

THE ISLAND WATER ASSOCIATION, INC.
FINANCIAL STATEMENTS,
TOGETHER WITH REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 1989 and 1988

**Coopers
& Lybrand**

Certified Public Accountants

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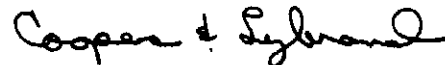
REPORT OF INDEPENDENT ACCOUNTANTS

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, 1989 and 1988, 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, 1989 and 1988, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.



COOPERS & LYBRAND

Fort Myers, Florida
February 8, 1990

THE ISLAND WATER ASSOCIATION, INC.
BALANCE SHEETS
December 31, 1989 and 1988

| ASSETS | <u>1989</u> | <u>1988</u> |
|---|---------------------|---------------------|
| PLANT PROPERTY (Notes 2 and 3) | | |
| Utility plant in service | \$19,371,994 | \$18,417,678 |
| Construction work in progress | <u>828,318</u> | <u>332,279</u> |
| | 20,200,312 | 18,749,957 |
| Less accumulated depreciation | <u>7,176,185</u> | <u>6,379,117</u> |
| Net plant property | <u>13,024,127</u> | <u>12,370,840</u> |
| CURRENT ASSETS | | |
| Cash | 451,668 | 946,454 |
| Cash, board designated (Note 2) | <u>300,000</u> | <u>300,000</u> |
| Total cash | 751,668 | 1,246,454 |
| Accounts receivable | 240,715 | 277,124 |
| Unbilled revenues | 139,059 | 127,222 |
| Prepayments and other | 78,907 | 75,396 |
| Inventory | <u>7,842</u> | <u>28,298</u> |
| Total current assets | <u>1,218,191</u> | <u>1,754,494</u> |
| RESTRICTED ASSETS (Note 3) | | |
| Cash | <u>300,468</u> | <u>300,468</u> |
| | <u>\$14,542,786</u> | <u>\$14,425,802</u> |
| CAPITALIZATION, LIABILITIES AND MEMBERS' CONTRIBUTIONS | | |
| CAPITALIZATION | | |
| Accumulated surplus | \$ 2,804,306 | \$ 991,514 |
| Long-term debt, less current maturities (Note 3) | <u>2,073,471</u> | <u>3,891,859</u> |
| Total capitalization | <u>4,877,777</u> | <u>4,883,373</u> |
| CURRENT LIABILITIES | | |
| Current maturities of long-term debt (Note 3) | 17,419 | 100,833 |
| Accounts payable and accrued expenses | <u>245,622</u> | <u>184,056</u> |
| Total current liabilities | <u>263,041</u> | <u>284,889</u> |
| MEMBERS' CONTRIBUTIONS IN AID OF CONSTRUCTION | <u>9,401,968</u> | <u>9,257,540</u> |
| | <u>\$14,542,786</u> | <u>\$14,425,802</u> |

See Accompanying Notes.

THE ISLAND WATER ASSOCIATION, INC.
 STATEMENTS OF OPERATIONS AND ACCUMULATED SURPLUS
 Years Ended December 31, 1989 and 1988

| | <u>1989</u> | <u>1988</u> |
|---|--------------------|--------------------|
| Operating revenues | <u>\$3,680,928</u> | <u>\$3,617,167</u> |
| Operation | 1,197,140 | 1,033,994 |
| Maintenance | 599,033 | 612,966 |
| Administration | 928,043 | 760,953 |
| Depreciation | <u>797,068</u> | <u>731,050</u> |
| Total costs | <u>3,521,284</u> | <u>3,138,963</u> |
| Operating income | <u>159,644</u> | <u>478,204</u> |
| Other income | | |
| Interest | 119,286 | 94,008 |
| Other | <u>24,251</u> | <u>12,515</u> |
| Total other income | <u>143,537</u> | <u>106,523</u> |
| Income before interest charges | <u>303,181</u> | <u>584,727</u> |
| Interest charges on long-term debt | 218,800 | 191,336 |
| Less interest capitalized into capital projects | <u>57,189</u> | <u>14,127</u> |
| | <u>161,611</u> | <u>177,209</u> |
| Net income before extraordinary item | 141,570 | 407,518 |
| Extraordinary item - gain on extinguishment of debt | <u>1,671,222</u> | <u>-</u> |
| Net income | 1,812,792 | 407,518 |
| Accumulated surplus, beginning of year | <u>991,514</u> | <u>583,996</u> |
| Accumulated surplus, end of year | <u>\$2,804,306</u> | <u>\$ 991,514</u> |

See Accompanying Notes.

