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THE ISLAND WATER ASSOCIATION, INC.

FINANCIAL REPORT

DECEMBER 31, 1986 AND 1985

Coopers
& Lybrand

Certified Public Accountants

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To the Board of Directors and Members
The Island Water Association, Inc.
Sanibel Island, Florida

We have examined the balance sheet of The Island Water Association, Inc. as of December 31, 1986 and the related statements of operations and accumulated surplus and changes in financial position for the year then ended. Our examination was 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. The financial statements of The Island Water Association, Inc. for the year ended December 31, 1985, were examined by other auditors whose report dated January 24, 1986 expressed an unqualified opinion on those statements.

In our opinion, the 1986 financial statements referred to above, present fairly the financial position of The Island Water Association, Inc. as of December 31, 1986, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.


COOPERS & LYBRAND

Fort Myers, Florida
February 5, 1987

THE ISLAND WATER ASSOCIATION, INC.

BALANCE SHEETS
December 31, 1986 and 1985

ASSETS	<u>1986</u>	<u>1985</u>
PLANT PROPERTY (Notes 2 and 3)		
Utility plant in service	\$16,202,495	\$15,121,118
Construction work in progress	563,525	495,891
	<u>16,766,020</u>	<u>15,617,009</u>
Less accumulated depreciation	4,953,682	4,367,514
Net plant property	<u>11,812,338</u>	<u>11,249,495</u>
CURRENT ASSETS		
Cash	424,195	480,384
Cash designated by directors for special purposes (Note 3)	134,000	51,334
Accounts receivable	153,377	152,215
Unbilled revenues	161,545	133,361
Prepayments and other	75,195	81,819
Inventory	30,215	61,380
Total current assets	<u>978,527</u>	<u>960,493</u>
RESTRICTED ASSETS (Note 3)		
Cash	<u>300,468</u>	<u>300,468</u>
	<u>\$13,091,333</u>	<u>\$12,510,456</u>
CAPITALIZATION, LIABILITIES AND MEMBERS' CONTRIBUTIONS		
CAPITALIZATION		
Accumulated surplus	\$ 347,858	\$ 296,784
Long-term debt, less current maturities (Note 3)	4,118,791	4,212,527
Total capitalization	<u>4,466,649</u>	<u>4,509,311</u>
CURRENT LIABILITIES		
Current maturities of long-term debt (Note 3)	90,027	87,455
Accounts payable and accrued expenses	255,241	134,320
Accrued interest payable	8,072	8,247
Total current liabilities	<u>353,340</u>	<u>230,022</u>
MEMBERS' CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>8,271,344</u>	<u>7,771,123</u>
	<u>\$13,091,333</u>	<u>\$12,510,456</u>

See Accompanying Notes.

THE ISLAND WATER ASSOCIATION, INC.

STATEMENTS OF OPERATIONS AND ACCUMULATED SURPLUS
Years Ended December 31, 1986 and 1985

	<u>1986</u>	<u>1985</u>
Operating revenues	\$2,947,688	\$2,916,228
Operating costs	2,119,848	2,164,259
Depreciation	651,917	616,147
Total costs	<u>2,771,765</u>	<u>2,780,406</u>
Operating income	<u>175,923</u>	<u>135,822</u>
Other income		
Interest	45,163	98,482
Other	10,553	8,095
Total other income	<u>55,716</u>	<u>106,577</u>
Income before interest charges	<u>231,639</u>	<u>242,399</u>
Interest charges on long-term debt	209,129	217,200
Less allowance for funds used during construction	28,564	20,876
	<u>180,565</u>	<u>196,324</u>
Net income	51,074	46,075
Accumulated surplus, beginning of year	<u>296,784</u>	<u>250,709</u>
Accumulated surplus, end of year	<u>\$ 347,858</u>	<u>\$ 296,784</u>

See Accompanying Notes.

THE ISLAND WATER ASSOCIATION, INC.

STATEMENTS OF CHANGES IN FINANCIAL POSITION
Years Ended December 31, 1986 and 1985

