

THE ISLAND WATER ASSOCIATION, INC.

FINANCIAL STATEMENTS

December 31, 1991 and 1990

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INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS

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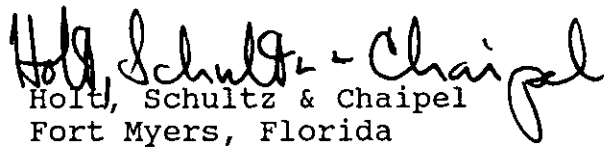
INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of the Island Water Association, Inc. as of December 31, 1991 and 1990, 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 audits 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, 1991 and 1990, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.


Holt, Schultz & Chaipel
Fort Myers, Florida
January 31, 1992

THE ISLAND WATER ASSOCIATION, INC.
BALANCE SHEETS

	December 31,	
ASSETS	<u>1991</u>	<u>1990</u>
PLANT PROPERTY (Note 2)		
Utility plant in service	\$22,799,400	\$20,506,500
Construction work in progress	<u>99,200</u>	<u>850,400</u>
	22,898,600	21,356,900
Less accumulated depreciation	<u>8,873,900</u>	<u>7,993,900</u>
Net plant property	<u>14,024,700</u>	<u>13,363,000</u>
CURRENT ASSETS		
Cash	312,000	432,100
Cash, Board designated	<u>-</u>	<u>300,000</u>
Total cash	312,000	732,100
Accounts receivable	199,100	247,500
Unbilled revenues	189,400	168,700
Prepayments and other	74,900	87,400
Inventory	<u>18,200</u>	<u>18,200</u>
Total current assets	<u>793,600</u>	<u>1,253,900</u>
INVESTMENTS		
Participation certificates (Note 3)	<u>70,100</u>	<u>24,600</u>
RESTRICTED ASSETS (Note 3)		
Cash	<u>300,500</u>	<u>300,500</u>
	<u>\$15,188,900</u>	<u>\$14,942,000</u>
CAPITALIZATION, LIABILITIES AND MEMBERS' CONTRIBUTIONS		
CAPITALIZATION		
Accumulated surplus	\$ 2,584,800	\$ 2,874,300
Long-term debt, less current maturities, (Note 3)	<u>2,421,300</u>	<u>2,048,800</u>
Total capitalization	<u>5,006,100</u>	<u>4,923,100</u>
CURRENT LIABILITIES		
Current maturities of long-term debt (Note 3)	27,500	20,000
Accounts payable and accrued expenses	<u>239,200</u>	<u>375,700</u>
Total current liabilities	<u>266,700</u>	<u>395,700</u>
MEMBERS' CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>9,916,100</u>	<u>9,623,200</u>
	<u>\$15,188,900</u>	<u>\$14,942,000</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>1991</u>	<u>1990</u>
Operating revenues	\$3,517,900	\$3,649,200
Costs		
Operation	973,600	1,033,700
Maintenance	741,000	664,000
Administration	1,128,800	987,000
Depreciation	<u>880,000</u>	<u>872,800</u>
Total costs	<u>3,723,400</u>	<u>3,557,500</u>
Operating (loss) income	<u>(205,500)</u>	<u>91,700</u>
Other income		
Interest	43,300	84,300
Other	<u>61,800</u>	<u>48,900</u>
Total other income	<u>105,100</u>	<u>133,200</u>
(Loss) income before interest charges	<u>(100,400)</u>	<u>224,900</u>
Interest charges on long-term debt	245,800	235,900
Less interest capitalized into capital projects	<u>56,700</u>	<u>81,000</u>
	<u>189,100</u>	<u>154,900</u>
Net (loss) income	(289,500)	70,000
Accumulated surplus, beginning of year	<u>2,874,300</u>	<u>2,804,300</u>
Accumulated surplus, end of year	<u>\$2,584,800</u>	<u>\$2,874,300</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>1991</u>	<u>1990</u>
CASH FLOWS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Cash received from customers	\$ 3,574,700	\$ 3,643,300
Cash paid to suppliers and employees	(2,863,000)	(2,714,800)
Interest received	51,400	74,400
Interest paid (net of amount capitalized)	<u>(187,000)</u>	<u>(115,800)</u>
Net cash flows provided by operating activities	<u>576,100</u>	<u>887,100</u>
CASH FLOWS PROVIDED BY (USED IN)		
INVESTING ACTIVITIES		
Capital expenditures (including capitalized interest of \$56,700 and \$81,000 for 1991 and 1990, respectively)	(1,478,200)	(994,900)
Proceeds from the sale of capital assets	-	4,500
Investments in participation certificates	<u>(20,900)</u>	<u>(5,400)</u>
Net cash flows used in investing activities	<u>(1,499,100)</u>	<u>(995,800)</u>
CASH FLOWS PROVIDED BY (USED IN)		
FINANCIAL ACTIVITIES		
Debt proceeds	600,000	-
Payment of debt	(220,000)	(22,000)
Increase in members' contributions in aid of construction	<u>122,900</u>	<u>112,100</u>
Net cash flows provided by financing activities	<u>502,900</u>	<u>90,100</u>
Net decrease in cash	(420,100)	(18,600)
CASH, beginning of year	<u>1,032,600</u>	<u>1,051,200</u>
CASH, end of year	<u>\$ 612,500</u>	<u>\$ 1,032,600</u>