THE ISLAND WATER ASSOCIATION, INC.
 STATEMENTS OF CASH FLOWS
 Years Ended December 31, 1989 and 1988

| | <u>1989</u> | <u>1988</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$ 3,729,751 | \$ 3,650,430 |
| Cash paid to suppliers and employees | (2,704,374) | (2,383,410) |
| Interest received | 119,286 | 94,008 |
| Interest paid (net of amount capitalized) | (102,942) | (177,209) |
| Net cash flow from operating activities | <u>1,041,721</u> | <u>1,183,819</u> |
| CASH FLOWS USED FOR INVESTING ACTIVITIES | | |
| Capital expenditures | <u>(1,450,355)</u> | <u>(972,718)</u> |
| CASH FLOWS FROM FINANCIAL ACTIVITIES | | |
| Payment of long-term debt | (230,580) | (106,457) |
| Increase in members' contributions in aid of construction | <u>144,428</u> | <u>223,874</u> |
| Net cash flow from financing activities | <u>(86,152)</u> | <u>117,417</u> |
| Net increase (decrease) in cash | (494,786) | 328,518 |
| Cash at beginning of year | <u>1,546,922</u> | <u>1,218,404</u> |
| Cash at end of year | <u>\$ 1,052,136</u> | <u>\$ 1,546,922</u> |
| RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Net income | \$ 1,812,792 | \$ 407,518 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Gain on extinguishment of debt | (1,671,222) | - |
| Depreciation | 797,068 | 731,050 |
| (Increase) decrease in: | | |
| Accounts receivable | 36,409 | (35,967) |
| Unbilled revenues | (11,837) | 56,715 |
| Prepayments and other | (3,511) | 20,128 |
| Inventory | 20,456 | 77 |
| Increase in: | | |
| Accounts payable and accrued expenses | 2,897 | 4,298 |
| Accrued interest | 58,669 | - |
| | <u>(771,071)</u> | <u>776,301</u> |
| Net cash provided by operating activities | <u>\$ 1,041,721</u> | <u>\$ 1,183,819</u> |

Supplemental schedule of noncash investing and financing activities:

The Association received distribution lines contributed by developers of \$64,000 in 1989.

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.

Accounts Receivable

As management believes all accounts receivable are either collectible or covered by security deposits, no allowance for uncollectible accounts has been established.

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 1989 and 1988 was approximately \$22,000 and \$38,000, 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 weighted average 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>1989</u> | <u>1988</u> |
|-------------------------------------|---------------------|---------------------|
| Source of supply plant | \$ 2,592,263 | \$ 2,061,970 |
| Pumping plant | 688,671 | 674,005 |
| Water treatment plant | 6,338,252 | 6,246,766 |
| Transmission and distribution plant | 8,538,992 | 8,290,055 |
| General plant | <u>1,213,816</u> | <u>1,144,882</u> |
| | <u>\$19,371,994</u> | <u>\$18,417,678</u> |

The Board of Directors has designated \$300,000 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 consists of the following at December 31:

| | <u>1989</u> | <u>1988</u> |
|--|--------------------|--------------------|
| 11% mortgage note payable in quarterly installments of \$62,825 including interest, due April 1, 2014 | \$2,090,890 | \$ - |
| 5% mortgage note payable in monthly installments of \$4,016, including interest, due November 18, 2005 | - | 480,157 |
| 5% mortgage note payable in monthly installments of \$5,700, including interest, due July 17, 2013 | - | 859,092 |
| 5% mortgage note payable in monthly installments of \$1,235, including interest, due July 17, 2013 | - | 169,028 |
| 5% mortgage note payable in monthly installments of \$5,504, including interest, due October 11, 2014 | - | 904,188 |
| 5% mortgage note payable in monthly installments of \$3,904, including interest, due August 11, 2018 | - | 680,325 |
| 5% mortgage note payable in monthly installments of \$4,680, including interest, due February 28, 2019 | - | <u>899,902</u> |
| | 2,090,890 | 3,992,692 |
| Less current maturities of long-term debt | <u>17,419</u> | <u>100,833</u> |
| | <u>\$2,073,471</u> | <u>\$3,891,859</u> |

Substantially all plant assets are pledged as collateral for long-term debt.

In May 1989, the Association entered into a loan agreement with the National Bank For Cooperatives. The proceeds from this loan of approximately \$2,099,000 were used to advance refund the Association's indebtedness with the Farmers Home Administration resulting in an extraordinary gain of approximately \$1,671,000.

THE ISLAND WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

Note 3. Long-Term Debt, Continued

The agreement with the National Bank For Cooperatives calls for the Association to maintain a balance of \$300,000 to be used for repair or replacement of plant assets, payments of principal and interest and for expansion of plant assets with prior lender approval. The agreement precludes the Association from entering other indebtedness and requires certain working capital and tangible net worth ratios be maintained.

Maturities of long-term debt as of December 31, 1989 are as follows:

| <u>Year Ending</u> <u>December 31</u> | |
|--|--------------------|
| 1990 | \$ 17,419 |
| 1991 | 19,457 |
| 1992 | 21,734 |
| 1993 | 24,277 |
| 1994 | 27,118 |
| Thereafter | <u>1,980,885</u> |
| | <u>\$2,090,890</u> |

Note 4. Pension Plan

The Association established a 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 the taxable wage base, \$48,000, plus an additional 5.7% of any salary in excess of the taxable wage base. The Association's contributions for 1989 and 1988 were approximately \$83,000 and \$73,000, respectively.

Note 5. Commitments

The Association had several uncompleted contracts outstanding at December 31, 1989. 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, 1989 totaled \$250,000.

The Association has entered an agreement with the Sanibel-Captiva Conservation Foundation for the purpose of water conservation education. The Association will pay \$4,125 monthly for a period of one year to offset certain costs related to this program.