

THE ISLAND WATER ASSOCIATION, INC.

FINANCIAL STATEMENTS

December 31, 1990 and 1989

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FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of the Island Water Association, Inc. as of December 31, 1990, and the related statements of operations and accumulated surplus, and cash flows for the year 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 audit. The financial statements of the Island Water Association, Inc. as of December 31, 1989, were audited by other auditors whose report dated February 8, 1990 expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 1990 financial statements referred to above present fairly, in all material respects, the financial position of the Island Water Association, Inc. as of December 31, 1990, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Holt, Schultz & Chaipel

Holt, Schultz & Chaipel
Fort Myers, Florida
January 18, 1991

THE ISLAND WATER ASSOCIATION, INC.
BALANCE SHEETS

ASSETS	December 31,	
	<u>1990</u>	<u>1989</u>
PLANT PROPERTY (Note 2)		
Utility plant in service	\$20,506,542	\$19,371,994
Construction work in progress	850,435	828,318
	<u>21,356,977</u>	<u>20,200,312</u>
Less accumulated depreciation	7,993,862	7,176,185
Net plant property	<u>13,363,115</u>	<u>13,024,127</u>
CURRENT ASSETS		
Cash	432,120	450,668
Cash, Board designated (Note 2)	<u>300,000</u>	<u>300,000</u>
Total cash	732,120	750,668
Accounts receivable	247,518	240,715
Unbilled revenues	168,749	139,059
Prepayments and other	87,365	78,907
Inventory	<u>18,199</u>	<u>7,842</u>
Total current assets	<u>1,253,951</u>	<u>1,217,191</u>
INVESTMENTS		
Participation certificates (Note 3)	<u>24,608</u>	<u>1,000</u>
RESTRICTED ASSETS (Note 3)		
Cash	<u>300,468</u>	<u>300,468</u>
	<u>\$14,942,142</u>	<u>\$14,542,786</u>
CAPITALIZATION, LIABILITIES AND MEMBERS' CONTRIBUTIONS		
CAPITALIZATION		
Accumulated surplus	\$ 2,874,276	\$ 2,804,306
Long-term debt, less current maturities, (Note 3)	<u>2,048,804</u>	<u>2,073,471</u>
Total capitalization	<u>4,923,080</u>	<u>4,877,777</u>
CURRENT LIABILITIES		
Current maturities of long-term debt (Note 3)	20,003	17,419
Accounts payable and accrued expenses	<u>375,709</u>	<u>245,622</u>
Total current liabilities	<u>395,712</u>	<u>263,041</u>
MEMBERS' CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>9,623,350</u>	<u>9,401,968</u>
	<u>\$14,942,142</u>	<u>\$14,542,786</u>

The accompanying notes are an integral part of these statements.

THE ISLAND WATER ASSOCIATION, INC.
 STATEMENTS OF OPERATIONS AND ACCUMULATED SURPLUS

	For the Years Ended December 31,	
	<u>1990</u>	<u>1989</u>
Operating revenues	\$3,649,158	\$3,680,928
Costs		
Operation	1,033,708	1,156,396
Maintenance	663,989	655,466
Administration	986,931	912,354
Depreciation	872,843	797,068
Total costs	<u>3,557,471</u>	<u>3,521,284</u>
Operating income	<u>91,687</u>	<u>159,644</u>
Other income		
Interest	84,265	119,286
Other	<u>48,859</u>	<u>24,251</u>
Total other income	<u>133,124</u>	<u>143,537</u>
Income before interest charges	<u>224,811</u>	<u>303,181</u>
Interest charges on long-term debt	235,879	218,800
Less interest capitalized into capital projects	<u>81,038</u>	<u>57,189</u>
	<u>154,841</u>	<u>161,611</u>
Net income before extraordinary item	69,970	141,570
Extraordinary item		
Gain on extinguishment of debt	<u>-</u>	<u>1,671,222</u>
Net income	69,970	1,812,792
Accumulated surplus, beginning of year	<u>2,804,306</u>	<u>991,514</u>
Accumulated surplus, end of year	<u>\$2,874,276</u>	<u>\$2,804,306</u>

The accompanying notes are an integral part of these statements.

