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THE ISLAND WATER ASSOCIATION, INC.

FINANCIAL REPORT

DECEMBER 31, 1987 AND 1986

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, 1987 and 1986, and the related statements of operations and accumulated surplus and cash flows for the years 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.

In our opinion, the financial statements referred to above, present fairly the financial position of The Island Water Association, Inc. as of December 31, 1987 and 1986, and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers Lybrand
COOPERS & LYBRAND

Fort Myers, Florida
February 12, 1988

THE ISLAND WATER ASSOCIATION, INC.

BALANCE SHEETS
December 31, 1987 and 1986

ASSETS	<u>1987</u>	<u>1986</u>
PLANT PROPERTY (Notes 2 and 3)		
Utility plant in service	\$16,483,293	\$16,202,495
Construction work in progress	<u>931,539</u>	<u>563,525</u>
	17,414,832	16,766,020
Less accumulated depreciation	<u>5,648,067</u>	<u>4,953,682</u>
Net plant property	<u>11,766,765</u>	<u>11,812,338</u>
CURRENT ASSETS		
Cash	717,936	424,195
Cash, board designated (Note 2)	<u>200,000</u>	<u>134,000</u>
Total cash	917,936	558,195
Accounts receivable	241,157	153,377
Unbilled revenues	183,937	161,545
Prepayments and other	95,524	75,195
Inventory	<u>28,375</u>	<u>30,215</u>
Total current assets	<u>1,466,929</u>	<u>978,527</u>
RESTRICTED ASSETS (Note 3)		
Cash	<u>300,468</u>	<u>300,468</u>
	<u>\$13,534,162</u>	<u>\$13,091,333</u>
CAPITALIZATION, LIABILITIES AND MEMBERS' CONTRIBUTIONS		
CAPITALIZATION		
Accumulated surplus	\$ 583,996	\$ 347,858
Long-term debt, less current maturities (Note 3)	<u>4,003,961</u>	<u>4,118,791</u>
Total capitalization	<u>4,587,957</u>	<u>4,466,649</u>
CURRENT LIABILITIES		
Current maturities of long-term debt (Note 3)	95,188	90,027
Accounts payable and accrued expenses	179,758	255,241
Accrued interest payable	<u>-</u>	<u>8,072</u>
Total current liabilities	<u>274,946</u>	<u>353,340</u>
MEMBERS' CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>8,671,259</u>	<u>8,271,344</u>
	<u>\$13,534,162</u>	<u>\$13,091,333</u>

See Accompanying Notes.

THE ISLAND WATER ASSOCIATION, INC.

STATEMENTS OF OPERATIONS AND ACCUMULATED SURPLUS
Years Ended December 31, 1987 and 1986

	<u>1987</u>	<u>1986</u>
Operating revenues	\$3,247,349	\$2,947,688
Operation	975,210	894,375
Maintenance	522,259	495,608
Administration	724,259	729,865
Depreciation	694,385	651,917
Total costs	<u>2,916,113</u>	<u>2,771,765</u>
Operating income	<u>331,236</u>	<u>175,923</u>
Other income		
Interest	66,845	45,163
Other	11,533	10,553
Total other income	<u>78,378</u>	<u>55,716</u>
Income before interest charges	<u>409,614</u>	<u>231,639</u>
Interest charges on long-term debt	207,766	209,129
Less interest capitalized into capital projects	34,290	28,564
	<u>173,476</u>	<u>180,565</u>
Net income	236,138	51,074
Accumulated surplus, beginning of year	<u>347,858</u>	<u>296,784</u>
Accumulated surplus, end of year	<u>\$ 583,996</u>	<u>\$ 347,858</u>

See Accompanying Notes.

THE ISLAND WATER ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 1987 and 1986

