

**THE ISLAND WATER ASSOCIATION, INC.**

**FINANCIAL REPORT**

**DECEMBER 31, 1988 and 1987**

**Coopers  
& Lybrand**

Certified Public Accountants

C O N T E N T S

	Page
REPORT OF INDEPENDENT ACCOUNTANTS	1
FINANCIAL STATEMENTS	
Balance sheets	2
Statements of operations and accumulated surplus	3
Statements of cash flows	4
Notes to financial statements	5 - 8

Report of Independent Accountants

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

We have audited the accompanying balance sheets of The Island Water Association, Inc. as of December 31, 1988 and 1987, and the related statements of operations and accumulated surplus, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Island Water Association, Inc. as of December 31, 1988 and 1987, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

*Coopers & Lybrand*

COOPERS & LYBRAND

Fort Myers, Florida  
January 13, 1989

THE ISLAND WATER ASSOCIATION, INC.

BALANCE SHEETS  
December 31, 1988 and 1987

ASSETS	<u>1988</u>	<u>1987</u>
PLANT PROPERTY (Notes 2 and 3)		
Utility plant in service	\$18,417,678	\$16,483,293
Construction work in progress	<u>332,279</u>	<u>931,539</u>
	18,749,957	17,414,832
Less accumulated depreciation	<u>6,379,117</u>	<u>5,648,067</u>
Net plant property	<u>12,370,840</u>	<u>11,766,765</u>
CURRENT ASSETS		
Cash	946,454	717,936
Cash, board designated (Note 2)	<u>300,000</u>	<u>200,000</u>
Total cash	1,246,454	917,936
Accounts receivable	277,124	241,157
Unbilled revenues	127,222	183,937
Prepayments and other	75,396	95,524
Inventory	<u>28,298</u>	<u>28,375</u>
Total current assets	<u>1,754,494</u>	<u>1,466,929</u>
RESTRICTED ASSETS (Note 3)		
Cash	<u>300,468</u>	<u>300,468</u>
	<u>\$14,425,802</u>	<u>\$13,534,162</u>
CAPITALIZATION, LIABILITIES AND MEMBERS' CONTRIBUTIONS		
CAPITALIZATION		
Accumulated surplus	\$ 991,514	\$ 583,996
Long-term debt, less current maturities (Note 3)	<u>3,891,859</u>	<u>4,003,961</u>
Total capitalization	<u>4,883,373</u>	<u>4,587,957</u>
CURRENT LIABILITIES		
Current maturities of long-term debt (Note 3)	100,833	95,188
Accounts payable and accrued expenses	<u>184,056</u>	<u>179,758</u>
Total current liabilities	<u>284,889</u>	<u>274,946</u>
MEMBERS' CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>9,257,540</u>	<u>8,671,259</u>
	<u>\$14,425,802</u>	<u>\$13,534,162</u>

See Accompanying Notes.

THE ISLAND WATER ASSOCIATION, INC.

STATEMENTS OF OPERATIONS AND ACCUMULATED SURPLUS  
Years Ended December 31, 1988 and 1987

	<u>1988</u>	<u>1987</u>
Operating revenues	\$3,617,167	\$3,247,349
Operation	1,033,994	975,210
Maintenance	612,966	522,259
Administration	760,953	724,259
Depreciation	<u>731,050</u>	<u>694,385</u>
Total costs	<u>3,138,963</u>	<u>2,916,113</u>
Operating income	<u>478,204</u>	<u>331,236</u>
Other income		
Interest	94,008	66,845
Other	<u>12,515</u>	<u>11,533</u>
Total other income	<u>106,523</u>	<u>78,378</u>
Income before interest charges	<u>584,727</u>	<u>409,614</u>
Interest charges on long-term debt	191,336	207,766
Less interest capitalized into capital projects	<u>14,127</u>	<u>34,290</u>
	<u>177,209</u>	<u>173,476</u>
Net income	407,518	236,138
Accumulated surplus, beginning of year	<u>583,996</u>	<u>347,858</u>
Accumulated surplus, end of year	<u>\$ 991,514</u>	<u>\$ 583,996</u>

See Accompanying Notes.