THE ISLAND WATER ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS

	For the Years Ended	
	December 31,	
	<u>1990</u>	<u>1989</u>
CASH FLOWS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Cash received from customers	\$ 3,643,278	\$ 3,729,751
Cash paid to suppliers and employees	(2,714,760)	(2,704,374)
Interest received	74,435	119,286
Interest paid (net of amount capitalized)	<u>(115,824)</u>	<u>(102,942)</u>
Net cash flows provided by operating activities	<u>887,129</u>	<u>1,041,721</u>
CASH FLOWS PROVIDED BY (USED IN)		
INVESTING ACTIVITIES		
Capital expenditures (including capitalized interest of \$81,038 and \$57,189 for 1990 and 1989, respectively)	(994,864)	(1,450,355)
Proceeds from the sale of capital assets	4,500	-
Investments in participation certificates	<u>(5,362)</u>	<u>(1,000)</u>
Net cash flows used in investing activities	<u>(995,726)</u>	<u>(1,451,355)</u>
CASH FLOWS PROVIDED BY (USED IN)		
FINANCIAL ACTIVITIES		
Payment of long-term debt	(22,083)	(230,580)
Increase in members' contributions in aid of construction	<u>112,132</u>	<u>144,428</u>
Net cash flows provided by (used in) financing activities	<u>90,049</u>	<u>(86,152)</u>
Net decrease in cash	(18,548)	(495,786)
CASH, beginning of year	<u>1,051,136</u>	<u>1,546,922</u>
CASH, end of year	<u>\$ 1,032,588</u>	<u>\$ 1,051,136</u>

The accompanying notes are an integral part of these statements.

THE ISLAND WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

The Island Water Association, Inc. (the Association) is a not-for-profit organization exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(4). The Association provides water to commercial and residential structures on Sanibel and Captiva islands, two barrier islands located in southwest Florida.

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.

Significant Accounting Policies

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 (the 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 back to The County.

Inventory

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

THE ISLAND WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Unbilled revenues

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

Investments

The Association recognizes income from participation certificates in the National Bank for Cooperatives on the accrual basis. This method records income and increases the Association's invested amount, based on the patronage dividends declared by the Bank.

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.

Reclassifications

Certain items in the 1989 financial statements have been reclassified to conform to the 1990 presentation.

THE ISLAND WATER ASSOCIATION
 NOTES TO FINANCIAL STATEMENTS

NOTE 2 - UTILITY PLANT IN SERVICE

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

	<u>1990</u>	<u>1989</u>
Source of supply plant	\$ 2,636,468	\$ 2,592,263
Pumping plant	688,671	688,671
Water treatment plant	6,924,663	6,338,252
Transmission and distribution plant	8,941,426	8,538,992
General plant	<u>1,315,314</u>	<u>1,213,816</u>
	<u>\$20,506,542</u>	<u>\$19,371,994</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.

NOTE 3 - LONG-TERM DEBT

Long-term debt payable consists of the following at December 31:

	<u>1990</u>	<u>1989</u>
11.22% mortgage note payable in quarterly installments of \$62,825 including interest, due April 1, 2014	\$2,068,807	\$2,090,890
Less current maturities	<u>20,003</u>	<u>17,419</u>
	<u>\$2,048,804</u>	<u>\$2,073,471</u>

Substantially all 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 in 1989.

THE ISLAND WATER ASSOCIATION
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 into other indebtedness and requires certain working capital and tangible net worth ratios be maintained.

The Association is required to purchase Participation Certificates in the National Bank for Cooperatives. These certificates are required by the Farm Credit Act of 1971 and the Bank's capital plan as adopted by its board of Directors and represent capital ownership by the Association in the Bank. Additionally, the Association is allocated income from these participation certificates based on the Bank's profitability.

Maturities of long-term debt as of December 31, 1990 are as follows:

Year Ending <u>December 31,</u>	
1992	\$ 22,344
1993	24,958
1994	27,876
1995	31,141
1996	34,784
Thereafter	<u>1,907,701</u>
	<u>\$2,048,804</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, plus an additional 5.7% of any salary in excess of the taxable wage base. The Association's contributions for 1990 and 1989 were approximately \$95,000 and \$84,000, respectively.

THE ISLAND WATER ASSOCIATION
 NOTES TO FINANCIAL STATEMENTS

NOTE 5 - COMMITMENTS

The Association had several uncompleted contracts outstanding at December 31, 1990. 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, 1990 totaled \$693,000.

NOTE 6 - STATEMENTS OF CASH FLOWS

Presented below is the reconciliation of net income to net cash provided by operating activities.

	For the Year Ended December 31,	
	<u>1990</u>	<u>1989</u>
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net income	\$ <u>69,970</u>	\$ <u>1,812,792</u>
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Gain on extinguishment of debt	-	(1,671,222)
Depreciation	872,843	797,068
(Increase) decrease in:		
Accounts receivable	(6,803)	36,409
Unbilled revenues	(29,690)	(11,837)
Prepayments and other	(8,458)	(3,511)
Inventory	(10,357)	20,456
Investments	(18,246)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	(21,146)	2,897
Accrued interest	<u>39,016</u>	<u>58,669</u>
	<u>817,159</u>	<u>(771,071)</u>
Net cash provided by operating activities	\$ <u>887,129</u>	\$ <u>1,041,721</u>

The Association received distribution lines contributed by developers in the amounts of \$109,250 and \$64,000 in 1990 and 1989, respectively. These items represent noncash investing and financing activities.