5% mortgage note payable in monthly installments of \$1,235, including interest, to July 17, 2013	196,766	201,746
5% mortgage note payable in monthly installments of \$5,504, including interest, to October 11, 2014	965,293	983,246
5% mortgage note payable in monthly installments of \$3,904, including interest, to August 11, 2018	722,266	733,198
5% mortgage note payable in monthly installments of \$4,680, including interest, to February 28, 2019	<u>929,338</u>	<u>939,398</u>
	4,299,982	4,383,181
Less current installments of long-term debt	<u>87,455</u>	<u>83,198</u>
	<u>\$ 4,212,527</u>	<u>4,299,983</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 \$300,468 at December 31, 1985 and \$275,516 at December 31, 1984.

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THE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

The Board of Directors has designated \$51,334 at December 31, 1985 and \$357,024 at December 31, 1984 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:

1986	\$ 87,455
1987	91,929
1988	96,633
1989	101,577
1990	<u>106,773</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 approximately \$34,000 in 1985 and \$30,000 in 1984.