	<u>1987</u>	<u>1986</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 3,148,710	\$ 2,928,895
Cash paid to suppliers and employees	(2,315,700)	(1,961,313)
Interest received	66,845	45,163
Interest paid	(181,548)	(180,565)
Net cash flow from operating activities	<u>718,307</u>	<u>832,180</u>
CASH FLOWS USED FOR INVESTING ACTIVITIES		
Capital expenditures	(648,812)	(1,214,760)
CASH FLOWS FROM FINANCIAL ACTIVITIES		
Payment of long-term debt	(109,669)	(91,164)
Increase in members' contributions in aid of construction	<u>399,915</u>	<u>500,221</u>
Net cash from financing activities	<u>290,246</u>	<u>409,057</u>
Net increase in cash	359,741	26,477
Cash at beginning of year	<u>558,195</u>	<u>531,718</u>
Cash at end of year	<u>\$ 917,936</u>	<u>\$ 558,195</u>
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net income	\$ <u>236,138</u>	\$ <u>51,074</u>
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	694,385	651,917
Changes in assets and liabilities net effects		
(Increase) decrease in		
Accounts receivable	(87,780)	(1,162)
Unbilled revenue	(22,392)	(28,184)
Prepayments and other	(20,329)	6,624
Inventory	1,840	31,165
Increase (decrease) in		
Accounts payable and accrued expenses	(75,483)	120,921
Accrued interest	(8,072)	(175)
	<u>482,169</u>	<u>781,106</u>
Net cash provided by operating activities	<u>\$ 718,307</u>	<u>\$ 832,180</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 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 sale proceeds, is charged against accumulated depreciation.

Replacement membranes and filters for the electro dialysis plant are expensed when placed in service. Membrane replacement expense for 1987 and 1986 was approximately \$8,000 and \$23,000, 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>1987</u>	<u>1986</u>
Source of supply plant	\$ 2,043,648	\$ 2,037,710
Pumping plant	674,005	674,005
Water treatment plant	5,610,420	5,590,979
Transmission and distribution plant	7,120,466	6,927,585
General plant	<u>1,034,754</u>	<u>972,216</u>
	<u>\$16,483,293</u>	<u>\$16,202,495</u>

The Board of Directors has designated \$200,000 at December 31, 1987 and \$134,000 at December 31, 1986 to provide additional funds for unforeseen and unusual expenditures as well as to fund improvements, membrane replacement and expansion of plant in service.

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>1987</u>	<u>1986</u>
5% mortgage note payable in monthly installments of \$4,016, including interest, due November 18, 2005	\$ 504,007	\$ 528,809
5% mortgage note payable in monthly installments of \$5,700, including interest, due July 17, 2013	883,610	910,904
5% mortgage note payable in monthly installments of \$1,235, including interest, due July 17, 2013	185,448	191,644
5% mortgage note payable in monthly installments of \$5,504, including interest, due October 11, 2014	923,942	946,974
5% mortgage note payable in monthly installments of \$3,904, including interest, due August 11, 2018	696,800	711,189
5% mortgage note payable in monthly installments of \$4,680, including interest, due February 28, 2019	<u>905,342</u>	<u>919,298</u>
	4,099,149	4,208,818
Less current maturities of long-term debt	<u>95,188</u>	<u>90,027</u>
	<u>\$4,003,961</u>	<u>\$4,118,791</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, 1987 and 1986.

Maturities of long-term debt as of December 31, 1987 are as follows:

<u>Year Ending</u> <u>December 31</u>	
1988	\$ 95,188
1989	100,136
1990	105,143
1991	110,400
1992	115,920
Thereafter	<u>3,572,362</u>
	<u>\$4,099,149</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 Association to contribute annually an amount equal to 10% of each employee's salary up to \$20,000 and \$12,000 in 1987 and 1986, respectively and 7% of the amount of salary in excess of \$20,000 and \$12,000 in 1987 and 1986, respectively. Each employee is required to contribute monthly an amount equal to 3% of his monthly salary in excess of \$1,666 and \$1,000 in 1987 and 1986, respectively. The Association's contributions for 1987 and 1986 was approximately \$36,000 and \$40,000, respectively.

THE ISLAND WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. Commitments

The Association had several uncompleted contracts outstanding on December 31, 1987. The contracts are for improvements to the utility plant in service. All outstanding contracts are expected to be completed within a year. Capital contract commitments outstanding on December 31, 1987 totaled \$181,481.

Note 6. Use of Statement of Cash Flows

In October 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 95 (SFAS No. 95) which requires a statement of cash flows as part of a full set of financial statements in place of a statement of changes in financial position. Although SFAS No. 95 is effective for annual financial statements for fiscal years ending after July 15, 1988 the Association has elected to apply its provision in 1987 and has restated the 1986 financial statements to conform with this presentation. Accordingly the financial statements for 1987 and 1986 include a statement of cash flows.

Note 7. Reclassifications

Certain items in the 1986 financial statements have been reclassified to conform to the 1987 presentation. These reclassifications have no effect on net income reported for the previous period.