	<u>1986</u>	<u>1985</u>
FINANCIAL RESOURCES PROVIDED BY OPERATIONS		
Net income	\$ 51,074	\$ 46,075
Add (subtract) items which did not affect working capital		
Depreciation	651,917	616,147
Allowance for funds used during construction	<u>(28,564)</u>	<u>(20,876)</u>
Working capital provided by operations	674,427	641,346
Other sources		
Increase in members' contributions in aid of construction	500,221	404,275
	<u>1,174,648</u>	<u>1,045,621</u>
FINANCIAL RESOURCES APPLIED TO		
Property additions, net of retirements and allowance for funds used during construction	1,186,196	1,394,815
Increase in restricted assets	-	24,952
Decrease in long-term debt	93,736	87,456
	<u>1,279,932</u>	<u>1,507,223</u>
Decrease in working capital	\$ <u>(105,284)</u>	\$ <u>(461,602)</u>
SUMMARY OF CHANGES IN WORKING CAPITAL COMPONENTS		
Increase (decrease) in		
Cash	\$ (56,189)	\$ (393,050)
Cash designated by directors for special purposes	82,666	(305,690)
Accounts receivable	1,162	77,871
Unbilled revenues	28,184	(3,706)
Prepayments and other	(6,624)	8,573
Inventory	(31,165)	(7,724)
Decrease (increase) in		
Current maturities of long-term debt	(2,572)	(4,257)
Accounts payable and accrued expenses	(120,921)	166,222
Accrued interest payable	<u>175</u>	<u>159</u>
Decrease in working capital	\$ <u>(105,284)</u>	\$ <u>(461,602)</u>

See Accompanying Notes

THE ISLAND WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization

The Island Water Association, Inc. (the Association) 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 Association entitles the subscriber of such connection to one membership certificate. At any meeting of the members of the Association, each member shall be entitled to only one vote, regardless of the number of certificates of membership held.

Regulatory agency and franchise

On July 14, 1965, the Association 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 Association at a purchase price not to exceed the original cost of the facilities less depreciation. Upon the retirement by the Association of all of its outstanding debt, ownership will revert to Lee County.

Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or market.

Utility plant in service

Utility plant in service is recorded at cost. Depreciation is provided over the estimated useful lives of the assets, using the straight-line method. The cost of depreciable plant assets retired, plus the cost of removal, less any 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 for 1986 and 1985 was approximately \$23,000 and \$15,000, respectively.

THE ISLAND WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Unbilled revenues

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

Allowance for funds used during construction

Interest is capitalized on funds used during construction at the 5% rate paid by the Association on its long-term debt.

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 Association by real estate developers since the inception of the Association. These distribution lines are valued at an estimate of the developers' costs and are added to the Association's transmission and distribution plant.

Note 2. Utility Plant in Service

Utility plant in service consists of the following at December 31:

	<u>1986</u>	<u>1985</u>
Source of supply plant	\$ 2,037,710	\$ 1,629,604
Pumping plant	674,005	597,384
Water treatment plant	5,590,979	5,509,108
Transmission and distribution plant	6,927,585	6,574,564
General plant	972,216	810,458
	<u>\$16,202,495</u>	<u>\$15,121,118</u>

THE ISLAND WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Long-Term Debt

Long-term debt payable to Farmers Home Administration consists of the following at December 31:

	<u>1986</u>	<u>1985</u>
5% mortgage note payable in monthly installments of \$4,016, including interest, due November 18, 2005	\$ 528,809	\$ 550,045
5% mortgage note payable in monthly installments of \$5,700, including interest, due July 17, 2013	910,904	936,274
5% mortgage note payable in monthly installments of \$1,235, including interest, due July 17, 2013	191,644	196,766
5% mortgage note payable in monthly installments of \$5,504, including interest, due October 11, 2014	946,974	965,293
5% mortgage note payable in monthly installments of \$3,904, including interest, due August 11, 2018	711,189	722,266
5% mortgage note payable in monthly installments of \$4,680, including interest, due February 28, 2019	<u>919,298</u>	<u>929,338</u>
	4,208,818	4,299,982
Less current maturities of long-term debt	<u>90,027</u>	<u>87,455</u>
	<u>\$4,118,791</u>	<u>\$4,212,527</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.

THE ISLAND WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Long-Term Debt (Continued)

Under the terms of the Farmers Home Administration loan agreements, to the extent funds are available, the Association was required to transfer an annual amount equivalent to one-tenth of the annual payments to a separate account until such account equaled 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. The Association has complied with these regulations as of December 31, 1986 and 1985.

The Board of Directors has designated \$134,000 at December 31, 1986 and \$51,334 at December 31, 1985 to provide additional funds for unforeseen and unusual expenditures as well as to fund improvements, membrane replacement and expansion of plant in service.

Maturities of long-term debt as of December 31, 1986 are as follows:

<u>Year Ending December 31</u>	
1987	\$ 90,027
1988	94,528
1989	99,255
1990	104,218
1991	109,428
Thereafter	<u>3,711,362</u>
	<u>\$4,208,818</u>

Note 4. Pension Plan

The Association 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 Association's contributions for 1986 and 1985 was approximately \$40,000 and \$34,000, respectively.

Note 5. Reclassifications

Certain items in the 1985 financial statements have been reclassified to conform to the 1986 presentation. These reclassifications have no effect on net income reported for the previous period.