THE ISLAND WATER ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS  
Years Ended December 31, 1988 and 1987

	<u>1988</u>	<u>1987</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 3,650,430	\$ 3,148,710
Cash paid to suppliers and employees	(2,383,410)	(2,315,700)
Interest received	94,008	66,845
Interest paid	(177,209)	(181,548)
Net cash flow from operating activities	<u>1,183,819</u>	<u>718,307</u>
<b>CASH FLOWS USED FOR INVESTING ACTIVITIES</b>		
Capital expenditures	<u>(972,718)</u>	<u>(648,812)</u>
<b>CASH FLOWS FROM FINANCIAL ACTIVITIES</b>		
Payment of long-term debt	(106,457)	(109,669)
Increase in members' contributions in aid of construction	<u>223,874</u>	<u>399,915</u>
Net cash from financing activities	<u>117,417</u>	<u>290,246</u>
Net increase in cash	328,518	359,741
Cash at beginning of year	<u>917,936</u>	<u>558,195</u>
Cash at end of year	<u>\$ 1,246,454</u>	<u>\$ 917,936</u>
<b>RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Net income	\$ <u>407,518</u>	\$ <u>236,138</u>
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	731,050	694,385
Changes in assets and liabilities net effects		
(Increase) decrease in		
Accounts receivable	(35,967)	(87,780)
Unbilled revenue	56,715	(22,392)
Prepayments and other	20,128	(20,329)
Inventory	77	1,840
Increase (decrease) in		
Accounts payable and accrued expenses	4,298	(75,483)
Accrued interest	-	(8,072)
	<u>776,301</u>	<u>482,169</u>
Net cash provided by operating activities	<u>\$ 1,183,819</u>	<u>\$ 718,307</u>

Supplemental schedule of noncash investing and financing activities:  
The Association received distribution lines contributed by developers of \$362,407 in 1987.

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 1988 and 1987 was approximately \$38,000 and \$8,000, 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>1988</u>	<u>1987</u>
Source of supply plant	\$ 2,061,970	\$ 2,043,648
Pumping plant	674,005	674,005
Water treatment plant	6,246,766	5,610,420
Transmission and distribution plant	8,290,055	7,120,466
General plant	<u>1,144,882</u>	<u>1,034,754</u>
	<u>\$18,417,678</u>	<u>\$16,483,293</u>

The Board of Directors has designated \$300,000 at December 31, 1988 and \$200,000 at December 31, 1987 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>1988</u>	<u>1987</u>
5% mortgage note payable in monthly installments of \$4,016, including interest, due November 18, 2005	\$ 480,157	\$ 504,007
5% mortgage note payable in monthly installments of \$5,700, including interest, due July 17, 2013	859,092	883,610
5% mortgage note payable in monthly installments of \$1,235, including interest, due July 17, 2013	169,028	185,448
5% mortgage note payable in monthly installments of \$5,504, including interest, due October 11, 2014	904,188	923,942
5% mortgage note payable in monthly installments of \$3,904, including interest, due August 11, 2018	680,325	696,800
5% mortgage note payable in monthly installments of \$4,680, including interest, due February 28, 2019	<u>899,902</u>	<u>905,342</u>
	3,992,692	4,099,149
Less current maturities of long-term debt	<u>100,833</u>	<u>95,188</u>
	<u>\$3,891,859</u>	<u>\$4,003,961</u>

Substantially all plant assets are pledged as collateral for 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, 1988 and 1987.

Maturities of long-term debt as of December 31, 1988 are as follows:

<u>Year Ending</u> <u>December 31</u>	
1989	\$ 100,833
1990	105,875
1991	111,169
1992	116,727
1993	122,564
Thereafter	<u>3,435,524</u>
	<u>\$3,992,692</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 7% of the amount of salary in excess of \$20,000. Each employee is required to contribute monthly an amount equal to 3% of his monthly salary in excess of \$1,666. The Association's contributions for 1988 and 1987 were approximately \$73,000 and \$36,000, respectively.

Note 5. Commitments

The Association had several uncompleted contracts outstanding on December 31, 1988. 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, 1988 totaled \$116,300.