The accompanying notes are an integral part of these statements.

THE ISLAND WATER ASSOCIATION, INC.
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, INC.
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 1990 financial statements have been reclassified to conform to the 1991 presentation.

THE ISLAND WATER ASSOCIATION, INC.
 NOTES TO FINANCIAL STATEMENTS

NOTE 2 - UTILITY PLANT IN SERVICE

Utility plant in service consists of the following:

	December 31,	
	<u>1991</u>	<u>1990</u>
Source of supply plant	\$ 2,654,400	\$ 2,636,500
Pumping plant	688,700	688,700
Water treatment plant	8,039,000	6,924,700
Transmission and distribution plant	9,283,400	8,941,400
General plant	<u>2,133,900</u>	<u>1,315,200</u>
	<u>\$22,799,400</u>	<u>\$20,506,500</u>

NOTE 3 - LONG-TERM DEBT

Long-term debt consists of the following:

	December 31,	
	<u>1991</u>	<u>1990</u>
11.22% mortgage note payable in quarterly installments of \$62,825 including interest, due April 1, 2014	\$2,048,800	\$2,068,800
9.90% mortgage note payable to a financial institution, monthly payments of principal and interest in the amount of \$3,824, final payment due April, 2014	<u>400,000</u>	<u>-</u>
	2,448,800	2,068,800
Less current maturities	<u>27,500</u>	<u>20,000</u>
	<u>\$2,421,300</u>	<u>\$2,048,800</u>

Maturities of long-term debt are as follows:

<u>December 31,</u>	
1992	\$ 27,500
1993	30,700
1994	34,200
1995	38,100
1996	42,500
Thereafter	<u>2,275,800</u>
	<u>\$2,448,800</u>

THE ISLAND WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - LONG-TERM DEBT (Continued)

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

The agreements with the National Bank for Cooperatives calls for the Association to maintain a cash 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.

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 1991 and 1990 were approximately \$106,600 and \$95,000, respectively.

NOTE 5 - CHANGE IN ESTIMATED USEFUL LIFE

During the current year, the Association revised the estimated useful life of the piping within its system. Previously, the useful life was estimated to be 50 years. It has been increased to 100 years based on an evaluation conducted by an Association engineer. The result of this change on the current year was to reduce the net loss by \$58,700.

THE ISLAND WATER ASSOCIATION, INC.
 NOTES TO FINANCIAL STATEMENTS

NOTE 6 - COMMITMENTS

The Association had several uncompleted contracts outstanding at December 31, 1991 and 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 at December 31, 1991 and 1990 totaled \$125,500 and \$693,000, respectively.

NOTE 7 - STATEMENTS OF CASH FLOWS

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

	For the Years Ended December 31,	
	<u>1991</u>	<u>1990</u>
RECONCILIATION OF NET (LOSS)		
INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net (loss) income	\$(289,500)	\$ 70,000
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Depreciation	880,000	872,800
(Increase) decrease in:		
Accounts receivable	48,400	(6,800)
Unbilled revenues	(20,700)	(29,700)
Prepayments and other	12,500	(8,500)
Inventory	-	(10,400)
Investments	(24,600)	(18,200)
Increase (decrease) in:		
Accounts payable and accrued expenses	<u>(30,000)</u>	<u>17,900</u>
	<u>865,600</u>	<u>817,100</u>
Net cash provided by operating activities	<u>\$ 576,100</u>	<u>\$887,100</u>

The Association received distribution lines contributed by developers in the amounts of \$170,000 and \$109,200 in 1991 and 1990, respectively. These items represent noncash investing and financing activities.